



光大證券股份有限公司

Everbright Securities Company Limited

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock code: 6178

GLOBAL OFFERING

光大證券股份有限公司 Everbright Securities Company Limited

Joint Sponsors



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



IMPORTANT

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



Everbright Securities Company Limited 光大證券股份有限公司

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

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 680,000,000 H Shares (subject to the Over-allotment Option)
Number of International Offer Shares	: 612,000,000 H Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	: 68,000,000 H Shares (subject to adjustment)
Maximum Offer Price	: HK\$13.26 per H Share (payable in full on application in Hong Kong dollars, subject to refund on final pricing), plus brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%
Nominal Value	: RMB1.00 per H Share
Stock Code	: 6178

Joint Sponsors



BofA Merrill Lynch

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



BofA Merrill Lynch



Joint Bookrunners and Joint Lead Managers



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

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

The Offer Price is expected to be fixed by agreement between us and the Joint Representatives (for themselves, and on behalf of the Joint Bookrunners and the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, August 11, 2016 (Hong Kong Time) and, in any event, not later than Sunday, August 14, 2016 (Hong Kong Time). The Offer Price will not be more than HK\$13.26 and is currently expected to be not less than HK\$11.80 unless otherwise announced. If, for any reason, the Offer Price is not agreed between us and the Joint Representatives (on behalf of the Joint Bookrunners and the Underwriters) by Sunday, August 14, 2016, the Global Offering will not proceed and will lapse.

The Joint Representatives (for themselves, and on behalf of the Joint Bookrunners and Underwriters) may, with our consent, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$11.80 to HK\$13.26 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.ebscn.com. Further details are set out in "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares".

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Offer Shares, are subject to termination by the Joint Representatives (for themselves, and on behalf of the Joint Bookrunners and the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in "Underwriting". It is important that you refer to that section for further details.

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

We have not been and will not be registered under the U.S. Investment Company Act. The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except that Offer Shares may be offered, sold or delivered to (i) persons within the United States or U.S. persons in each case who are (A) qualified institutional buyers (as defined in Rule 144A) and (B) qualified purchasers (as defined in Section 2(a)(51) of the U.S. Investment Company Act and Rule 2a51-1 thereunder) in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A, or another available exemption from registration under the U.S. Securities Act and (ii) non-U.S. persons outside the United States in accordance with Regulation S.

August 8, 2016

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications
under the **White Form eIPO** service through
the designated website www.eipo.com.hk⁽²⁾ 11:30 a.m. on Thursday, August 11, 2016

Application lists open⁽³⁾ 11:45 a.m. on Thursday, August 11, 2016

Latest time to lodge **WHITE** and **YELLOW**
Application Forms 12:00 noon on Thursday, August 11, 2016

Latest time to give **electronic application**
instructions to HKSCC⁽⁴⁾ 12:00 noon on Thursday, August 11, 2016

Latest time to complete payment
of **White Form eIPO** applications
by effecting Internet banking transfer(s)
or PPS payment transfer(s) 12:00 noon on Thursday, August 11, 2016

Application lists of
the Hong Kong Public Offering close 12:00 noon on Thursday, August 11, 2016

Expected Price Determination Date⁽⁵⁾ Thursday, August 11, 2016

Announcement of:

- (i) the Offer Price;
- (ii) the level of indication of interest in the International Offering;
- (iii) the level of applications in the Hong Kong Public Offering; and
- (iv) the basis of allotment of the Hong Kong Offer Shares (with successful applicants' identification document numbers, where appropriate)

to be published in the South China Morning Post (in English) and
the Hong Kong Economic Times (in Chinese) and on our Company's website
at www.ebscn.com and the website of the
Hong Kong Stock Exchange at www.hkexnews.hk on Wednesday, August 17, 2016

Results of allocations in the Hong Kong
Public Offering (with successful applicants'
identification document numbers, where appropriate) Wednesday, August 17, 2016

Results of allocations for the Hong Kong
Public Offering will be available at www.iporesults.com.hk,
with a "search by ID" function from Wednesday, August 17, 2016

Dispatch of H Share certificates in respect of
wholly or partially successful applications on or before⁽⁶⁾ Wednesday, August 17, 2016

EXPECTED TIMETABLE⁽¹⁾

Dispatch of refund cheques or **White Form e-Refund** payment instructions in respect of wholly or partially unsuccessful applications on or before⁽⁷⁾⁽⁸⁾ Wednesday, August 17, 2016

Dealings in H Shares on the Hong Kong Stock Exchange expected to commence on Thursday, August 18, 2016

- (1) All dates and times refer to Hong Kong local dates and times, except otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in “Structure of the Global Offering”.
- (2) You will not be permitted to submit your application through the **White Form eIPO** service through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, August 11, 2016, the application lists will not open on that day. Further information is set out in “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists”.
If the application lists do not open and close on Thursday, August 11, 2016, the dates mentioned in this section may be affected. We will make a press announcement in such event.
- (4) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should see “How to Apply for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS”.
- (5) The Price Determination Date is expected to be on or around Thursday, August 11, 2016, and in any event will not be later than Sunday, August 14, 2016. If, for any reason, the Offer Price is not agreed on or before Sunday, August 14, 2016, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
- (6) H Share certificates for the Hong Kong Offer Shares are expected to be issued on Wednesday, August 17, 2016 but will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects and (ii) the Underwriting Agreements have not been terminated in accordance with their terms. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, our Company will make an announcement as soon as possible.
- (7) Applicants who have applied on **WHITE** Application Forms for 1,000,000 Hong Kong Offer Shares or more and have provided all required information may collect refund cheques (if applicable) and Share certificates (if applicable) in person from the H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, August 17, 2016. Identification and (where applicable) authorization documents acceptable to the H Share Registrar must be produced at the time of collection.
Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more may collect their refund cheques (if applicable) in person but may not collect in person their Share certificates which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.
Applicants who have applied through the **White Form eIPO** service by paying the application monies through a single bank account may have e-Refund payment instructions (if any) dispatched to their application payment bank account on Wednesday, August 17, 2016. Applicants who have applied through the **White Form eIPO** service by paying the application monies through multiple bank accounts may have refund cheque(s) sent to the address specified in their application instructions through the **White Form eIPO** service, on or before Wednesday, August 17, 2016, by ordinary post and at their own risk.
Uncollected Share certificates (if applicable) and refund cheques (if applicable) will be dispatched by ordinary post (at the applicants’ own risk) to the addresses specified in the relevant Application Forms. Further information is set out in “How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies”.
- (8) Refund cheques will be issued (where applicable) and e-Refund payment instructions will be dispatched (where applicable) in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price payable on application.

For details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, see “Structure of the Global Offering”.

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IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

We have issued this prospectus solely in connection with the Hong Kong Public Offering. This prospectus is not an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares. This prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus for purposes of the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under applicable securities laws.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or advisors, or any other person or party involved in the Global Offering have not authorized anyone to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. Information contained on our website www.ebscn.com does not form part of this prospectus.

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SUMMARY

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

There are risks associated with any investment in the Offer Shares. We set out some of the particular risks in “Risk Factors” beginning on page 40. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading full-service securities group in China with strong innovation capabilities and an integrated onshore and offshore business platform. As a core financial services platform of the Everbright Group, we benefit from synergies within the group and from the “Everbright” brand recognition.

We offer a full range of financial products and services to a large and diversified client base that includes enterprises, financial institutions, governments and individuals. Our principal lines of business comprise the following:

- **Brokerage and Wealth Management:** We provide brokerage services to retail clients for trading stocks, funds, bonds, ETFs, futures, options and other securities. We also provide customized wealth management services and sell financial products developed by us or third parties.
- **Credit Business:** We engage in a wide array of credit businesses, including margin financing and securities lending, repurchase transactions (including collateralized stock repurchase transactions and repurchase transactions), stock incentive financing for listed companies and financial leasing.
- **Institutional Securities Services:** We provide one-stop financial services covering the entire lifecycle of our corporate and other institutional clients, primarily including investment banking, sales and trading, investment research and prime brokerage. We also engage in proprietary trading and market-making of a wide variety of equity and fixed-income products.
- **Investment Management:** We provide asset management, fund management and private equity investment management services, and engage in private equity and alternative investments.
- **Overseas Business:** We operate our overseas businesses through EBSHK. EBSHK conducts our Hong Kong operations, including brokerage and sales, wealth management, investment banking, asset management, investment research and insurance consultancy services, through ESIL and SHKFGL. EBSHK also serves as our overseas financing and investing platform.

SUMMARY

In 2013, 2014 and 2015, our total revenue and other income was RMB5,179.4 million, RMB8,561.6 million and RMB23,292.7 million, respectively, and our net profit attributable to shareholders of our Company was RMB205.8 million, RMB2,068.3 million and RMB7,646.5 million, respectively. In the three months ended March 31, 2015 and 2016, our total revenue and other income was RMB4,390.4 million and RMB3,220.1 million, respectively, and our net profit attributable to shareholders of our Company was RMB1,520.5 million and RMB619.9 million, respectively. As of March 31, 2016, our total assets were RMB191,315.8 million, and total equity attributable to shareholders of our Company was RMB37,627.4 million.

COMPETITIVE STRENGTHS

We believe the following strengths contribute to our success and differentiate us from our competitors:

- Core financial services platform of the Everbright Group, benefitting from synergies within the group and the “Everbright” brand recognition.
- Strong core business platform generating synergies across business lines.
- Leading integrated onshore and offshore financial services platform.
- Industry pioneer with strong innovation capabilities.
- Prudent risk management and internal control.
- Experienced management team and high-quality and stable workforce.

BUSINESS STRATEGIES

Our goal is to become an internationally competitive, full-service securities group with sustainable growth driven by the integration of domestic and overseas capital markets. We will continue to target medium- and high-value clients, focusing on meeting their needs and growing our capital intermediary businesses. We intend to distill greater synergies from our diverse operations, promote business innovation and further enhance the integration and coordination of our onshore and offshore platforms to offer a one-stop suite of innovative cross-border products and services. The specific elements of our development strategy are as follows:

- Expand our client-centric capital intermediary business.
- Establish an industry-leading wealth management platform.
- Build the most competitive institutional securities service platform in the PRC securities industry.
- Enhance the competitiveness of our investment management business by focusing on satisfying clients’ investment and financing needs through our comprehensive investment management platform.

SUMMARY

- Enhance our cross-border business platform and expand our global operations to capitalize on business opportunities arising from the integration of domestic and overseas capital markets.
- Increase the adoption of big data technologies and promote innovation through our comprehensive Internet financial service platform.
- Further exploit the resources and brand recognition of the Everbright Group to distill greater synergies across our businesses.
- Enhance risk management, internal control and information system development.
- Attract, motivate and retain high-quality talent.

BUSINESS MODEL

We generate revenue from operating the following five business lines:

- **Brokerage and Wealth Management:** We earn fees and commissions from providing brokerage and investment advisory services to retail clients, interest income from cash held on behalf of clients, and fees from selling financial products developed by us and other financial institutions.
- **Credit Business:** We earn interest income from margin financing and securities lending, collateralized stock repurchase transactions, repurchase transactions and stock incentive financing for listed companies, as well as income generated by Everbright Leasing.
- **Institutional Securities Services:** We earn fees and commissions from providing underwriting and financial advisory, investment research and prime brokerage services to corporate and other institutional clients, as well as investment gains and interest income from proprietary trading and market-making activities.
- **Investment Management:** We earn management and advisory fees from providing asset management, fund management and private equity investment management services, as well as investment gains from our private equity and alternative investments.
- **Overseas Business:** We earn fees and commissions, interest income and investment gains from our Hong Kong operations.

SPIN-OFF OF HONG KONG OPERATIONS

We established EBSHK in November 2010 to spearhead our overseas business. We, through EBSHK, acquired a 51% interest in ESIL in May 2011 and the remaining 49% interest in ESIL in June 2016. For further details, see “History, Development and Corporate Structure — Acquisition of the Remaining 49% Interest in ESIL” beginning on page 142. In addition, we acquired a 70% interest in SHKFGL in June 2015 through EBSHK. As part of the acquisition,

SUMMARY

certain special rights, including put right, reinvestment right and exchange right, were granted to Sun Hung Kai. For more information on the major terms of the acquisition, including the special rights granted to Sun Hung Kai, see “History, Development and Corporate Structure — Major Acquisition during the Track Record Period — Acquisition of a Majority Interest in SHKFGL” beginning on page 139.

We intend to spin off our Hong Kong operations, including the businesses currently operated by ESIL and SHKFGL as disclosed on pages 191 and 193, as well as any other Hong Kong business that we may acquire, through a listing on the Hong Kong Stock Exchange that we expect to occur between January 1, 2017 and June 1, 2018. We believe the spin-off will enable us to raise capital to fund the expansion of our Hong Kong business and enhance the profile of our Hong Kong platform among overseas investors, business partners and clients. The proposed spin-off will be subject to compliance with all applicable requirements of the Hong Kong Listing Rules including, without limitation, Practice Note 15, unless otherwise waived by the Hong Kong Stock Exchange. We have obtained a waiver from the Hong Kong Stock Exchange from strict compliance with the three-year restriction requirement under paragraph 3(b) of Practice Note 15. The proposed spin-off will remain subject to other requirements of Practice Note 15. Following the proposed spin-off, assuming no pre-IPO investments, a minimum public float of 25% and no exercise of any over-allotment option, and taking into consideration the possible exercise of the put option and reinvestment right by Sun Hung Kai in respect of all of its shares in SHKFGL, we expect to remain as the majority shareholder of the proposed spin-off entity. See “Consents and Waivers from Strict Compliance with the Hong Kong Listing Rules — Waiver in relation to the Three-Year Restriction for Spin-off under Practice Note 15 of the Hong Kong Listing Rules” beginning on page 74 and “Business — Our Business — Spin-off of Hong Kong Operations” beginning on page 195, respectively.

SUBSTANTIAL SHAREHOLDERS

Immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised, the Everbright Group will, directly and indirectly, hold approximately 50.12% of our total issued share capital and Everbright Limited will hold approximately 24.84% of our total issued share capital. For more details on the Everbright Group, see “Relationship with the Everbright Group” beginning on page 253. For more details on the Everbright Group and our other Substantial Shareholders, see “Substantial Shareholders” beginning on page 316.

We have entered into certain transactions with the Everbright Group and its associates and such transactions will constitute continuing connected transactions following the Listing. For more details of these continuing connected transactions, see “Connected Transactions” beginning on page 276.

SELECTED FINANCIAL AND OPERATING INFORMATION

The following tables present our selected consolidated financial information as of and for the years ended December 31, 2013, 2014 and 2015 and as of March 31, 2016 and for the three months ended March 31, 2015 and 2016. We have derived this selected consolidated financial information from our audited consolidated financial statements set forth in the Accountants’

SUMMARY

Report in Appendix I to this prospectus. You should read this selected consolidated financial information in conjunction with those financial statements and accompanying notes, and the information set forth in “Financial Information” beginning on page 323.

Consolidated Statements of Profit or Loss Information

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions)				
Revenue					
Fee and commission income . . .	3,823.0	4,804.8	12,334.2	2,275.0	1,706.6
Interest income	1,508.6	2,558.8	6,839.3	1,382.4	1,324.1
Net investment (losses)/gains . . .	(313.9)	1,112.1	3,970.8	714.4	149.7
Other income and gains	161.7	85.9	148.4	18.6	39.7
Total revenue and other income . . .	<u>5,179.4</u>	<u>8,561.6</u>	<u>23,292.7</u>	<u>4,390.4</u>	<u>3,220.1</u>
Expenses					
Fee and commission expenses . .	(493.1)	(702.5)	(2,071.9)	(385.2)	(282.4)
Interest expenses	(588.3)	(1,290.6)	(4,619.5)	(833.5)	(1,090.6)
Staff costs	(1,512.5)	(1,995.7)	(4,109.7)	(768.5)	(571.2)
Depreciation and amortization expenses	(191.3)	(175.0)	(421.3)	(40.2)	(97.7)
Business tax and surcharges . . .	(250.2)	(350.8)	(971.2)	(190.7)	(123.0)
Other operating expenses	(1,343.9)	(957.9)	(1,336.8)	(226.9)	(259.3)
(Provision for)/reversal of impairment losses	(372.0)	(300.6)	10.4	(7.9)	(28.8)
Total expenses	<u>(4,751.3)</u>	<u>(5,773.1)</u>	<u>(13,520.0)</u>	<u>(2,452.9)</u>	<u>(2,453.0)</u>
Operating profit	<u>428.1</u>	<u>2,788.5</u>	<u>9,772.7</u>	<u>1,937.5</u>	<u>767.1</u>
Share of profit of associates and joint ventures	58.3	60.9	73.6	17.4	7.8
Profit before income tax	<u>486.4</u>	<u>2,849.4</u>	<u>9,846.3</u>	<u>1,954.9</u>	<u>774.9</u>
Income tax expense	(202.8)	(712.8)	(2,099.4)	(416.3)	(151.2)
Profit for the year/period	<u>283.6</u>	<u>2,136.6</u>	<u>7,746.9</u>	<u>1,538.6</u>	<u>623.7</u>
Attributable to:					
Shareholders of our Company . .	205.8	2,068.3	7,646.5	1,520.5	619.9
Non-controlling interests	77.8	68.3	100.4	18.1	3.8

SUMMARY

Selected Information from Consolidated Statements of Financial Position

	As of December 31,			As of March 31,
	2013	2014	2015	2016
	(RMB in millions)			
CURRENT ASSETS				
Accounts receivable	1,089.4	1,196.7	2,069.3	2,039.0
Finance lease receivables	–	–	1,450.9	1,331.4
Other receivables and prepayments	1,414.9	2,443.4	3,693.1	4,031.3
Margin accounts receivable	12,992.6	38,465.8	43,404.5	31,645.1
Available-for-sale financial assets	3,003.6	3,915.6	9,777.8	7,773.9
Financial assets held under resale agreements	466.2	3,486.5	5,003.9	5,383.5
Financial assets at fair value through profit or loss	6,715.5	11,269.3	25,539.9	32,865.2
Derivative financial assets	7.5	41.2	168.5	152.7
Clearing settlement funds	26.0	71.2	360.0	81.8
Cash held on behalf of brokerage clients	18,619.3	37,660.0	70,327.1	64,048.7
Cash and bank balances	2,744.2	6,904.1	15,091.7	19,959.5
Total current assets	47,079.2	105,453.8	176,886.7	169,312.1
CURRENT LIABILITIES				
Loans and borrowings	215.9	459.0	3,014.2	3,400.7
Short-term debt instruments issued	–	–	2,100.0	797.5
Placement from other financial institutions	5,200.0	5,535.0	500.0	500.0
Financial liabilities at fair value through profit or loss	–	–	–	235.5
Accounts payable to brokerage clients	21,652.3	40,497.4	71,102.0	67,840.5
Employee benefits payable	318.0	897.0	2,642.7	1,945.5
Other payables and accruals	1,026.3	2,417.6	9,347.4	20,766.4
Current tax liabilities	42.1	489.1	1,627.8	1,388.1
Financial assets sold under repurchase agreements	1,791.6	29,480.6	20,555.4	18,328.7
Derivative financial liabilities	–	117.5	1,022.6	402.9
Long-term debt securities issued due within one year	–	–	18,986.2	12,995.5
Total current liabilities	30,246.2	79,893.2	130,898.3	128,601.3
Net current assets	16,833.0	25,560.6	45,988.4	40,710.8
Current ratio⁽¹⁾	1.6	1.3	1.4	1.3

(1) Current ratio is calculated by dividing current assets by current liabilities.

SUMMARY

Consolidated Cash Flow Statements Information

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions)				
Net cash generated from/(used in) operating activities	2,089.4	(1,535.2) ⁽¹⁾	(32,124.5) ⁽²⁾	(13,730.0)	12,748.4
Net cash (used in)/generated from investing activities	(3,123.7)	(1,137.9)	(4,511.4)	(1,230.5)	317.4
Net cash (used in)/generated from financing activities	(257.8)	7,109.7	43,701.7	15,872.5	(7,844.0)
Net (decrease)/increase in cash and cash equivalents	(1,292.1)	4,436.6	7,065.8	912.0	5,221.8
Cash and cash equivalents at the beginning of the year/period	2,826.5	1,535.8	5,970.0	5,970.0	12,996.8
Effect of foreign exchange rate changes	1.4	(2.4)	(39.0)	0.6	7.5
Cash and cash equivalents at the end of the year/period	<u>1,535.8</u>	<u>5,970.0</u>	<u>12,996.8</u>	<u>6,882.6</u>	<u>18,226.1</u>

- (1) The negative net cash flow from operating activities in 2014 primarily resulted from increased margin financing and proprietary trading activities and reverse repurchase transactions.
- (2) The negative net cash flow from operating activities in 2015 primarily resulted from (1) our decreased use of repurchases agreements to fund our business activities, (2) our contribution of funds to designated accounts managed by China Securities Finance Corporation Limited, and (3) an increase in investments in financial assets.

Key Financial Data and Operating Indicators

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
Total revenue and other income (<i>RMB in millions</i>)	5,179.4	8,561.6	23,292.7	4,390.4	3,220.1
Operating profit (<i>RMB in millions</i>) ⁽¹⁾	428.1 ⁽⁸⁾	2,788.5	9,772.7	1,937.5	767.1
Operating margin ⁽²⁾	8.3% ⁽⁸⁾	32.6%	42.0%	44.1%	23.8%
Adjusted operating margin ⁽³⁾	10.4% ⁽⁸⁾	42.5%	58.9%	61.1%	41.5%
Profit for the year/period (<i>RMB in millions</i>)	283.6	2,136.6	7,746.9	1,538.6	623.7
Net margin ⁽⁴⁾	5.5%	25.0%	33.3%	35.0%	19.4%
Adjusted net margin ⁽⁵⁾	6.9%	32.5%	46.7%	48.5%	33.8%
Return on average equity ⁽⁶⁾	0.9%	8.5%	23.1%	5.7%	1.6%
Return on average total assets ⁽⁷⁾	0.5%	2.5%	5.0%	1.1%	0.3%

SUMMARY

- (1) Represents the difference between total revenue and other income and total expenses.
- (2) Calculated by dividing operating profit by total revenue and other income.
- (3) Adjusted operating margin = (total revenue and other income – total expenses)/(total revenue and other income – fee and commission expenses – interest expenses). Adjusted operating margin is not a standard measure under IFRS but is presented here because PRC securities firms present their operating revenues after deduction of fee and commission expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS. We believe that, the adjusted operating margin and adjusted net margin provide appropriate indicators of our results of operations that are more comparable to other PRC securities firms due to different presentation requirements under PRC GAAP. Prospective investors should be aware that adjusted operating margin presented in this prospectus may not be comparable to other similarly titled measures reported by other companies due to different calculation methods or assumptions.
- (4) Calculated by dividing profit for the year/period by total revenue and other income.
- (5) Adjusted net margin = (profit for the year/period)/(total revenue and other income – fee and commission expenses – interest expenses). Adjusted net margin is not a standard measure under IFRS but is presented here for the reasons stated in note 3 above.
- (6) Calculated by dividing profit attributable to shareholders of our Company by the average balance of total equity attributable to shareholders of our Company at the end of the previous year/period and the end of the current year/period.
- (7) Calculated by dividing profit for the year/period of our Company by the average balance of total assets at the end of the previous year/period and the end of the current year/period.
- (8) Excludes penalties we paid for the 8•16 Event, our operating profit would be RMB864.2 million, and our operating margin and adjusted operating margin would be 16.7% and 21.1%, respectively.

The following table sets forth the segment revenue and other income of each of our business lines for the periods indicated:

	Year ended December 31,						Three months ended March 31,			
	2013		2014		2015		2015		2016	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Unaudited)									
	(RMB in millions, except percentages)									
Brokerage and wealth management	2,875.8	55.5	3,928.8	45.9	9,607.3	41.2	1,845.5	42.0	1,072.9	33.3
Credit business	802.8	15.5	1,772.6	20.7	4,658.1	20.0	1,008.4	23.0	790.3	24.5
Institutional securities services	455.5	8.8	1,291.2	15.1	4,520.6	19.4	902.8	20.6	389.9	12.1
Including: Proprietary trading	(32.2)	(7.1) ⁽¹⁾	774.1	60.0 ⁽¹⁾	2,276.3	50.4 ⁽¹⁾	414.3	45.9 ⁽¹⁾	(68.2)	(17.5) ⁽¹⁾
Investment management	663.4	12.8	955.0	11.2	2,390.7	10.3	372.2	8.5	501.8	15.6
Overseas business	302.7	5.8	282.9	3.3	872.0	3.7	75.1	1.7	231.0	7.2

(1) represents the revenue contribution of our proprietary trading to our Institutional Securities Services segment.

The following table sets forth the margin of each of our business lines for the periods indicated, which is calculated as the profit/(loss) before income tax divided by the sum of revenue and other income (including segment revenue) and the share of results of associates and joint ventures.

SUMMARY

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(%)	(%)	(%)	(%)	(%)
				(Unaudited)	
Brokerage and wealth management	34.0	45.1	52.8	55.3	42.6
Credit business	61.3	38.2	30.5	22.0	47.6
Institutional securities services . .	(119.5) ⁽¹⁾	57.3	75.0	74.8	29.2
Including: Proprietary trading .	N/A ⁽²⁾	74.9	88.1	87.2	N/A ⁽³⁾
Investment management	39.6	31.7	60.6	63.9	22.9
Overseas business	24.2	(45.1) ⁽⁴⁾	(4.4)	11.2	(29.5) ⁽⁵⁾

- (1) Our Institutional Securities Service segment recorded a negative gross margin in 2013 primarily as a result of our disposition of certain financial assets at a loss and provisions for impairment of financial assets due to challenging market conditions in 2013.
- (2) We recorded negative revenue and loss before income tax for our proprietary trading business in 2013.
- (3) We recorded negative revenue and loss before income tax for our proprietary trading business for the three months ended March 31, 2016.
- (4) Our Overseas Business segment recorded a negative gross margin in 2014 primarily because of goodwill impairment charges representing the excess of the carrying amount of ESIL over its anticipated recoverable amount.
- (5) Our Overseas Business segment recorded a negative gross margin in the three months ended March 31, 2016, primarily because of our consolidation of SHKFG's operating and amortization expenses, and interest expenses from overseas bonds issued and bank borrowings.

Our Institutional Securities Service segment includes our proprietary trading activities. We recorded net gains of RMB52.6 million, RMB1,376.0 million and RMB2,466.3 million in 2013, 2014 and 2015, respectively. In the three months ended March 31, 2016, we recorded net losses of RMB772.7 million. Net gains/(losses) include net investment gains/(losses) and other comprehensive income (less impairment loss) of available-for-sale financial assets (before income tax).

The following table sets forth the revenue and profit/(loss) before income tax from our proprietary trading business for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(RMB in millions)				
				(Unaudited)	
Revenue	(32.2)	774.1	2,276.3	414.3	(68.2)
(Loss)/profit before income tax . .	(659.1)	579.9	2,004.8	361.2	(102.2)

In 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, our proprietary trading business contributed negative 7.1%, 60.0%, 50.4%, 45.9% and negative 17.5% respectively, of revenue and other income from our Institutional Securities Services segment, and 121.1%, 78.4%, 59.1%, 53.5% and negative 89.8% of profit before income tax from our Institutional Securities Services segment, respectively.

SUMMARY

We recorded losses of RMB68.2 million from our proprietary trading business in the three months ended March 31, 2016, compared to revenues of RMB414.3 million in the same period in 2015, primarily reflecting unfavorable market conditions. The average rate of return of our investment portfolio decreased from 6.8% in the three months ended March 31, 2015 to negative 8.1% in the same period in 2016. Revenue from our proprietary trading business increased by 194.1% from RMB774.1 million in 2014 to RMB2,276.3 million in 2015, primarily driven by our effective use of multi-pronged trading strategies to capture market opportunities. As a result, the average rate of return of our investment portfolio increased from 17.0% in 2014 to 26.4% in 2015. We recorded revenues RMB774.1 million from our proprietary trading business in 2014, compared to losses of RMB32.2 million in 2013, primarily driven by adjustments of our trading strategies in response to improved market conditions. The average return of our investment portfolio increased from 0.6% in 2013 to 17.0% in 2014.

We have adopted comprehensive measures to manage the risks associated with our proprietary trading business. See “Business — Risk Management — Institutional Securities Services — Proprietary Trading” from pages 221 to 226 for details. We will continue to emphasize prudence in our business operations. In particular, we will continue to adopt multi-pronged investment strategies to achieve stable returns while limiting our exposure to market risks. We will also continue to use stock index futures to hedge our equity portfolio exposure. See “Business — Our Business — Institutional Securities Services — Sales and Trading” from pages 177 to 179 for details.

For a discussion of our segment results, see “Financial Information — Segment Operating Results” beginning on page 345.

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

	As of or for the year ended December 31,			As of or for the three months ended March 31,
	2013	2014	2015	2016
Brokerage and Wealth Management				
Stock and fund trading volume (RMB in billions)	2,963.3	4,627.2	15,178.7	1,732.4
Net average stock and fund brokerage commission rate . .	0.689‰	0.617‰	0.449‰	0.376‰
Credit Business				
Closing balance of margin financing and securities lending (RMB in millions) . .	12,074.8	37,481.0	38,764.5	27,208.2

SUMMARY

	As of or for the year ended December 31,			As of or for the three months ended March 31,
	2013	2014	2015	2016
Institutional Securities Services				
<i>Equity Finance</i>				
Amount of equity securities				
lead-underwritten (RMB in millions)	3,011.1	923.8	14,190.5	4,254.7
Average commission rates of equity offerings				
lead-underwritten	3.0%	8.0%	3.3%	1.4%
<i>Debt Finance</i>				
Amount of debt securities				
lead-underwritten (RMB in millions)	17,502.0	10,038.0	93,123.8	28,762.0
Average commission rates of debt offerings				
lead-underwritten	0.5%	0.6%	0.5%	0.9%
<i>Proprietary Trading</i>				
Average rate of return ⁽¹⁾	0.6%	17.0%	26.4%	(8.1)%
Net gains/(losses) ⁽²⁾ (RMB in millions)	52.6	1,376.0	2,466.3	(772.7)
Investment balance ⁽³⁾ (RMB in millions)	6,911.0	9,169.4	14,978.2	15,099.2
– Equity securities (stocks and funds)	4,697.2	1,595.4	8,834.1	7,002.9
– Fixed-income securities	2,213.8	7,410.2	4,999.4	6,908.3
– Derivatives and others	–	163.8	1,144.7	1,188.0
Investment Management				
Combined AUM (RMB in billions) ⁽⁴⁾	175.7	210.8	321.4	302.4
Management fees generated by Everbright Asset Management				
(RMB in millions) ⁽⁵⁾	238.3	412.8	953.0	111.3
Management fees generated by Everbright Pramerica				
(RMB in millions) ⁽⁵⁾	364.4	352.6	409.2	93.2

SUMMARY

- (1) Calculated by dividing net gains/(losses) by average proprietary trading volume.
- (2) Includes net investment gains/(losses) and other comprehensive income (less impairment loss) of available-for-sale financial assets (before income tax).
- (3) Does not include the securities invested by China Securities Finance Corporation Limited using the funds totaling RMB5,856.8 million we contributed to the designated accounts managed by China Securities Finance Corporation Limited.
- (4) Refers to the combined AUM of Everbright Asset Management and Everbright Pramerica.
- (5) Includes management and performance fees.

Our profit was relatively lower in 2013 primarily because:

- We disposed of certain investments at a loss to meet our liquidity needs under challenging market conditions. China's A share market underperformed in 2013 compared to 2014 and 2015. The CSI 300 Index was 2,330.0 as of December 31, 2013, as compared to 3,533.7 as of December 31, 2014 and 3,731.0 as of December 31, 2015. See "Industry Overview — The PRC Capital Markets — Stock Market" on page 97 for details; and
- We were imposed a fine of RMB436 million and had income totaling RMB87 million confiscated for our involvement in the 8•16 Event. We were also prohibited from trading activities (other than for proprietary trading of fixed-income securities) and suspended from submitting application for new businesses from August 31, 2013 to July 2014. See "8•16 Event" on page 20 for details.

Profit for the period decreased by 59.5% from RMB1,538.6 million in the three months ended March 31, 2015 to RMB623.7 million in the same period in 2016, primarily reflecting (1) decreased income from our brokerage business, primarily due to decreased trading activity by brokerage clients, and a decrease in net average stock and fund brokerage commission rates due to market competition, (2) decreased investment gains from our proprietary trading business, primarily due to unfavorable market conditions, and (3) decreased income from our margin financing and securities lending business, largely because our clients were less active in margin financing and securities lending.

We believe we achieved our business growth during the Track Record Period by seizing the market opportunities arising from the increased financing and investment needs of our clients through leveraging our competitive strengths outlined above. Specifically, we enhanced our capability to serve high-end retail clients to benefit from the increasing stock market trading volume, and achieved substantial revenue growth in our brokerage and wealth management businesses. We rapidly increased our margin financing and securities lending business and collateralized stock repurchase business, and leveraged our strong innovative capability to obtain business licenses in new areas, such as market making on the NEEQ and proprietary trading of treasury bond futures. We also continued to strengthen our "one-stop" service capabilities for institutional securities services.

SUMMARY

OUR MARKET POSITIONS

We hold leading positions in various businesses as set forth below:

- *Brokerage Business:* In 2015, our stock and fund trading volume amounted to RMB15,178.7 billion, ranking No. 11 among PRC securities firms; our fund trading volume and stock option trading volume ranked No. 3 and No. 3 among PRC securities firms and PRC futures companies, respectively.
- *Securities Branch Network:* As of March 31, 2016, we established 151 securities branches, covering 28 provinces in the PRC, of which approximately 69.5% are located in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim, the most economically developed regions in the PRC. As of the same day, we had also established 24 futures branches in 18 provinces in the PRC.
- *Investment Banking:* In 2015, our investment banking business ranked No. 2 by A share IPO proceeds, No. 1 by proceeds from follow-on offerings on the NEEQ, No. 4 by proceeds raised on the ChiNext Board and No. 8 by amount of debt underwritten.
- *Investment Research:* From 2013 to 2015, we were awarded “Best Analyst” by New Fortune in six research areas.
- *Asset Management:* In 2015, Everbright Asset Management ranked No. 7 by net revenue and No. 4 by return on net assets among all the asset management subsidiaries of PRC securities firms.

RISK MANAGEMENT AND CAPITAL ADEQUACY

We have established comprehensive risk management and internal control processes for monitoring, assessing and managing our exposure to market, credit, operational and legal and compliance risks. In 2016, we were rated by the CSRC as a “Class A Grade AA” securities firm.

We have also established a dynamic monitoring mechanism to comply with regulatory net capital requirements. As of June 30, 2016, we had a net capital (unaudited and on an unconsolidated basis) of RMB33,047.5 million. In addition, we are also required to comply with certain risk control indicators for various businesses, such as credit business, proprietary trading and direct investment. As of December 31, 2013, 2014 and 2015 and March 31, 2016 and June 30, 2016, all of our capital adequacy and risk control indicators complied with applicable regulatory requirements. See “Financial Information — Capital Adequacy and Risk Indicator Requirements” beginning on page 373 for details on our net capital and key risk indicators.

SUMMARY

RECENT DEVELOPMENTS

Although the PRC A share market performed well in the first quarter of 2015, it has been volatile since the second quarter of 2015. The PRC government has introduced measures and led initiatives by market participants to stabilize the market. For example:

- Various PRC securities firms, including us, contributed funds to designated accounts managed by China Securities Finance Corporation Limited. Under the relevant agreements, the securities firms will share the risks and returns from the investments in proportion to their respective contributions. We contributed RMB4,380.0 million and RMB1,476.8 million in July and September 2015, respectively. We have recorded our contributions as available-for-sale financial assets. As of June 30, 2016, the funds we contributed to China Securities Finance Corporation Limited represented 33.5%, 22.7% and 13.6% of our total available-for-sale financial assets, non-current assets and net tangible assets, respectively. The carrying amount of the funds contributed were determined with reference to the reports provided by China Securities Finance Corporation Limited on a quarterly basis. Our risk management procedures do not apply to the funds we contributed to China Securities Finance Corporation Limited. Since it is unclear how China Securities Finance Corporation Limited will invest the funds contributed and when our investment will be returned, our contribution may result in losses that materially and adversely affect our financial condition and results of operations. The fair value of our contribution decreased by 12.6% as of June 30, 2016. We have not recognized any impairment charge because the decline was not significant or prolonged enough under the indicators of impairment prescribed by IAS 39.61.
- In July 2015, we committed not to reduce our proprietary holdings below the level as of July 3, 2015 if the Shanghai Stock Exchange Composite Index remains below 4,500. As of July 3, 2015, December 31, 2015, March 31, 2016 and June 30, 2016, the net position of our stock proprietary trading was RMB697.8 million, RMB5,009.2 million, RMB4,689.9 million and RMB4,482.3 million, respectively. We closely monitor the net position of our stock proprietary trading. If the net position of our stock proprietary trading falls below the level as of July 3, 2015, we will increase the position immediately by purchasing stock or adjusting our investment portfolios to ensure we meet our commitment. Because of this commitment, we may lose favorable opportunities to realize gains from our investment.
- Since September 2015, the regulators have raised margin requirements for stock index futures and treated opening daily positions of more than 10 contracts by an investor on a single stock index future as “abnormal trading”. The regulators have also increased the fees for settling positions. These measures discourage short-selling and trading activity, which may materially and adversely affect our brokerage business and our ability to hedge our proprietary trading positions.

The high volatility of the PRC stock market has continued in 2016 and investors in China have developed a risk-averse sentiment. The CSI 300 index plummeted by 15.5% during the

SUMMARY

first half of 2016, while the CSI 300 index increased by 26.6% during the first half of 2015. The recent market volatility has negatively affected our business operations and finance performance:

- *Brokerage and Wealth Management.* Stock and fund brokerage trading volume decreased from RMB8,211.1 billion in the six months ended June 30, 2015 to RMB3,457.1 billion in the same period in 2016, primarily because of the decreased trading activity of our brokerage clients.
- *Margin Financing and Securities Lending.* Our clients were less active in margin financing and securities lending due to recent market volatility. As a result, the closing balance of margin financing and securities lending decreased from RMB27,208.2 million as of March 31, 2016 to RMB26,472.0 million as of June 30, 2016.
- *Proprietary Trading.* Our proprietary trading business recorded average return of negative 5.5% in the six months ended June 30, 2016, while the CSI 300 index plummeted by 15.5% during the same period.

The following table sets forth the investment balance of our proprietary trading business by asset class as of the dates indicated:

	As of March 31, 2016	As of June 30, 2016
	(RMB in millions)	
Equity securities (stocks and funds)	7,002.9	6,089.6
Fixed-income securities	6,908.3	8,986.9
Derivatives and others	1,188.0	1,153.8
Total	15,099.2	16,230.3

Our fixed-income product investments account for a substantial portion of our proprietary trading portfolio and were less affected by the recent market volatility. We use financial instruments such as stock index futures to hedge our exposure to the market risks associated with our proprietary trading business. We also carefully select equity products with strong growth potential and long-term investment value to minimize the impact of market fluctuations on our proprietary trading business.

In spite of the market volatility, our asset management and investment banking businesses have continued to grow:

- *Asset Management.* The AUM of Everbright Asset Management increased from approximately RMB256.7 billion as of March 31, 2016 to approximately RMB277.8 billion as of June 30, 2016, primarily attributable to the launch of new asset management schemes.
- *Investment Banking.* We recommended 39 NEEQ quotations in the six months ended June 30, 2016 as compared to 20 in the same period in 2015. We led-managed RMB78,947.0 million of debt securities in the six months ended June 30, 2016 as compared to RMB39,030.0 million in the same period in 2015.

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As a result of the high volatility of the PRC stock market, we recorded significantly decreased income from our brokerage and wealth management, margin financing and securities lending and proprietary trading businesses in the six months ended June 30, 2016 as compared to the same period in 2015. Accordingly, our financial performance in the six months ended June 30, 2016 deteriorated significantly as compared to the same period in 2015. If the PRC stock market continues to be volatile, our results of operations for full year 2016 could be materially and adversely affected.

We are required by the CSRC to publish certain unaudited unconsolidated financial data of our Company and Everbright Asset Management on the website of the Shanghai Stock Exchange on a monthly basis.

- In the six months ended June 30, 2016, the unaudited unconsolidated total revenue of our Company and Everbright Asset Management was RMB3,173.3 million and RMB350.9 million, respectively, and the unaudited unconsolidated net profit of our Company and Everbright Asset Management was RMB1,605.8 million and RMB141.9 million, respectively. As of June 30, 2016, the unaudited unconsolidated net assets of our Company and Everbright Asset Management were RMB37,783.0 million and RMB1,126.0 million, respectively. Our reporting accountants have performed a review on the unaudited interim unconsolidated financial statements of the Company and Everbright Asset Management for the six months ended June 30, 2016 in accordance with Hong Kong Standard on Review Engagements 2410.
- The unaudited unconsolidated total revenue and net profit of our Company for the month ended July 31, 2016 were RMB638.0 million and RMB295.0 million. As of July 31, 2016, the unaudited unconsolidated net assets of our Company were RMB38,020.8 million. Our reporting accountants have performed certain agreed-upon procedures for the selected unaudited unconsolidated financial data based on the Hong Kong Standard on Related Services 4400 — Engagements to Perform Agreed-upon Procedures Regarding Financial Information. These agreed-upon procedures include (1) agreeing the unaudited unconsolidated revenue, net profit and net assets of our Company to the unconsolidated management accounts for the month ended July 31, 2016, (2) agreeing each line item in the unconsolidated management accounts for the month ended July 31, 2016 to the general ledger, (3) checking the mathematical accuracy of the unconsolidated management accounts for the month ended July 31, 2016, (4) agreeing the total revenue for the month ended July 31, 2016 shown on a schedule prepared by management setting out revenue by each category (including interest income from margin financing and securities lending, securities brokerage commissions, investment gains and losses, commission income of investment banking and other revenue items) to the unconsolidated management accounts, (5) agreeing the interest income from margin financing and securities lending, securities brokerage commissions, investment gains and losses and commission income of investment banking for the month ended July 31, 2016 listed on the total revenue schedule obtained in procedure (4) to the general ledger, and (6) agreeing the total amount of commission income of investment banking for the month ended July 31, 2016 shown on a schedule prepared by management setting out the commission income by

SUMMARY

investment banking projects to the general ledger; agreeing commission fee amounts of the top ten investment banking projects listed on the schedule to their respective sub-ledgers.

- The unaudited unconsolidated total revenue and net profit of Everbright Asset Management for the month ended July 31, 2016 were RMB43.2 million and RMB22.1 million. As of July 31, 2016, the unaudited unconsolidated net assets of Everbright Asset Management were RMB1,160.9 million. Our reporting accountants have performed certain agreed-upon procedures for the selected unaudited unconsolidated financial data based on the Hong Kong Standard on Related Services 4400 — Engagements to Perform Agreed-upon Procedures Regarding Financial Information. These agreed-upon procedures include (1) agreeing the unaudited unconsolidated revenue, net profit and net assets of Everbright Asset Management to the respective unconsolidated management accounts for the month ended July 31, 2016, (2) agreeing each line item in the unconsolidated management accounts for the month ended July 31, 2016 to their respective general ledgers, (3) checking the mathematical accuracy of the unconsolidated management accounts for the month ended July 31, 2016, and (4) obtaining a schedule from management setting forth the management fee income by each asset management scheme; agreeing the total managements fee income on the schedule to the general ledger; and agreeing the total management fee income of the top ten asset management schemes on the schedule to the sub-ledger.

The selected unaudited unconsolidated financial data of the Company and Everbright Asset Management as of and for the six months ended June 30, 2016 were extracted from the unaudited interim unconsolidated financial statements of the Company and Everbright Asset Management prepared under PRC GAAP. The selected unaudited unconsolidated financial data of the Company and Everbright Asset Management as of and for the month ended July 31, 2016 were extracted from the management accounts of our Company and Everbright Asset Management prepared based on PRC GAAP. We have not provided a reconciliation of the selected unconsolidated unaudited financial data to IFRS because there is no material difference in accounting treatment between PRC GAAP and IFRS in respect of the financial data disclosed above. These financial data are not indicative of our operating results for 2016 and are not directly comparable to the consolidated financial information presented in this prospectus.

Except as disclosed above, our Directors have confirmed that since March 31, 2016 and up to the date of the Prospectus, there is no event which could materially affect the information shown in our consolidated financial statement included in the Accountants' Report set forth in Appendix I to this prospectus, and there has been no material adverse change in our financial or trading position or prospects.

SUMMARY

USE OF PROCEEDS

Assuming an Offer Price of HK\$12.53 per H Share (being the mid-point of the stated range of the Offer Price between HK\$11.80 and HK\$13.26 per H Share), we estimate that we will receive net proceeds of approximately HK\$8,236 million from the Global Offering (after deducting underwriting commissions and other estimated expenses) if the Over-allotment Option is not exercised. We intend to use the net proceeds from the Global Offering as follows:

- approximately 35%, or HK\$2,883 million, to further develop capital intermediary business across all business lines to satisfy the investment and financing needs of our customers;
- approximately 35%, or HK\$2,883 million, to fund existing operations of our overseas business and the inorganic expansion of our onshore and offshore platforms;
- approximately 20%, or HK\$1,647 million, to develop our wealth management and institutional securities services businesses; and
- approximately 10% or HK\$824 million, to fund working capital, the establishment of back-office systems and general corporate purposes.

For more details, see “Future Plans and Use of Proceeds” beginning on page 388.

OFFER STATISTICS

All statistics in this table are prepared on the assumption that the Over-allotment Option is not exercised.

	<u>Based on an Offer Price of HK\$11.80</u>	<u>Based on an Offer Price of HK\$13.26</u>
Market capitalization of the H-shares ⁽¹⁾ . . .	HK\$8,024 million	HK\$9,017 million
Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽²⁾	HK\$10.69	HK\$10.90

(1) The calculation of market capitalization is based on 680,000,000 H Shares expected to be issued and outstanding following the Global Offering.

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

DIVIDEND POLICY

Our Articles of Association require us to distribute cash dividends of no less than 10% of the distributable profit of each year and no less than 30% of the average annual distributable profit in any rolling three-year period, subject to significant investment or capital expenditure plans and working capital requirements. We may also distribute stock dividends and interim dividends based on our financial performance and working capital requirements. We determine whether to distribute dividends and in what amount primarily based on our results of operations, cash flow, financial condition, capital adequacy ratios, future business prospects, and statutory and regulatory restrictions.

SUMMARY

For 2013, 2014 and 2015, we declared cash dividends of RMB68.4 million, RMB273.4 million and RMB2,344.0 million, respectively, or RMB0.2, RMB0.8 and RMB6.0 per 10 A Shares, respectively. Our A Share dividend payout ratio (calculated by dividing dividends declared for the year by profits for the year attributable to shareholders of our Company) was 33.2%, 13.2% and 30.7%, respectively. Both our A shareholders and H shareholders are entitled to our accumulated retained earnings prior to the Global Offering. Our historical dividends may not be indicative of future dividend payments.

Under PRC law, we may only pay dividends out of our distributable profits. For further details, see “Financial Information — Dividend Policy” beginning on page 385. Furthermore, under CSRC rules, as a securities firm, we may not distribute the gains from fair value changes of financial assets that are included in distributable profits as cash dividends.

RISK FACTORS

There are a number of risks involved in our operation and in connection with the Global Offering, most of which are beyond our control. These risks can be categorized into (1) risks relating to our business and industry, (2) risks relating to doing business in the PRC, and (3) risks relating to the Global Offering.

We believe our major risks include the risks associated with:

- market and economic conditions and countermeasures taken by the government in the PRC and other jurisdictions where we operate;
- regulatory changes that may affect our operations and financial results; and
- our ability to compete effectively in the highly competitive financial services industry.

For further information relating to these and other risks relating to an investment in our Shares, see “Risk Factors” beginning on page 40.

REGULATORY NON-COMPLIANCE AND INSPECTIONS

We are subject to regulation by PRC and Hong Kong regulators, primarily the CSRC, the Shanghai Stock Exchange, the SFC and the Hong Kong Stock Exchange. We have, from time to time, detected regulatory non-compliance incidents committed by us or our employees. In addition, we are subject to inspections and examinations by the CSRC and other regulators from time to time, which may reveal certain deficiencies in our business operations, risk management and internal controls. For example, as further described below, in August 2013, the CSRC found us guilty of engaging in inside trading due to our failure to disclose erroneous 180 ETFs trading to the market before entering into hedging transactions. In addition, in February 2014, we were penalized by the CSRC in connection with the IPO of Tianfon Energy-saving for the failure of two sponsor representatives to discover noncompliant activities by Tianfon Energy-saving during the course of due diligence. See “Business — Legal and Regulatory Matters” beginning on page 232 for details. As a result of these two incidents, our regulatory rating was downgraded from “Class A Grade AA” to “Class C Grade C” in 2014.

SUMMARY

8•16 Event

On August 16, 2013, a technical glitch in our ETF strategy execution system caused the system to erroneously place purchase orders totaling RMB23.4 billion for 180 ETFs, RMB7.27 billion of which were executed at market prices. Upon realizing this error, we hedged against the risks by short selling index futures contracts and converting and selling ETFs.

On August 30, 2013, the CSRC took regulatory actions against us, including (1) confiscating income totaling RMB87 million and fining us RMB436 million, (2) revoking our proprietary trading license, other than for proprietary trading of fixed-income securities, (3) suspending acceptance of applications for new businesses, and (4) requiring us to take certain remedial measures, impose internal sanctions on the employees responsible for the incident and report the results to the CSRC. The CSRC also imposed certain sanctions on the employees responsible for the incidents. In July 2014, the CSRC lifted its ban on our proprietary trading and resumed accepting our applications for new businesses. See “Business — Legal and Regulatory Matters — Regulatory Non-compliance” from pages 236 to 248 for details.

As of the Latest Practicable Date, we were involved in 502 legal proceedings instituted by investors seeking compensation for losses resulting from the 8•16 Event. See “Business — Legal and Regulatory Matters — Legal Proceedings” on pages 234 and 236 for more details of these proceedings. We estimate that our maximum liability under the pending legal proceedings would be approximately RMB3.2 million.

LISTING EXPENSES

Listing expenses comprise professional fees, underwriting commissions and other fees incurred in connection with the Listing and the Global Offering. We estimate our listing expenses to be approximately RMB243.8 million, of which approximately RMB220.9 million is directly attributable to the issue of H Shares to the public and will be capitalized, and approximately RMB22.9 million is expected to be reflected in our consolidated income statements. None of the listing expenses are reflected in our consolidated income statements during the Track Record Period. Our Directors do not expect such expenses to materially impact our operational results for 2016.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“A Shares”	domestic shares of our Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
“active client(s)”	clients who are not “inactive clients”; a client is an “inactive client” if the securities in the client's account with us have a market value of zero, the fund in the client's account is below RMB100, and the client has not conducted any trade in the past year
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN applications form(s) or, where the context so requires, any of them relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company, a summary of which is set out in Appendix VI to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Board”	the board of Directors of our Company
“Bohai Rim”	the region comprising Beijing, Shandong, Tianjin, Liaoning and Hebei
“Business Day”	a day on which banks in Hong Kong are generally open for normal banking business to the public, excluding Saturdays, Sundays and public holidays in Hong Kong
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

DEFINITIONS

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CFETS”	China Foreign Exchange Trading System & National Interbank Funding Center (中國外匯交易中心暨全國銀行間同業拆借中心)
“China” or “PRC”	the People’s Republic of China, and for the purposes of this prospectus, excluding Hong Kong, Macau and Taiwan
“CIC”	China Investment Corporation (中國投資有限責任公司), a company with limited liability incorporated under the laws of the PRC, which is wholly-owned by the State Council and holds 100% interest in Huijin
“Company” or “Everbright Securities”	Everbright Securities Company Limited (光大證券股份有限公司) (previously known as Everbright Securities Limited (光大證券有限責任公司)), a company with limited liability incorporated under the laws of the PRC on April 23, 1996 and converted into a joint stock company on July 14, 2005, the A Shares of which are listed on the Shanghai Stock Exchange (stock code: 601788), and, if the context requires, including its predecessors, subsidiaries, branch offices and branches
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“CSDC”	China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限公司)
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)

DEFINITIONS

“Dacheng Fund”	Dacheng Fund Management Co., Ltd. (大成基金管理有限公司), a company with limited liability incorporated under the laws of the PRC on April 12, 1999 and owned as to 25% by our Company, 50% and 25% by independent third parties, Zhongtai Trust Investment Limited (中泰信託投資有限責任公司) and China Galaxy Investment Management Co., Ltd. (中國銀河投資管理有限公司), respectively
“Director(s)”	director(s) of our Company
“EBSHK”	Everbright Securities Financial Holdings Limited (光大證券金融控股有限公司), a company with limited liability incorporated under the laws of Hong Kong on November 19, 2010 and a wholly-owned subsidiary of our Company
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), which was adopted by the Tenth NPC on March 16, 2007 and became effective on January 1, 2008
“ESIL”	Everbright Securities (International) Limited (光大證券(國際)有限公司) (formerly known as Posy Company Limited), a company with limited liability incorporated under the laws of the British Virgin Islands on July 14, 1992 and a wholly-owned subsidiary of EBSHK
“Everbright Asset Management”	Shanghai Everbright Securities Asset Management Co., Ltd. (上海光大證券資產管理有限公司), a company with limited liability incorporated under the laws of the PRC on February 21, 2012 and a wholly-owned subsidiary of our Company
“Everbright Bank”	China Everbright Bank Company Limited (中國光大銀行股份有限公司), a company incorporated under the laws of the PRC on June 18, 1992 and converted into a joint stock company in 1997 and directly owned as to 25.15% by the Everbright Group, 21.96% by Huijin, 1.35% by Central Huijin Asset Management Ltd. and 3.37% by Everbright Limited as of the Latest Practicable Date. Its A shares are listed on the Shanghai Stock Exchange (stock code: 601818) and its H shares are listed on the Hong Kong Stock Exchange (stock code: 6818). Everbright Bank is a subsidiary of the Everbright Group due to consolidation of their financial statements and, therefore, will be a connected person of our Company

DEFINITIONS

“Everbright Capital”	Everbright Capital Investment Co., Ltd. (光大資本投資有限公司), a company with limited liability incorporated under the laws of the PRC on November 7, 2008 and a wholly-owned subsidiary of our Company
“Everbright Fortune”	Everbright Fortune Investment Co., Ltd. (光大富尊投資有限公司), a company with limited liability incorporated under the laws of the PRC on September 26, 2012 and a wholly-owned subsidiary of our Company
“Everbright Futures”	Everbright Futures Co., Ltd. (光大期貨有限公司), a company with limited liability incorporated under the laws of the PRC on April 8, 1993 and a wholly-owned subsidiary of our Company
“Everbright Group”	China Everbright Group Corporation Limited (中國光大集團股份公司) (previously known as China Everbright Group Limited (中國光大(集團)總公司)), a state-owned company incorporated under the laws of the PRC on November 12, 1990 and a controlling shareholder of our Company. The Everbright Group was converted into a joint stock company and renamed China Everbright Group Corporation Limited (中國光大集團股份公司) on December 8, 2014. The Everbright Group is held 44.33% by the MOF and 55.67% by Huijin. The Everbright Group will hold, directly and indirectly, 50.12% of the total issued share capital of our Company in aggregate following completion of the Global Offering (assuming the Over-allotment Option is not exercised) and, therefore, will be a connected person of our Company
“China Everbright Holdings”	China Everbright Holdings Company Limited (中國光大集團有限公司), a company with limited liability incorporated under the laws of Hong Kong on May 10, 1983 and a wholly-owned subsidiary of the Everbright Group
“Everbright Leasing”	Everbright Fortune International Leasing Co., Ltd. (光大幸福國際租賃有限公司), a company with limited liability incorporated under the laws of the PRC on September 29, 2014 and owned as to 50% by Everbright Financial Investment Limited, 35% by Everbright Capital, 10% by Jingmen Urban Construction Investment Co., Ltd. (荆門市城市建設投資公司), an independent third party, and 5% by Joy Air Holdings Co., Ltd., an independent third party

DEFINITIONS

“Everbright Limited”	China Everbright Limited (中國光大控股有限公司), (previously known as Intercontinental Housing Development Limited (明輝發展有限公司)), a company with limited liability incorporated under the laws of Hong Kong on August 25, 1972 and renamed China Everbright Limited (中國光大控股有限公司) on September 19, 1997. Its shares are listed on the Hong Kong Stock Exchange (stock code: 165). Everbright Limited will hold 24.84% of the total issued share capital of our Company following completion of the Global Offering (assuming the Over-allotment Option is not exercised) and, therefore, will be a connected person of our Company
“Everbright Pramerica”	Everbright Pramerica Fund Management Co., Ltd. (光大保德信基金管理有限公司), a company with limited liability incorporated under the laws of the PRC on April 22, 2004 and owned as to 55% by our Company and 45% by PGIM, Inc. (formerly known as Pramerica Investment Management Co., Ltd.), an independent third party
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group” or “we” or “our” or “us”	Everbright Securities and its subsidiaries, and their respective predecessors
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Shares”	overseas listed foreign shares in our ordinary share capital with a nominal value of RMB1.00 each, to be subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
“high-net-worth client(s)”	client(s) with assets of at least RMB5.0 million in their accounts with our Company
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited

DEFINITIONS

“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HK\$” or “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Hong Kong Listing Rules”, or “Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Hong Kong Offer Shares”	the H Shares offered by us for subscription pursuant to the Hong Kong Public Offering
“Hong Kong Public Offering”	the offering of 68,000,000 H Shares for subscription by the public in Hong Kong (subject to adjustment as described in “Structure of the Global Offering”) for cash at the Offer Price on the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in “Underwriting — Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement dated August 5, 2016 and entered into among our Company, the Joint Sponsors, the Joint Representatives and the Hong Kong Underwriters, further details of which are contained in “Underwriting — Underwriting Arrangements and Expenses”

DEFINITIONS

“Huijin”	Central Huijin Investment Ltd. (中央匯金投資有限責任公司), a wholly state-owned company incorporated under of the laws of the PRC on December 16, 2003, which is wholly-owned by CIC. Huijin will, directly and indirectly through the Everbright Group, hold 50.94% of the total issued share capital of our Company in aggregate following completion of the Global Offering (assuming no exercise of the Over-allotment Option)
“IFRS”	the International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by International Accounting Standards Board, and interpretation issued by the International Accounting Standards Committee (IASC)
“independent third party(ies)”	party(ies) who, as far as the Directors are aware after having made all reasonable enquiries, are not connected with our Company within the meaning of the Hong Kong Listing Rules
“International Offer Shares”	the H Shares offered pursuant to the International Offering
“International Offering”	the conditional placing of the International Offer Shares by the International Underwriters with professional and institutional investors for cash at the Offer Price, in the United States on to U.S. Persons in each case who are both QIBs and QPs in reliance on Rule 144A or another exemption from the registration requirements of the U.S. Securities Act and non-U.S. persons outside the United States in offshore transactions in accordance with Regulation S as further described in “Structure of the Global Offering”
“International Underwriters”	the group of international underwriters who are expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or before August 11, 2016 by, among others, the Joint Representatives, the Joint Bookrunners, the International Underwriters and our Company in respect of the International Offering, as further described in “Underwriting — Underwriting Arrangements and Expenses — The International Offering”

DEFINITIONS

“Joint Bookrunners”	China Everbright Securities (HK) Limited, Merrill Lynch International, UBS AG Hong Kong Branch, CCB International Capital Limited, BOCOM International Securities Limited, CEB International Capital Corporation Limited, Sun Hung Kai Investment Services Limited, CMB International Capital Limited, Yuanta Securities (Hong Kong) Company Limited, Macquarie Capital Limited, BOCI Asia Limited, ICBC International Capital Limited, ABCI Capital Limited, CIMB Securities Limited, Deutsche Bank AG, Hong Kong Branch, China Merchants Securities (HK) Co., Limited, China Securities (International) Corporate Finance Company Limited, Guotai Junan Securities (Hong Kong) Limited, China Industrial Securities International Capital Limited and AMTD Asset Management Limited
“Joint Global Coordinators”	China Everbright Securities (HK) Limited, Merrill Lynch International, UBS AG Hong Kong Branch, CCB International Capital Limited, BOCOM International Securities Limited and CEB International Capital Corporation Limited
“Joint Lead Managers”	China Everbright Securities (HK) Limited, Merrill Lynch Far East Limited (in relation to the Hong Kong Public Offering only), Merrill Lynch International (in relation to the International Offering only), UBS AG Hong Kong Branch, CCB International Capital Limited, BOCOM International Securities Limited, CEB International Capital Corporation Limited, Sun Hung Kai Investment Services Limited, CMB International Capital Limited, Yuanta Securities (Hong Kong) Company Limited, Macquarie Capital Limited, BOCI Asia Limited, ICBC International Securities Limited, ABCI Securities Company Limited, CIMB Securities Limited, Deutsche Bank AG, Hong Kong Branch, China Merchants Securities (HK) Co., Limited, China Securities (International) Corporate Finance Company Limited, Guotai Junan Securities (Hong Kong) Limited, China Industrial Securities International Capital Limited and AMTD Asset Management Limited
“Joint Representatives”	China Everbright Securities (HK) Limited, Merrill Lynch International and UBS AG Hong Kong Branch
“Joint Sponsors”	China Everbright Capital Limited, UBS Securities Hong Kong Limited and Merrill Lynch Far East Limited

DEFINITIONS

“Latest Practicable Date”	July 31, 2016, the latest practicable date for the inclusion of certain information in this prospectus prior to its publication
“Listing”	listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about August 18, 2016, on which the H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, promulgated by the former State Council Securities Committee and other PRC government departments on August 27, 1994, as amended, supplemented or otherwise modified from time to time
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“Money Lenders Ordinance”	the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“New Fortune”	New Fortune Magazine 《新財富》, a PRC finance magazine
“Non-PRC resident enterprises”	as defined under the EIT Law, means companies established pursuant to non-PRC laws with their de facto management conducted outside the PRC, but which have established organizations or premises in the PRC, or which have generated income within the PRC without having established organizations or premises in the PRC
“NPC”	National People’s Congress of the PRC (中華人民共和國全國人民代表大會)

DEFINITIONS

“NSSF”	National Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會)
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%), at which Hong Kong Offer Shares are to be subscribed, to be determined in the manner further described in “Structure of the Global Offering — Pricing of the Global Offering”
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares, collectively, and where relevant, together with any additional H Shares to be issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option granted by us to the International Underwriters, exercisable by the Joint Representatives on behalf of the International Underwriters pursuant to the International Underwriting Agreement, to require us to issue up to 100,000,000 additional H Shares, representing approximately 14.71% of the Offer Shares initially available under the Global Offering, at the Offer Price, to cover, among other things, over-allocations, if any, in the International Offering
“PBOC”	People’s Bank of China (中國人民銀行), the central bank in China
“Pearl River Delta”	the region comprising Guangzhou, Shenzhen, Zhuhai, Foshan, Dongguan, Zhongshan, Huizhou, Jiangmen and Zhaoqing, all of which are located in Guangdong Province
“PN 15”	Practice Note 15 to the Hong Kong Listing Rules
“PRC Company Law”	Company Law of the PRC (中華人民共和國公司法), promulgated by the Standing Committee of the Eighth NPC on October 27, 2005 and effective on January 1, 2006, as amended, supplemented and otherwise modified from time to time, and subsequently revised by the Standing Committee of the 12th NPC on December 28, 2013 and became effective on March 1, 2014
“PRC GAAP”	generally accepted accounting principles in the PRC

DEFINITIONS

“PRC government”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities
“PRC Securities Law”	Securities Law of the PRC (中華人民共和國證券法) as promulgated by the Standing Committee of the NPC on December 29, 1998 and effective on July 1, 1999, as last amended on August 31, 2014 with immediate effect
“Price Determination Date”	the date, expected to be on or about August 11, 2016 (Hong Kong time), on which the Offer Price is determined, or such later time as the Joint Representatives (for themselves, and on behalf of the Joint Bookrunners and the Underwriters) and we may agree, but in any event no later than August 14, 2016, on which the Offer Price is fixed for the purposes of the Global Offering
“Promoters”	the promoters of our Company upon its establishment on July 14, 2005
“province”	a province or, where the context requires, a provincial-level autonomous region or municipality under the direct supervision of the PRC government
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“QPs”	qualified purchasers, as defined in Section 2(a)(51) of the U.S. Investment Company Act and Rule 2a51-1 thereunder
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAC”	Securities Association of China (中國證券業協會)
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shanghai Listing Rules”	the Stock Listing Rules of the Shanghai Stock Exchange (上海證券交易所股票上市規則)
“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所)
“Share(s)”	shares of our Company, with a nominal value of RMB1.00 each, comprising the A Shares and H Shares
“Shareholder(s)”	holder(s) of the Shares
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange (深圳證券交易所)
“SHKFL”	Sun Hung Kai Financial Limited (新鴻基金融有限公司) (previously known as Sun Hung Kai Securities Limited (新鴻基證券有限公司)), a company with limited liability incorporated under the laws of Hong Kong on February 27, 1973. SHKFL is a wholly-owned subsidiary of SHKFGL
“SHKFGL”	Sun Hung Kai Financial Group Limited (新鴻基金融集團有限公司), a company with limited liability incorporated under the laws of the British Virgin Islands on September 14, 2010, whose equity interest is held 70% by EBSHK and 30% by Sun Hung Kai
“SMEs”	enterprises that meet the listing criteria of SME Board or ChiNext Board of the Shenzhen Stock Exchange, the NEEQ or the Growth Enterprise Market (the “GEM”) of the Hong Kong Stock Exchange
“Special Regulations”	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定) promulgated by the State Council on August 4, 1994
“Stabilizing Manager”	Merrill Lynch Far East Limited
“State Council”	State Council of the PRC (中華人民共和國國務院)
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto under the Hong Kong Listing Rules

DEFINITIONS

“substantial shareholder”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Sun Hung Kai”	Sun Hung Kai & Co. Limited (新鴻基有限公司), a company with limited liability incorporated under the laws of Hong Kong on April 29, 1983 and listed on the Hong Kong Stock Exchange (stock code: 00086). Sun Hung Kai holds 30% of the total issued share capital of SHKFGL and, therefore, will be a connected person of our Company following completion of the Global Offering
“Sun Life Everbright”	Sun Life Everbright Co., Ltd. (光大永明人壽保險有限公司), a company with limited liability incorporated under the laws of the PRC on April 22, 2002 and owned as to 50% by the Everbright Group and 24.99%, 12.505% and 12.505% by independent third parties by Sunlife Assurance Company of Canada, Ansteel Group Corporation and China North Investment Management Co., Ltd., respectively
“Supervisor(s)”	member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of our Company
“Track Record Period”	the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016
“Underwriters”	the International Underwriters and the Hong Kong Underwriters
“Underwriting Agreements”	the International Underwriting Agreement and the Hong Kong Underwriting Agreement
“United States”	the United States, as defined in Rule 902 of Regulation S
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Investment Company Act”	the United States Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder
“U.S. person”	a U.S. person, as defined of Rule 902 of Regulation S
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

DEFINITIONS

“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO service at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Wind Info”	Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), a company with limited liability incorporated in the PRC in 1994 and an integrated service provider of financial data, information and software, being an independent third party
“Yangtze River Delta”	the region comprising Jiangsu Province, Zhejiang Province and Shanghai
“8•16 Event”	the regulatory non-compliance event involving the erroneous purchase of 180 ETFs and related hedging transactions that occurred on August 16, 2013. See “Business — Legal and Regulatory Matters — Regulatory Non-compliance” for details

In this prospectus, the terms “associate”, “close associate”, “connected person”, “controlling shareholder”, “core connected person” and “substantial shareholder” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this prospectus have been subjected to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

For ease of reference, the English names of the PRC established companies or entities, laws or regulations are translations of their Chinese names and have been included in this prospectus for identification purpose only. In the event of any inconsistency between the Chinese names and their English translations, the Chinese names prevail. English translations of company names and other terms from the Chinese language are marked with “” and are provided for identification purposes only.*

GLOSSARY

This glossary contains explanations of certain terms used in this prospectus in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

“A shares”	shares that are traded on the Shanghai Stock Exchange or Shenzhen Stock Exchange in Renminbi
“AUM”	assets under management
“B shares”	foreign invested shares that are traded on the Shanghai Stock Exchange or Shenzhen Stock Exchange in U.S. dollars or HK dollars
“C-type brokerage branch(es)”	securities brokerage branch(es) that are not equipped with on-site information systems and do not provide on-site securities trading services
“CAGR”	compound annual growth rate
“CAM”	collective asset management
“capital intermediary”	a securities firm using its capital and trading platform to meet clients’ financing and investment needs
“collateral coverage ratio”	the ratio of the market value of securities sold by clients to the transaction amount in repurchase transactions, and the ratio of the market value of equity pledged by clients to the principal amount and accrued interests on loans extended to clients in collateralized stock repurchase transactions
“ChiNext Board”	the growth enterprise board of the Shenzhen Stock Exchange (深圳證券交易所創業板)
“CSI 300 Index”	a capitalization-weighted stock market index compiled by the China Securities Index Company, Ltd. (中證指數有限公司) designed to replicate the performance of 300 stocks traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange
“CSI 300 Index Futures”	CSI 300 Index futures contracts
“eIPO”	electronic IPO
“ETFs”	exchange-traded funds

GLOSSARY

“FICC”	fixed-income, currencies and commodities
“FOF”	fund of funds
“H shares”	overseas-listed shares of PRC companies that are traded on the Hong Kong Stock Exchange
“IB”	referral of clients by securities firms to futures companies
“IPO”	initial public offering
“IT”	information technology
“LOF”	listed open-ended fund
“M&A(s)”	merger(s) and acquisition(s)
“Main Board”	the stock exchange (excluding the futures market) operated by the Hong Kong Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“maintenance margin ratio”	the ratio of all the collateral from the clients of margin financing and securities lending business (including the amount of cash and the market value of securities held in margin securities account) to the margin balance of clients (the sum of the amount of margin loans, the latest market value of securities lent and any accrued interest and fees)
“margin financing and securities lending”	provision of collateral by investors to securities firms to borrow funds for securities purchases (margin financing) or to borrow and sell securities (securities lending)
“MOF bonds”	debt instruments issued by the MOF
“NEEQ”	National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
“QDII”	Qualified Domestic Institutional Investor (合格境內機構投資者)
“QFII”	Qualified Foreign Institutional Investor (合格境外機構投資者)

GLOSSARY

“RQFII”	RMB Qualified Foreign Institutional Investor (人民幣合格境外機構投資者)
“SAM”	specified asset management
“securitization”	financing through issuance of tradable securities backed by specific asset portfolios or cash flows
“Shanghai-Hong Kong Stock Connect”	a securities trading and clearing links program developed by the Hong Kong Stock Exchange, Shanghai Stock Exchange, HKSCC and CSDC for the establishment of mutual market access between Hong Kong and Shanghai, including Southbound Trading and Northbound Trading
“Shenzhen-Hong Kong Stock Connect”	a securities trading and clearing links program to be launched by the Hong Kong Stock Exchange, Shenzhen Stock Exchange, HKSCC and CSDC for the establishment of mutual market access between Hong Kong and Shenzhen, including Southbound Trading and Northbound Trading
“SME Board”	the Small and Medium Enterprises Board of the Shenzhen Stock Exchange (深圳證券交易所中小企業板)
“sponsor representative(s)”	professional representative(s) qualified in the PRC to sponsor and execute offerings and listings of securities pursuant to the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities (證券發行上市保薦業務管理辦法)
“ST stock(s)”	special treatment stock(s) of listed companies that experience unusual circumstances in their financial condition or operation, exposing them to delisting risks or making it impracticable for investors to evaluate the companies’ business prospects
“structured notes”	marketable securities issued by securities firms with the payment of principal and return linked to specific underlying assets
“TAM”	targeted asset management
“TMT”	technology, media and telecommunications
“VaR”	value at risk

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. Such forward-looking statements relate to events that are subject to significant risks and uncertainties, including the risks described in “Risk Factors”. These forward-looking statements include (but are not limited to) words and expressions such as “aim”, “expect”, “believe”, “plan”, “intend”, “estimate”, “project”, “seek”, “anticipate”, “may”, “will”, “should”, “would” and “could” or similar words, expressions or statements or the negative thereof, in particular, in “Business” and “Financial Information” in relation to future events, including our strategies, plans, objectives, goals, targets, future financial results, business prospects, the future development of our industry, the general economy of our key markets and the national and global economy.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future and the information currently available to our management. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance, which is subject to known and unknown risks, uncertainties, assumptions and other factors, some of which are beyond our control, and may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, those discussed under “Risk Factors” and elsewhere in this prospectus and the following:

- general political and economic conditions;
- macro-economic measures taken by the PRC government to manage economic growth;
- future development, trends and environment of the industry and markets in which we operate;
- exchange rate fluctuations and evolving legal systems pertaining to the PRC and the industry and markets in which we operate;
- regulatory environment of the PRC and the industry in which we operate;
- market competition, and actions and development of competitors;
- our business prospects;
- our business plans, strategies and goals and our ability to successfully implement these business plans, strategies and goals;
- our expansion plan and change in estimated capital expenditure;
- our financial conditions, operating results and performance;
- our ability to reduce costs;

FORWARD-LOOKING STATEMENTS

- fluctuations in our service fee and commission income; and
- our dividend policy.

We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. These risks could materially and adversely affect our business, financial condition and results of operations. The trading price of our H Shares could significantly decrease if any of these risks materializes, and you may lose all or part of your investment. You should note that we are a PRC company governed by a legal and regulatory regime that differs from that of other countries. For more information concerning China and certain related matters discussed below, see “Supervision and Regulation”, “Appendix IV — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions” and “Appendix V — Summary of the Articles of Association”.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our business may be adversely impacted by market and economic conditions and countermeasures taken by the government in China and other jurisdictions in which we operate.

Our businesses are highly dependent on the market and economic conditions in China and other jurisdictions in which we operate. As China’s capital markets continue to develop, market conditions may experience sudden and dramatic changes.

Unfavorable or uncertain market and economic conditions could adversely affect investor confidence, resulting in a decline in securities trading and other corporate finance activities that could reduce commission and fee income from our brokerage business and underwriting commission and sponsor fee income from our investment banking business. Unfavorable financial and economic conditions and market volatility could also reduce the value of our trading and investment positions and increase the default risk of clients in our margin financing and securities lending business. During periods of adverse economic or market conditions, we may experience a decline in the value of our asset management portfolio, reduced opportunities to exit and realize investment value from our private equity investments and increased client redemptions, which could adversely affect the fee income from our asset management business and investment gains from our private equity business. In addition, we may not be able to find suitable investment opportunities to deploy capital for our funds effectively during periods of unfavorable or uncertain economic and market conditions, which could adversely affect our ability to raise new funds.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The referendum has also given rise to calls for the governments of other European Union member states to consider withdrawal. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict our access to capital, which could have a material adverse effect on our business, financial condition and results of operations.

RISK FACTORS

The PRC A share market has been volatile since the second quarter of 2015 and the PRC government has introduced measures and led initiatives by market participants to stabilize the market. Market volatility and measures and initiatives taken in response may materially and adversely affect our business. For example:

- In order to stabilize the market, various PRC securities firms, including us, contributed funds to designated accounts managed by China Securities Finance Corporation Limited, whose mandate is to invest the funds in blue-chip stock ETFs. Under the relevant agreements, the securities firms will share the risks and returns from the investments in proportion to their respective contributions. We contributed RMB4,380.0 million and RMB1,476.8 million in July and September 2015, respectively. We have recorded our contributions as available-for-sale financial assets. It is unclear how China Securities Finance Corporation Limited will invest the funds contributed and when our investment will be returned. Our contribution may result in losses or accounting impairment that materially and adversely affect our financial condition and results of operations. We may also make similar contributions in the future on the same or even less favorable terms, and incur losses.
- In July 2015, we committed to not reduce our proprietary holdings below July 3, 2015 levels if the Shanghai Stock Exchange Composite Index remains below 4,500. We cannot assure you that we will not make similar commitments in the future, which could materially and adversely affect our financial condition and results of operations.
- Since September 2015, the regulators have raised margin requirements for stock index futures and treated opening daily positions of more than 10 contracts by an investor on a single stock index future as “abnormal trading”. The regulators have also increased the fees for settling positions. These measures discourage short-selling and trading activity, which could materially and adversely affect our brokerage business and our ability to hedge our proprietary trading positions.

The recent market volatility has negatively affected our business operations and finance performance. See “Summary — Recent Developments” for details. If the PRC stock market continues to be volatile, our financial performance for 2016 could be materially and adversely affected.

If we are unable to compete effectively in the financial services industry, our business and prospects may be adversely affected.

We operate in highly competitive markets, including in particular the securities markets of China and Hong Kong. We compete in these markets on the basis of a number of factors, including prices, products and services, innovation, execution capability, reputation, experience and knowledge of our staff, employee compensation and geographic scope.

We compete primarily with other large securities firms in China and Hong Kong. We also face increasing competition from small securities firms, especially in our brokerage and wealth management businesses. In addition, we compete with commercial banks, insurance companies, fund managers and private equity firms in areas such as wealth management and

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asset management. Meanwhile, the gradual deregulation of the PRC securities industry and the tendency towards mixed business operations in the PRC finance industry may allow new competitors to enter the securities industry, or give our current competitors the opportunity to expand into new business lines. According to a statement released by the CSRC on March 6, 2015, it is considering a proposal to open the PRC securities industry to other financial institutions, such as commercial banks, without providing a timetable for the new policy. We believe that allowing commercial banks, which generally have greater financial resources and wider branch networks than securities firms, to enter the securities industry will further intensify market competition, particularly in securities brokerage and equity underwriting businesses.

We also face competition from foreign institutions in China and overseas, many of which are larger than us in terms of asset size and client base. Some of these institutions have greater financial resources, more specialized capabilities or more extensive distribution capabilities than we do. Some foreign financial institutions have been expanding their operations in China, either organically or in partnership with existing PRC financial institutions. We expect that we will face greater competition from foreign competitors if the restrictions on their business activities in China are relaxed or lifted in the future. We also face increasing competition in overseas securities markets as we expand our international operations.

In recent years, we have experienced intense price competition in some of our businesses. For example, increasingly intense industry competition has resulted in downward pressure on brokerage commissions. We expect the rapid development of Internet finance in China to further increase competition in the markets for our businesses and products, which could result in lost clients or a decrease in the assets our clients invest in or trade through us. Moreover, our underwriting, financial advisory and asset management businesses have been subject to price pressure from our competitors. We believe that we will continue to experience competition in these and other areas as our competitors seek to gain market share through reducing prices.

We are subject to regulatory requirements on our capital, leverage and liquidity that may restrict our business activities.

The CSRC requires securities firms in China to maintain certain minimum capital requirements. For example, securities firms in China must maintain a minimum net capital to net assets ratio of 40%, a minimum net capital to total liabilities ratio of 8%, a minimum net capital to risk capital reserve ratios of 100% and a minimum net assets to total liabilities ratio of 20%. As of March 31, 2016, our liquidity coverage ratio (the ratio of good-quality assets to forecast net cash outflow for the next 30 days) and net stable funding ratio (the ratio of available stable funding to stable funding needed for our businesses) were approximately 213.4% and 157.9%, respectively. See “Financial Information — Capital Adequacy and Risk Indicator Requirements” for more details. Maintaining compliance with these requirements may restrict our ability to enter into transactions or businesses that would be profitable. In addition, the failure to meet such requirements could subject us to penalties and restrictions on our business activities in China, which could adversely affect our results of operations and financial condition.

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Our business, financial condition and results of operations could be adversely affected by a reduction in our clients' trading activities or our securities and futures brokerage commission rates.

Brokerage fee and commission income represents a significant portion of our revenue. In 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, revenue and other income from our Brokerage and Wealth Management segment was RMB2,875.8 million, RMB3,928.8 million, RMB9,607.3 million, RMB1,845.5 million and RMB1,072.9 million, respectively, representing 55.5%, 45.9%, 41.2%, 42.0% and 33.3% of our total revenue and other income, respectively. Revenue from our Brokerage and Wealth Management segment depends largely on the volume of trades that we execute for our clients, which in turn is influenced by market conditions in the jurisdictions in which we operate. Trading volume is influenced by macro-economic and market conditions, industry competition, government policies and measures (such as restrictions on available credit), fluctuations in interest rates and investor behavior, all of which are beyond our control. For example, some of our competitors seek to gain market share by further reducing commission rates. We expect that price competition and pricing pressure will continue to grow as commission rates that investors are willing to pay decrease. As a result, our securities and futures brokerage revenues could decline, which could adversely affect our operations and financial condition.

We also face pressure to maintain our client base and attract new clients. As of March 31, 2016, we had over 3,470,000 brokerage clients. However, we might not be able to maintain or grow our client base. Since April 13, 2015, the CSDC has increased the number of securities brokerage accounts that individual investors may maintain from one to twenty. This gives investors more choice on which brokerage accounts to use for trading and may cause us to lose customers or reduce our business from any particular customer. If we are unable to address the needs of our clients by maintaining high-quality client service, continuing product development, providing value-added services or if we otherwise fail to meet our clients' demands or expectations, we may lose our existing clients to competitors or fail to attract new clients. As a result, revenue from our securities and futures brokerage businesses may decline, which could adversely affect our operations and financial condition.

We may suffer significant losses from client defaults in our margin financing and securities lending business.

Our margin financing and securities lending business is subject to the risk that a client may fail to perform its obligations or that the value of collateral held by us to secure the obligations might become inadequate. If a client is unable to meet its obligations or if guarantee ratios or performance coverage ratios are lower than our minimum thresholds due to fluctuations in market prices of the collateral and the client fails to provide additional collateral, we may enforce and realize the collateral. Our enforcement action may be disputed by clients and subject us to litigation risks. Our ability to liquidate the positions held by clients may also be adversely affected by market volatility. If the market price of securities which we hold as collateral decreases sharply in a short period of time, the value of the collateral may fall below the value of our margin loans and we will be unable to liquidate the positions of the clients in a timely manner, which may cause us to suffer significant losses.

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We may incur substantial losses in equity and fixed income trading from market volatility or sub-optimal investment strategies.

We trade various types of investment products, including equity, equity-linked securities, fixed income securities and derivatives. Each of these investment products has a different risk profile. Proprietary trading activities could subject us to potential losses from our equity and fixed income investments. The value of our investments could decrease as a result of general market conditions, such as changes in investor sentiments and movements in interest rates (particularly affecting fixed-income investments), and issuer-specific factors such as financial performance and compliance with obligations under debt instruments. As of December 31, 2013, 2014 and 2015 and March 31, 2016, the one-day VaR of our investment portfolio at a 95% confidence interval was RMB97.0 million, RMB45.0 million, RMB328.9 million and RMB317.2 million, respectively. Additionally, accounting rules require that we adjust some of our investments to fair value and reflect any related gains or losses in our results of operations, which could lead to volatility in our financial results. Limited availability of investment options and hedging strategies in China may restrict our ability to hedge exposure to the risks associated with our investments, which could adversely affect our results of operations and financial condition.

Our investment banking business is subject to various risks associated with the underwriting and sponsorship of securities.

In 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, revenue and other income from our investment banking business was RMB268.6 million, RMB274.0 million, RMB1,592.2 million, RMB439.1 million and RMB333.7 million, respectively, accounting for 5.2%, 3.2%, 6.8%, 10.0% and 10.3% of our total revenue and other income, respectively. The majority of our investment banking income and other income comes from sponsorship fees and underwriting commissions. If a project is not completed as scheduled, or at all, for any reason, we may not receive payment for our services in a timely manner, or at all, which could materially and adversely affect our results of operations and financial condition.

China's IPO regime may change from an approval-based to a registration-based system. The change will require securities firms to have stronger capabilities in client acquisition, research, pricing and sales. A registration-based system also demands higher standard of information disclosure about the issuer and thus heightens the responsibilities of the sponsors of securities offerings. If we fail to compete effectively in these areas or adjust our business strategies to meet new challenges brought about by the regulatory reform, or if our relevant licenses or qualifications are suspended or revoked by regulators due to our failure to properly discharge our duties and responsibilities as sponsors, we may no longer be able to win new business from existing or new investment banking clients, which may materially and adversely affect our results of operations and financial condition. Additionally, if we fail to sell the securities that we underwrite, we could both suffer reputational damage and incur the costs associated with the purchase and holding of the underwritten securities. Holding such securities could reduce the capital available for our other business activities, which could adversely affect our results of operations or financial condition.

When we act as a sponsor, we must fulfill certain due diligence and disclosure requirements in connection with the offering. Failure to satisfy these requirements could

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subject us to fines and other administrative or regulatory penalties, including suspension of our licenses. In addition, under new CSRC rules, where we act as an IPO sponsor, we are required to give a publicly disclosed undertaking to investors pursuant to which investors have the right to seek compensation immediately from us for false or misleading information or material omissions in the offering document. We have given such undertaking with respect to IPOs for which we are currently acting as a sponsor. In February 2014, we were penalized by the CSRC in connection with the IPO of Tianfon Energy-saving for the failure of two sponsor representatives to discover noncompliant activities by Tianfon Energy-saving during the course of due diligence. See “Business — Legal and Regulatory Matters — Regulatory Non-compliance” for more details. Fines or other regulatory penalties and compensation or other monetary liabilities could harm our reputation, reduce revenues from our investment banking business, and materially and adversely affect our results of operation and financial condition.

Securities offerings in China are generally subject to compliance reviews and approvals by the PRC regulators. The timing and results of such reviews and approvals are beyond our control and could substantially delay or result in the abortion of securities offerings that we underwrite or sponsor. We are unable to assure you that the CSRC will not slow down the approval process for A share IPO applications in the future, which could materially and adversely affect our investment banking business.

We may fail to realize profits from our private equity investment management or lose some or all of the invested capital.

Our private equity investment subsidiary invests in companies that are not publicly traded. The exit from these investments is often accomplished by the listing of the companies on stock markets or trade sales. In a depressed market, we may be forced to sell stakes at undesirable prices or to defer the sale, potentially for a substantial period of time, exposing our investment returns to market risks during the intended disposition period. Additionally, the failure of our portfolio companies to perform as expected could also impair our ability to exit our investments for a favorable return or at all. We expect to continue to make private equity investments provided that we can continue to meet relevant net capital and risk indicators requirements. Private equity investments are risky, and we may lose some or all of our investments.

In addition, we have limited control over our investee companies. We are subject to the risk that such companies may make business, financial or management decisions in a manner that does not serve our interests. Moreover, our investee companies may fail to abide by their agreements with us and we may have limited recourse against such failures. If any of the foregoing were to occur, the value of our investments could decrease, which could adversely affect our results of operations and financial condition.

Our asset management fees could decline if the investments we manage perform poorly or our clients withdraw their managed assets.

We receive asset management fees based on the AUM of each asset management plan. We also earn a pre-determined performance fee for certain asset management plans. Investment performance affects our AUM and is also one of the most important factors in retaining

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clients and competing for new business. Our ability to provide expected returns for our clients could be influenced by market volatility and limitations in investment options and hedging strategies. Furthermore, competition from other securities firms, fund managers, private equity firms, insurance companies, trust companies, banks and other competitors could prevent us from maintaining or increasing our AUM. A decrease in our AUM could lead to a decline in our management and performance fees, which could adversely affect our results of operations and financial condition.

The wealth management products that we distribute are risky investments and our failure to identify, appreciate or disclose such risks could negatively affect our reputation, client relationships, results of operations and business prospects.

We distribute a broad variety of wealth management products developed in-house or by third parties. These products often have complex structures and involve various risks, including credit risks, market risks and liquidity risks. Our ability to distribute these products depends, in part, on our successful identification and appreciation of the risks associated with such products. We are required to ensure that financial products sold to clients match their financial sophistication and risk-return profile. Our risk management policies and procedures might not effectively mitigate our clients' risk exposure in all market environments. If we fail to identify and appreciate the risks associated with the wealth management products we distribute to clients, or sell unsuitable products to our clients, and as a result our clients suffer financial loss or other damages, we could be subject to lawsuits brought by clients or regulatory actions. Such lawsuits or regulatory actions could damage our reputation and client relationships, and may adversely affect our results of operations and financial condition.

Holding large and concentrated positions may expose us to losses.

We commit substantial amounts of capital to our credit business, proprietary trading, institutional securities services and investment management. This exposes us to concentration risks, including market and credit risks, arising from holding particular assets or asset classes in our investment portfolio or our margin financing and securities lending business. Any significant decline in the value of such assets may reduce our revenue or otherwise adversely affect our results of operations and financial condition.

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

As the markets in which we operate continue to evolve, we continue to respond by expanding our business and adjusting our strategies accordingly. New business initiatives often result in new products and services or transactions with individuals or entities that are not our traditional clients or counterparties. These business activities expose us to new risks, including reputational risks, when dealing with less sophisticated counterparties and investors, greater regulatory scrutiny and increased credit, operational and market risks.

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Our businesses are highly regulated in China and other jurisdictions in which we operate. If we are involved in non-compliance incidents, we will be subject to penalties by relevant regulators, which may negatively affect our reputation, results of operations and business prospects.

As a participant in the financial services industry, we are subject to extensive regulation in China and other jurisdictions in which we operate. The regulators limit our business activities by imposing capital requirements, limiting the types of products and services we may offer, restricting the types of assets in which we may invest and restricting the geographic locations where we can carry on our business. For example, the SAC has recently prohibited PRC securities firms from financing the trading of securities by clients through total return swaps traded on the OTC market, which adversely affected our trading volume of total return swaps and thus revenue generated from total return swaps transactions. Since September 2015, the China Financial Futures Exchange has adopted a number of measures to discourage short-selling and trading activity of futures, including raising margin requirements for stock index futures, treating opening daily positions of more than 10 contracts by an investor on a single stock index future as “abnormal trading” and increasing the fees for settling positions. These new regulatory requirements increased the costs of our proprietary trading of futures and adversely affected our income from futures brokerage business and ability to hedge proprietary trading positions.

The PRC and overseas regulators, such as the CSRC and the SFC, inspect, review or investigate our compliance with relevant regulatory requirements. For example, the CSRC assigns a regulatory rating to each securities firm based on its risk management capabilities, competitiveness and compliance with regulatory requirements. A lower regulatory rating could require us to contribute more funds to the securities investor protection fund or make us ineligible to conduct new businesses or obtain business permits or approvals for our existing businesses. We have been involved in non-compliance incidents, such as our failure to adequately perform sponsor’s due diligence during the IPO of Tianfon Energy-saving and the 8•16 Event. See “Business — Legal and Regulatory Matters — Regulatory Non-compliance” for details. As a result, our regulatory rating was downgraded from “Class A Grade AA” to “Class C Grade C” in 2014, which adversely affected our business, such as our ability to develop new businesses and open new branches. Although our regulatory rating was upgraded from “Class C Grade C” to “Class A Grade A” in 2015 and was further upgraded to “Class A Grade AA” in 2016, we cannot assure you that the CSRC will not lower our regulatory rating again. Similarly, we have been receiving enquiries from the SFC from time to time relating to regulatory compliance matters. Any of these events or negative outcome from regulatory investigations may adversely affect our financial condition, reputation and results of operations.

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

Due to the highly regulated nature of the financial industry, many aspects of our business depend on obtaining and maintaining approvals, licenses, permits or qualifications from relevant PRC and Hong Kong regulators. Obtaining such approvals, licenses, permits or qualifications is contingent on our compliance with regulatory requirements. As China’s legal system and financial services industry continue to develop, changes in the relevant laws and regulations, or the interpretation thereof, may make it more difficult for us to comply with

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such laws and regulations. Our failure to comply with regulatory requirements could limit the scope of businesses in which we are permitted to engage. Furthermore, additional regulatory approvals, licenses, permits or qualifications may be required by relevant PRC and Hong Kong regulators in the future, and some of our current approvals, licenses, permits or qualifications are subject to periodic renewal. The failure to obtain or maintain our required approvals, licenses, permits or qualifications could adversely affect our results of operations and financial condition.

Interest rate fluctuations could adversely affect our results of operations and financial condition.

We pay interest on short-term commercial paper, repurchase transactions, cash held on behalf of clients, corporate bonds and other debt securities. These interest expenses are directly linked to the prevailing market rates and, therefore, an increase in interest rates generally decreases the market price and investment returns on our fixed-income securities.

Furthermore, we earn interest income from margin financing and securities lending, stock repurchases, bank deposits (including our own deposits and clients' deposits), securities-backed lending and financial assets held under resale agreements. Interest income from these sources is directly linked to the prevailing market interest rates and, therefore, a decline in interest rates generally decreases our interest income.

Substantial interest rate fluctuations could increase our interest expenses or reduce our returns on fixed-income securities or interest income, all of which could adversely affect our results of operations and financial condition.

We are subject to the risks associated with overseas expansion.

We have expanded and expect to continue to expand our operations beyond China. As we expand, we have entered, and plan to continue to explore, markets where we have limited or no experience. Our inexperience in such markets could adversely affect our ability to attract clients. Additionally, we may fail to adequately address competitive conditions in new markets that differ from those in our existing markets. Overseas expansion also exposes us to the risks inherent in conducting business internationally, including:

- economic instability and recession;
- political instability;
- obligations to comply with laws and regulatory requirements;
- inability to enforce contractual or legal risk;
- adverse tax consequences;
- fluctuations in currency exchange rates;
- changes in tariffs;

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- increased risk of exposure to terrorist activities;
- difficulties in recruiting, training and retaining qualified personnel; and
- general difficulties in administering overseas operations.

In particular, despite our efforts to comply with all regulatory requirements, we may fail to do so. Overseas regulators could bring administrative or judicial proceedings against us or our employees, representatives, agents and third-party service providers, which could adversely affect our results of operations and financial condition.

Our risk management policies, procedures and internal control systems may not fully protect us against all the risks we are exposed to.

We have established risk management policies and internal control systems and procedures to manage risk exposure. Certain aspects of such policies, systems and procedures may require constant monitoring, maintenance and improvement by our senior management and staff. Despite our efforts to implement risk management policies and internal control systems, we may not be fully protected from the occurrence of non-compliance incidents. Our businesses and prospects could be adversely affected if our efforts to maintain these policies, systems and procedures prove ineffective or inadequate. Deficiencies in our policies, systems and procedures may adversely affect our ability to record, process, summarize and report financial and other data in an accurate and timely manner or identify non-compliance with laws and regulations.

We may not be able to manage our risks successfully through the use of derivatives and derivative transactions could expose us to unexpected risks and potential losses.

We engage in derivatives transactions, including interest rate swaps and the purchase of treasury futures, to hedge interest rate risk exposure that arises from our asset and liability positions. We also use derivative instruments, such as stock index futures, to reduce the impact of price volatility in our investment portfolio. However, the PRC derivative market is still in its early stages of development and, as a result, our ability to hedge the market risks associated with our business in China is constrained by the limited availability of derivative products. We may not be able to successfully use available derivative instruments to reduce our exposure to fluctuations in interest and foreign exchange rates and the prices of our investment products.

We also engage in derivative transactions as part of our trading and investment activities. The derivative contracts we enter into expose us to unexpected market, credit and operational risks that could cause us to suffer unexpected losses. While a transaction remains unconfirmed or during any delay in settlement, we are subject to heightened credit and operational risks and, in the event of default, may find it more difficult to enforce the relevant contracts. In addition, the secondary market for derivatives is volatile and we may be inexperienced in dealing with new products or making appropriate judgments in trading derivative products.

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

Our clients and counterparties may default on their obligations to us as a result of bankruptcy, lack of liquidity, operational failure or other reasons. Our credit risk exposure arises from a variety of business activities, including margin financing and securities lending, repurchase agreements, collateralized stock repurchase agreements, financial leasing, total return swaps and other derivative transactions. For example, certain clients of Everbright Leasing defaulted on repayment of the principal and interest of approximately RMB500 million under financial leasing contracts first entered in December 2014. Although we regularly evaluate our credit exposure to specific clients, counterparties and industries, default risks could arise from events or circumstances beyond our ability to detect or foresee. We may also fail to receive all information regarding the trading risks of our clients and counterparties. Furthermore, credit problems at or a default by one institution could lead to liquidity issues, losses or defaults at other institutions, which in turn could adversely affect our results of operations and financial condition.

Our equity financing options are limited due to CSRC requirements regarding foreign shareholding in listed PRC securities firms.

Under CSRC rules, direct and indirect shareholding in a listed PRC securities firm by all foreign investors may not exceed 25% of its total issued share capital. Taking into account the size of the Global Offering (including the exercise of the Over-allotment Option) and the trading of our A Shares through the Shanghai-Hong Kong Stock Connect program by foreign investors, unless the foreign-ownership restrictions are lifted or waived or we issue additional A shares, our ability to issue further H Shares or other equity or equity linked securities offshore may be limited.

We may pursue acquisitions or joint ventures that present unforeseen integration obstacles or costs and may not enhance our business as we expect.

We have pursued mergers and acquisitions, joint ventures and other strategic transactions aimed at expanding the geographic scope and scale of our operations. Acquisitions and joint ventures present a number of risks and financial, managerial and operational challenges, including potential disruption of our current business and distraction of management, difficulties in integrating IT, financial and human resources systems, hiring additional management and other critical personnel and increasing the scope, geographic diversity and complexity of our operations.

In June 2015, we acquired a 70% interest in SHKFGL from Sun Hung Kai. See “History, Development and Corporate Structure — Major Acquisition during the Track Record Period — Acquisition of a Majority Interest in SHKFGL” for details. We cannot assure you that we will be able to successfully integrate SHKFGL into our existing business operations. As a result, we may not be able to realize any anticipated benefits or synergies from the acquisition, which could materially and adversely affect our results of operations.

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We are exposed to risks associated with the spin-off of our business.

We are exposed to risks associated with the spin-off of our business. We plan to spin off our Hong Kong operations through a listing on the Hong Kong Stock Exchange. See “Business — Our Business — Spin-off of Hong Kong Operations”. We anticipate that we will continue to be the single largest shareholder and controlling shareholder of the proposed listed entity, but our shareholding in the Hong Kong business will be diluted. We cannot assure you that we will continue to consolidate the financial results of the proposed listed entity following the spin-off. The proposed spin-off may also subject us to a number of risks, including unanticipated costs or other risks that may arise if the transaction is not successful, and the potential adverse impact of the spin-off on our ability to operate an integrated domestic and offshore platform in furtherance of our business strategy. For example, if the spin-off does not take place by June 1, 2018, Sun Hung Kai may require us to purchase its 30% equity interest in SHKFGL. In addition, the offering price of the initial public offering of our Hong Kong business may be lower than expected. All of these factors could materially and adversely affect our business, results of operations or financial condition.

Our business may be adversely impacted if we are unable to retain or hire key senior managers and employees.

Our business depends heavily on the continued services of key senior managers and employees. If we lose any key senior manager or employee, we may not be able to secure a suitable or qualified replacement, which could disrupt our business and growth. In addition, if any of our key senior managers resigns and joins one of our competitors, our ability to compete in our current markets could be adversely affected.

Furthermore, our ability to effectively compete in our current markets and expand into new businesses is often dependent on recruiting talented employees. Competition for talented employees in the financial services industry is intense and the availability of suitable and qualified candidates is limited. This is particularly true when entering new markets where we compete for talent with entities that have a significantly greater local presence than we do. We may need to pay higher compensation to attract and retain experienced personnel to achieve our business objectives, and our failure to attract and retain such personnel could severely disrupt our business and slow our growth.

Fraud or misconduct by our Directors, Supervisors, employees, representatives, agents, clients or other third parties could harm our reputation and business and is difficult to detect and deter.

Fraud or misconduct by our Directors, Supervisors, employees, representatives, agents, clients or other third parties could result in violations of laws, regulatory sanctions against us and financial or reputational harm to us. Such misconduct could include entering into transactions that exceed authorized limits, hiding unauthorized activities resulting in unknown or unmanaged risks or losses, improperly using or disclosing confidential information, recommending transactions not suitable for us or our clients, engaging in fraudulent activities, seeking personal benefits at the cost of our own resources, or engaging in other improper activities or unauthorized or excessive trading to the detriment of us or our clients.

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We have, from time to time, detected regulatory incidents arising from misconduct by our employees. Our employees could commit incidents of fraud or other misconduct in the future and future regulatory incidents could subject us to further penalties or limitations on our business activities. It is not always possible to detect fraud or other misconduct by Directors, Supervisors, employees, representatives, agents, clients or other third parties. Our internal control procedures designed to monitor our regulatory compliance may not be able to identify all incidents of non-compliance or suspicious transactions in a timely manner or at all. Our reputation could suffer as a result of negative publicity arising from fraud or misconduct or for any other reason, or we could be subject to lawsuits, either of which could materially and adversely affect our results of operations or financial condition.

A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our business or damage our reputation.

Our business is highly dependent on our ability to process and monitor a large number transactions on a daily basis, many of which are highly complex. As our client base and geographic network expand and client demand for quality of service increases, the volume, speed, frequency and complexity of such transactions also increase. This is especially true for electronic transactions and the requirements to report transactions on a real-time basis to clients, regulators and exchanges. As a result, developing and maintaining our operational systems and infrastructure has become more challenging. Our financial, accounting, data processing or other operating systems and facilities may also fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as human error, natural disasters, power failures, computer viruses, spam attacks, unauthorized access and data loss or leakage.

The inability of our systems to accommodate an increasing volume of transactions could also limit our business expansion opportunities. We must continually update our systems to support our operations and growth and to respond to changes in regulations and markets. We must also make significant investments in controls and training to ensure that transactions do not violate applicable laws and regulations. Any error in processing transactions may adversely affect the markets, our clients and counterparties or our business. For example, on August 16, 2013, while conducting arbitrage transactions, a technical glitch in our ETF strategy execution system caused us to erroneously place purchase orders for 180 ETFs, which caused major indices and weighted stock indices in China to fluctuate dramatically over a short period of time. In addition to imposing fines on us, the CSRC revoked our proprietary trading license (other than for proprietary trading of fixed-income securities). As such, we were unable to engage in proprietary trading in securities other than fixed-income securities before the CSRC reissued our license on July 9, 2014, and we lost the opportunity to exploit the favorable market conditions during that period to achieve investment returns. System enhancements and updates, as well as related trainings, entail significant costs and expose us to the risks associated with implementing and integrating new systems.

Our operations depend on the secure processing, storage and transmission of confidential and other information in our computer systems and networks and we are vulnerable to unauthorized access, computer viruses or other malicious programs and other events that could lead to a security breach. The occurrence of one or more such events could jeopardize the confidentiality of information processed, stored in and transmitted through our

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computer systems and networks or otherwise disrupt our operations, which could result in reputational damage, litigation and financial loss.

We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearinghouses or other financial intermediaries that we use to facilitate securities transactions. Any operational failure or termination of the financial intermediaries that we use could adversely affect our ability to execute transactions, service our clients and manage our exposure to risk. Moreover, as our interconnectivity with clients grows, we also face increasing risks related to operational failures and the security of clients' systems.

We have not obtained title certificates to some of the properties we own and some of our lessors lack or have not presented to us appropriate title certificate for the properties we lease from them.

As of March 31, 2016, we owned 46 properties in China with an aggregate gross floor area of 69,492.8 square meters. We own two properties with an aggregate gross floor area of 1,241.9 square meters (representing approximately 1.8% of the aggregate gross floor area of properties we own) occupying land under a land use right granted by way of administrative allocation. We have yet to complete the land grant procedures for transfer or lease of land use rights for these two properties. There are also nine properties with an aggregate gross floor area of 669.1 square meters (representing approximately 1.0% of the aggregate gross floor area of properties we own) for which we have yet to obtain building ownership certificates or state-owned land use rights certificates for the land that they occupy.

As of March 31, 2016, we leased 220 buildings in China with an aggregate gross floor area of 151,510.1 square meters, for 35 of which, with an aggregate gross floor area of 25,692.5 square meters (representing approximately 17.0% of the aggregate gross floor area of the buildings we lease), the owners were not able to provide us with relevant building ownership certificates. See "Business — Properties".

Our use and occupation of the relevant land and properties could be challenged, and we might not be able to secure alternative properties for our business if we are required to relocate. If we or the landlords of these leased properties cannot obtain the relevant land use rights or building ownership certificates in a timely manner and our legal right to use or occupy the relevant properties is challenged, we may have to find alternative properties, incur additional relocation costs, or our business operations could be disrupted, any of which could adversely affect our results of operations and financial condition.

We may not be able to detect money laundering and other illegal or improper activities in our business operations on a timely basis or at all, which could subject us to liabilities and penalties.

We are required to comply with applicable anti-money laundering, anti-terrorism and other laws and regulations in China and the other jurisdictions in which we operate. The PRC Anti-money Laundering Law (中華人民共和國反洗錢法) and anti-money laws and regulations of other jurisdictions in which we operate our overseas businesses require us, among other things, to adopt and enforce sound internal control policies and procedures and to report suspicious transactions to the relevant regulators. We are also required to perform "Know Your Client" procedures and to monitor transactions for suspicious activity. Although we have

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adopted policies and procedures aimed at detecting and preventing the use of our networks for money laundering activities, such policies and procedures may not wholly eliminate instances where our networks are used for money laundering or other illegal or improper activities due, in part, to the short history of such policies and procedures. If we fail to fully comply with applicable laws and regulations, the regulators have the power to impose fines and other penalties on us. For example, in 2013, China Everbright Securities (HK) Limited was fined HK\$1.2 million by the SFC due to the failure of an account manager to perform proper know your client procedures when opening accounts. See “Business — Legal and Regulatory Matters — Regulatory Non-compliance” for details. Similar fines or other penalties in the future could adversely affect our results of operations and financial condition.

Substantial legal liability could adversely affect our financial condition or significantly damage our reputation.

We face significant legal risks in our business, including the risk of liabilities under securities or other laws for materially false or misleading statements made in connection with securities offerings, the risk of liability for advice provided to clients in corporate transactions and the risk of disputes over the terms and conditions of complex trading agreements. We may also be subject to claims for alleged negligent conduct, breaches of fiduciary duties, or breaches of contract. These risks may be difficult to assess or quantify and their existence and magnitude often remain unknown for a substantial period of time.

From time to time, we are party to legal proceedings arising in the ordinary course of business. See “Business — Legal and Regulatory Matters”. We may incur significant legal expenses in defending against litigation. Substantial legal liability could adversely affect our results of operations and financial condition or could substantially harm our reputation and business prospects.

Our liquidity and businesses may be adversely affected by limited access to capital markets or ability to sell assets.

Liquidity is essential to our businesses, particularly those businesses that involve investment, lending and market-making, such as margin financing, securities lending and other businesses providing liquidity to clients. Our liquidity may be impaired by limited access to debt and equity markets, an inability to sell assets at market price, or at all, or unforeseen outflows of cash. These situations may arise due to circumstances beyond our control, such as a general market disruption or an operational problem that affects our counterparties, or the perception among market participants that we, or other market participants, are experiencing liquidity issues. Additionally, our ability to sell assets may be constrained if other market participants seek to sell assets at the same time, which is likely to occur in a widespread liquidity crunch or market crises. If our access to financing is limited or we are forced to fund our operations at a higher cost, we may have to curtail our business activities or increase our costs of funding, both of which could reduce our profitability and adversely affect our results of operations and financial condition.

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Our level of indebtedness and potential lack of access to credit may adversely affect our business.

We rely on bank and other external borrowings and bond issuances to fund a significant portion of our working capital requirements. Our financial condition, liquidity and business operations could be adversely affected to the extent we are unable to repay our debt in a timely manner. Even if we are able to meet our debt service obligations, our level of indebtedness could adversely affect us in a number of ways, including by:

- limiting our ability to obtain any future financing needed for working capital, strategic investment, debt service requirements or other purposes;
- limiting our flexibility in planning for or reacting to changes in our business;
- placing us at a competitive disadvantage with competitors that have lower levels of debt;
- increasing our financing costs;
- making us more vulnerable to a downturn in our business or the economy generally;
- subjecting us to the risk of being forced to refinance our debts at higher interest rates; or
- requiring us to use a substantial portion of our cash to pay principal and interest on our debt instead of for other purposes such as working capital and other capital requirements.

We had negative net cash flows from operating activities in 2014 and 2015 and the three months ended March 31, 2015. If we continue to have negative operating cash flows in the future, our liquidity and financial condition may be materially and adversely affected.

We had negative net cash flows from operating activities of RMB1,535.2 million, RMB32,124.5 million and RMB13,730.0 million in 2014 and 2015 and the three months ended March 31, 2015, respectively. The negative net cash flow from operating activities in 2014 primarily resulted from increased margin financing and proprietary trading activities and reverse repurchase transactions in 2014. The negative net cash flow from operating activities in 2015 primarily resulted from our decreased use of repurchases agreements to fund our business activities, our contribution of funds to designated accounts managed by China Securities Finance Corporation Limited and an increase in investments in financial assets. The negative net cash flow from operation activities in the three months ended March 31, 2015 primarily resulted from significant cash outflows from our margin financing and securities lending activities. We cannot assure you that we will be able to generate positive cash flows from operating activities in the future. Our liquidity and financial condition may be materially and adversely affected by the negative net cash flows, and we cannot assure you that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur financing costs and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us, or at all.

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

We often encounter potential conflicts of interest where services to one client appear to conflict with our own or other clients' investments or interests. We also face situations where a business line has access to material non-public information that is not permitted to be shared with our other businesses. We may also be a counterparty to an entity with which we also have an advisory or other relationship.

We have designed and implemented procedures and controls to identify and address conflicts of interest, including procedures and controls to prevent the improper sharing of information among our businesses. We also have systems and procedures to detect employee misconduct, as well as training programs designed to foster a culture of compliance and adherence to the highest standards of ethics among our employees. However, identifying and managing conflicts of interest can be complex and difficult, and our reputation could suffer damage if we fail, or appear to fail, to identify, disclose and manage conflicts of interest appropriately. In addition, potential or perceived conflicts of interest could adversely impact clients' willingness to enter into transactions with us and can lead to regulatory enforcement actions or litigation.

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

We are subject to laws, regulations and rules governing the protection of the personal data and confidential information of clients. We routinely transmit and receive personal data and confidential information of clients through the Internet, by email and other electronic means. Third parties may have the technology or expertise to breach the security of our transaction data and we may not be able to ensure that our vendors, service providers, counterparties or other third parties have appropriate measures in place to protect confidential information. In addition, employees with access to the personal data and confidential information of clients could improperly use such data or information. If we fail to protect clients' personal data and confidential information, the competent authorities may issue sanctions against us and we may have to provide economic compensation for losses arising from such failure. In addition, failure to protect the personal data or confidential information of clients could harm our reputation, which could materially and adversely affect our business and prospects.

We may be exposed to reputational risks if other entities that use the "Everbright" brand name take actions that damage its reputation.

The "Everbright" brand name is also used by the Everbright Group and its related companies. If any of these entities takes any action that damages the "Everbright" brand name, or any negative publicity is associated with any of these entities, our reputation, business and growth prospects could be harmed, which could adversely affect our results of operations and financial condition.

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The Everbright Group has substantial control over us and its interests may not be aligned with the interests of our other shareholders.

Upon completion of the Global Offering, the Everbright Group will remain as our controlling shareholder. As a result, the Everbright Group may be able to exert significant influence over our business, including over the election of Directors and Supervisors, the amount and timing of dividends and other distributions, mergers or acquisitions with other entities and other business strategies and policies. The interests of the Everbright Group may not be consistent with the interests of our other shareholders. To the extent the interests of the Everbright Group conflict with the interests of other shareholders, the interests of other shareholders could be disadvantaged or harmed.

Our historical growth may not be indicative of our future performance.

Our historical growth rate and results may not be indicative of our future growth or performance. There is inherent risk in using our historical financial information to project or estimate our financial performance in the future, as it only reflects our past performance under particular conditions. We may not be able to sustain our historical growth rate, revenue and profit margin for various reasons, including but not limited to, deterioration in the market conditions of the financial services industry in China, macro-economic measures taken by the PRC government to manage economic growth and intensification of competition among PRC securities firms.

In addition, our financial and operating results may not meet the expectations of public market analysts or investors, which could cause the future price of the Shares to decline. Our revenue, expenses and operating results may vary from period to period due to a variety of factors beyond our control. As a result of these and other factors, we cannot assure you that our future revenues will increase or that we will continue to be profitable. Accordingly, investors should not rely on our historical results as an indication of our future financial or operating performance.

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

From time to time, accounting standards setters change the financial accounting and reporting standards that govern the form and content of our financial statements. In addition, those bodies that establish and interpret the accounting standards may change or even reverse their previous interpretations or positions on how these standards should be applied. Changes in financial accounting and reporting standards and changes in current interpretations may be beyond our control, can be difficult to predict and could materially impact how we record and report our results of operations and financial condition. In some cases, we could be required to apply a new or revised standard retroactively, resulting in material changes to previously reported financial results, or a material cumulative charge to retained earnings.

Any future changes in our accounting policies may have a significant impact on our results of operations and financial condition. New accounting policies that are likely to have a significant impact on our reported results of operations and financial condition include, but are not limited to, policies we will adopt to comply with IFRS 9 — Financial Instruments and

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IFRS 15 — Revenue from Contracts with Customers. On July 24, 2014, the International Accounting Standards Board issued the fourth and final version of IFRS 9, its new standard on financial instruments accounting. The new IFRS 9 standard has a mandatory effective date of January 1, 2018. Implementation of IFRS 9 may have a significant impact on our results of operations and financial condition. For example, we will be required to replace the incurred loss impairment model in IAS 39 with an expected loss impairment model that will apply to various exposures to credit risk. IFRS 9 will also change the way we classify and measure our financial assets, and will require us to consider the business model and contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. The International Accounting Standards Board issued IFRS 15 in May 2014. IFRS 15 will replace the existing revenue recognition standards from January 1, 2018, and will require us to recognize revenue in an amount that reflects the consideration that we expect to receive for goods or services provided to customers.

RISKS RELATED TO DOING BUSINESS IN CHINA

Our business could be adversely affected by changes in economic, political and social conditions in China, as well as by changes in policies adopted by the PRC government.

Most of our assets are located in China and we derive most of our revenues from our PRC operations. Accordingly, our business, results of operations, financial condition and prospects are affected by economic, political and legal developments in China.

Although China's economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, many productive assets are still owned or controlled by the PRC government. The PRC government also manages economic growth through allocation of resources, control of capital investment, reinvestment and foreign exchange, monetary policies and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented economic reforms emphasizing market driven economic development. These reforms may not be applied consistently across industries or across different regions. As a result, these reforms may benefit the PRC economy as a whole but negatively affect our industry.

China's economy may not grow as rapidly as in the past 30 years. Since the second half of 2008, the global economic slowdown, continued weakness in the United States economy and the sovereign debt crisis in Europe have collectively exerted downward pressure on China's economic growth. China's real GDP growth rate declined from approximately 7.7% in 2013 to 6.9% in 2015. A deterioration in China's business environment as a result of the slowdown in economic growth could adversely affect our results of operations and financial condition.

Fluctuations in exchange rates could adversely affect our financial condition and results of operations.

Substantially all of our revenue is denominated in RMB. The RMB exchange rate fluctuates and is affected by changes in PRC government policies, domestic and international economic and political developments and supply and demand in the monetary market. Since July 2005, the PRC government has managed the RMB exchange rate within a floating band based on market supply and demand and with reference to a basket of currencies. The PBOC

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broadened the floating band for the trading price of RMB against the U.S. dollar on the inter-bank spot exchange market to 1% around the central parity rate in April 2012, and further broadened it to 2% in March 2014. The RMB depreciated significantly against major currencies in August 2015. In November 2015, the International Monetary Fund (the “IMF”) decided to include the RMB in the Special Drawing Rights (the “SDR”) basket used to value supplementary foreign exchange assets maintained by the IMF beginning on October 1, 2016. While the immediate impact of this decision remains uncertain, the RMB’s inclusion in the SDR basket is expected to encourage greater liberalization of PRC currency policies.

In the event of a significant change in the exchange rates of Hong Kong and U.S. dollars against RMB, our ability to pay dividends and repay offshore debts in foreign currency may be adversely affected. Since dividends on our H Shares will be declared in RMB and paid in Hong Kong dollars, holders of our H Shares in countries other than China are subject to risks related to adverse movements in the RMB/Hong Kong dollar exchange rate.

Following the Global Offering, our exposure to foreign currency fluctuations may further increase as the net proceeds from the Global Offering will be denominated in Hong Kong dollars. Fluctuations in the exchange rate between RMB and other currencies could adversely affect our results of operations and financial condition.

The PRC legal system is still evolving and there are inherent uncertainties as to the interpretation, implementation and enforcement of laws and regulations.

We and most of our operating subsidiaries were organized in China and are subject to PRC laws and regulations. China’s legal system is based on written statutes. While prior court decisions may be cited for reference, they have limited precedential value. Since the late 1970s, China has promulgated laws and regulations dealing with economic matters, such as the issuance and trading of securities, shareholder rights, foreign investment, corporate organization and governance, commerce, taxation and trade.

However, many of these laws and regulations, particularly with respect to the financial services industry, are relatively new and are subject to divergent interpretations. Thus they may be inconsistently implemented and enforced. Uncertainties regarding the interpretation, implementation and enforcement of China’s laws and regulations can limit the availability of legal remedies and protections, which limitations could adversely affect the value of your investment.

The PRC government’s control of foreign currency may limit our foreign exchange transactions, including dividend payments on our H Shares.

Substantially all of our revenues and expenses are denominated in RMB, which is not a freely convertible currency. Conversion and remittance of foreign currencies are subject to PRC laws and regulations governing exchange rates and foreign exchange transactions. Under the current PRC foreign exchange control system, SAFE approval is not required for current account foreign exchange transactions, including the payment of dividends. We are, however, required to present documentary evidence of these transactions and conduct them at designated foreign exchange banks. As a result, following the completion of the Global Offering, we will be able to pay dividends in foreign countries without prior SAFE approval by

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complying with certain procedural requirements. However, capital account foreign exchange transactions must be approved in advance by the SAFE. We cannot assure you that we will be able to obtain this approval in a timely manner or at all.

There can be no assurance that policies regarding current and capital account foreign exchange transactions will continue in the future. In addition, these policies may restrict our ability to obtain sufficient foreign currency, which could impair our ability to meet foreign exchange requirements. Changes in policies regarding dividend payments in foreign currency or other changes in foreign exchange policies could limit our ability to pay dividends in foreign currencies. Failure to obtain approval from the SAFE to convert RMB into any foreign currency for foreign exchange transactions could adversely affect our results of operations and financial condition.

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

Investments in securities firms in China are subject to a number of ownership restrictions. Prior CSRC approval is required for any person or entity to hold 5% or more of the registered capital or total issued capital of a PRC securities firm. If a shareholder of a PRC securities firm increases its shareholdings above 5% without CSRC approval, shareholder voting rights exceeding the 5% threshold are invalid and the shareholder could be subject to CSRC sanctions. These sanctions could include a requirement to correct the misconduct, fines or confiscation of any related gains. Our Articles of Association have incorporated the same restriction and suspend voting rights of shares that exceed the 5% threshold. Ownership restrictions imposed by the PRC government and our Articles of Association may adversely affect the value of your investment.

It may be difficult to effect service of legal process on, or to enforce any judgments obtained outside China against, us, our Directors, Supervisors or senior management residing in China.

Most of our Directors, Supervisors, and management reside in China. In addition, most of our assets and those of our Directors, Supervisors, and management are located in China. China does not have treaties providing for reciprocal recognition and enforcement of judgments of the courts of the United States, the United Kingdom, Japan or many other countries. As a result, it may not be possible for investors to serve process on us or those persons residing in China or to enforce any judgments obtained from non-PRC courts against us or them in China.

In 2006, the Supreme People's Court of China and the Government of the Hong Kong Special Administrative Region signed an Arrangement on the Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters. Under this arrangement, final monetary judgments awarded by designated PRC or Hong Kong courts in civil or commercial cases pursuant to a choice of court agreement may be recognized and enforced in both jurisdictions. Although the arrangement became effective in 2008, the outcome of actions brought under the arrangement remains uncertain.

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Dividends payable by us to foreign investors and gains on the sale of our Shares may be subject to withholdings taxes under the PRC tax laws.

Non-PRC resident individuals and enterprises are subject to different tax regimes with respects to dividends received from us or gains realized upon the disposition of our H Shares. We are required to withhold PRC tax from dividend payments unless applicable tax treaties reduce or provide for an exemption from the relevant tax obligations.

Generally, a tax rate of 10% applies to dividends payable by a Hong Kong-listed domestic non-foreign invested enterprise to overseas resident individual shareholders unless reduced or exempted by applicable tax treaties. There remains uncertainty as to whether gains realized by non-PRC resident individuals on the disposition of H shares are subject to PRC individual income tax.

Under the EIT Law and other PRC tax rules and regulations, non-PRC resident enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but whose income is not related to such establishments or premises, are subject to a 10% PRC enterprise income tax rate on dividend income received from a PRC company. The 10% tax rate is subject to reduction under special arrangements or applicable treaties between China and the jurisdiction in which the non-resident enterprise resides. There is uncertainty as to whether gains realized upon the disposal of H shares by non-PRC domestic residents are subject to the PRC enterprise income tax.

There remains substantial uncertainty as to the interpretation and implementation of the EIT Law and other applicable PRC tax rules and regulations by PRC tax authorities. China's tax laws, rules and regulations may also change. If there is any unfavorable change to applicable tax laws and interpretation or the application of such laws, the value of your investment in our H Shares may be adversely affected.

Payments of dividends are subject to restrictions under PRC law.

Under PRC law and our Articles of Association, we may only pay dividends out of our distributable profits. Distributable profits are our after-tax profits as determined by PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. Furthermore, pursuant to the rules promulgated by the CSRC, we are not permitted to distribute gains from the fair value changes of financial assets that are included in distributable profits as cash dividends. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits not distributed in a given year are retained and are available for distribution in subsequent years.

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

Since the listing of our A Shares on the Shanghai Stock Exchange, we have been subject to periodic reporting and other information disclosure requirements in the PRC. As a result,

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from time to time we publicly release information relating to us on the Shanghai Stock Exchange or other media outlets designated by the Shanghai Stock Exchange. However, the information we announce in connection with our A Shares listing is based on regulatory requirements and market practices in the PRC, which differ from those applicable to the Global Offering. Such information does not and will not form a part of this prospectus. As a result, prospective investors in our H Shares are reminded that in making their investment decisions as to whether to purchase our H Shares, they should rely only on the financial, operating and other information included in this prospectus and the Application Forms. By applying to purchase H Shares in the Global Offering you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong related to the Global Offering.

We may incur losses as a result of force majeure, natural disasters, terrorist attacks or outbreaks of contagious diseases.

Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. These regions may be under the threat of typhoon, tornado, blizzard, earthquake, flood, drought or power shortages or failures. They are also susceptible to epidemics, such as Severe Acute Respiratory Syndrome, avian influenza, H1N1 influenza, H5N1 influenza, H7N9 influenza or Middle East Respiratory Syndrome, wars, terrorist attacks, riots disturbances or strikes. Serious natural disasters may result in tremendous casualties and the destruction of our assets and disrupt our business and operations. Severe contagious disease outbreaks could result in widespread health crises that could materially and adversely affect the business activities of the affected region, which could, therefore, adversely affect our operations. Acts of war or terrorism, riots or disturbances could cause casualties to our employees and disrupt our business network and operations. Any of these factors and other factors beyond our control could adversely affect the business environment in which we operate, which, in turn, could adversely affect our results of operations and financial condition.

RISKS RELATED TO THE GLOBAL OFFERING

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

Prior to the Global Offering, there was no public market for our H Shares. The initial offer price range for our H Shares was determined as a result of negotiations between us and the Joint Representatives (for themselves and on behalf of the Joint Bookrunners and Underwriters). However, the market price for our H Shares following the Global Offering may differ significantly from the Offer Price. We have applied for our H Shares to be listed and traded on the Hong Kong Stock Exchange. However, the Global Offering does not guarantee that an active and liquid public trading market for our H Shares will develop. Furthermore, the price and trading volumes of our H Shares may be volatile. Factors such as fluctuations in our results of operations, general market conditions or other developments affecting us or our industry may affect the volume and price at which our H Shares will be traded.

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Future sales or perceived sales of substantial amounts of our securities in the public market, including any future offerings or conversions of our A Shares to H Shares, could adversely affect the market price of our H Shares and our ability to raise capital in the future.

The market price for our H Shares could decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market or the issuance of new Shares or other securities relating to our Shares or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our securities, including any future offerings, could adversely affect the prevailing market price of our H Shares and our ability to raise capital at a time and price which we deem appropriate. Furthermore, our Shareholders may experience dilution in their shareholdings.

Moreover, subject to the approval of the CSRC or the securities regulators of the State Council, our A Shares may be transferred to overseas investors and listed or traded on an overseas stock exchange. Conversion of A Shares to H shares for listing and trading on the Hong Kong Stock Exchange requires prior approval from the CSRC, other PRC regulatory officials and the Hong Kong Stock Exchange. Approvals of holders of A Shares and H Shares as separate classes are not required for the listing and trading of converted H Shares. See “Share Capital — Conversion of A Shares into H Shares for Listing and Trading on the Hong Kong Stock Exchange”. Conversion of a substantial number of our A Shares into H Shares, or the perception that a conversion may occur, could adversely affect the price of our H Shares.

Waivers from certain requirements of the Hong Kong Listing Rules granted by the Hong Kong Stock Exchange may be withdrawn, leading to additional compliance obligations.

We have applied for, and the Hong Kong Stock Exchange has granted, a number of waivers from strict compliance with the Hong Kong Listing Rules. See “Consents and Waivers from Strict Compliance with the Hong Kong Listing Rules”. The Hong Kong Stock Exchange could revoke or impose conditions on any of these waivers. If any of these waivers are revoked or subjected to conditions, we may be subject to additional compliance obligations, incur additional compliance costs and face uncertainties arising from issues of multi-jurisdictional compliance, all of which could adversely affect our business and financial condition.

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

The Offer Price for our H Shares is higher than the net tangible asset value per share of our H Shares immediately prior to the Global Offering. Therefore, purchasers of our H Shares in the Global Offering will experience immediate dilution in the pro forma adjusted net tangible assets of HK\$1.74 per H Share (assuming an Offer Price of HK\$12.53, being the mid-point of our indicative Offer Price range, and assuming that the Over-allotment Option is not exercised). At the same time, our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share of their shares. Purchasers of our H Shares may experience further dilution of their shareholdings if the underwriters exercise the Over-allotment Option or if we issue additional Shares in the future.

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

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

Our A Shares are listed in China and the characteristics of the A share and H share markets differ.

Our A Shares are currently listed and traded on the Shanghai Stock Exchange. Following the Global Offering, our A Shares will continue to be traded on the Shanghai Stock Exchange and our H Shares will be traded on the Hong Kong Stock Exchange. Our A Shares and H Shares are neither convertible into nor fungible with each other without regulatory approval. The A share and H share markets have different characteristics, including different trading volumes and liquidity and different investor bases. As a result of these differences, the trading price of our A Shares and H Shares may not be the same. Fluctuations in the price of our A Shares may adversely affect the price of our H Shares, and vice versa. Due to the different characteristics of the A share and the H share markets, the historical prices of our A shares may not be indicative of the performance of our H Shares. You must, therefore, not place undue reliance on the prior trading history of our A Shares when evaluating an investment in our H Shares.

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

We declared cash dividends for 2013, 2014 and 2015 in the aggregate amount of RMB68.4 million, RMB273.4 million and RMB2,344.0 million, respectively. However, dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee whether, when or in what form dividends will be paid in the future. The Board has discretion in determining the frequency and amount of dividend distributions, subject to the approval of the Shareholders. A decision to declare or pay any dividends and the amount of any such dividend will depend on a number of factors. These factors include our results of operations, cash flows and financial condition, capital adequacy ratios, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRS (whichever is lower), our Articles of Association, statutory and regulatory restrictions on the payment of dividends and other factors that our Board deems relevant. See “Financial Information — Dividend Policy”. There is no assurance that we will adopt the same dividend policy we have adapted in the past.

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U.S. withholding tax may be imposed on payments on the Shares.

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and applicable U.S. Treasury Regulations commonly referred to as “FATCA” generally impose a 30% withholding tax on certain “withholdable payments”. In the future, they may impose such withholding on “foreign passthru payments” made by a “foreign financial institution” (an “FFI”). Under current guidance, the term “foreign passthru payment” is not defined and it is, therefore, not clear whether or to what extent payments on the Shares would be considered foreign passthru payments. Withholding on foreign passthru payments will not be required for payments made before January 1, 2019.

The United States has entered into an intergovernmental agreement (an “IGA”) with Hong Kong (the “Hong Kong IGA”), and has agreed in substance with the PRC to an IGA (the “PRC IGA”), that may modify the FATCA withholding requirement described above. Under FATCA rules and the IGAs, our Company and its subsidiaries that are treated as FFIs will be subject to the diligence, reporting and withholding obligations of FATCA or an applicable IGA. It is not yet clear how the Hong Kong IGA or the PRC IGA will address foreign passthru payments. Prospective investors in the Shares should consult their tax advisors regarding the potential impact of FATCA, the Hong Kong IGA, the PRC IGA and any non-U.S. legislation implementing FATCA, on their investment in the Shares.

We may be deemed a “covered fund” under the Volcker Rule, which could result in reduced interest in the H Shares from banking organizations, and could potentially reduce the liquidity of the H Shares on the secondary market.

We may be deemed a “covered fund” within the meaning of Section 13 of the U.S. Bank Holding Company Act of 1956, as codified by Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations promulgated thereunder, including the final rule adopted on December 10, 2013 by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission and the Commodity Futures Trading Commission, commonly known as the “Volcker Rule”. The Volcker Rule generally prohibits, subject to certain exclusions or exemptions, investors that are “banking entities” (generally defined in the Volcker Rule as (i) any insured depository institution, (ii) any company that controls an insured depository institution, (iii) any non-U.S. banking organization that has U.S. bank subsidiaries or operates branches, agencies or commercial lending company subsidiaries in the United States), and any affiliate or subsidiary of these types of entities, regardless of geographic location, from engaging in proprietary trading and from acting as a sponsor to, or acquiring or retaining “ownership interests” (as defined in the Volcker Rule) in, a “covered fund”. “Covered fund” is broadly defined in the Volcker Rule and includes, among other things, any issuer that would be an “investment company” (as defined in Section 3 of the U.S. Investment Company Act) but for the exemptions provided by Section 3(c)(1) or 3(c)(7) of the U.S. Investment Company Act.

As we may rely on the exemptions provided by Section 3(c)(7) of the U.S. Investment Company Act, we may be deemed a “covered fund” for purposes of the Volcker Rule. In addition, the H Shares may constitute “ownership interests” for the purposes of the Volcker Rule. If we are deemed to be a “covered fund” and the H Shares are determined to be

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“ownership interests”, then a banking entity would generally be prohibited from acquiring or retaining the H Shares, unless such a banking entity could rely on an exclusion or exemption from the Volcker Rule’s prohibitions. These limitations could result in some banking entities being restricted in their ability to purchase the H Shares or prohibited from purchasing the H Shares, which, in turn, could diminish the liquidity of the H Shares on the secondary market. Investors that are banking entities (as defined in the Volcker Rule) should carefully review the Volcker Rule and consult with their legal advisors about the potential impact of the Volcker Rule on an investment in the H Shares.

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

Our management may use the net proceeds from the Global Offering in ways that you may not agree with or that do not yield favorable returns for our Shareholders. We plan to use the net proceeds from the Global Offering to further develop capital intermediary business across all business lines, fund existing operations of our overseas business and the inorganic expansion of our onshore and offshore platforms, develop our wealth management and institutional securities service businesses and fund working capital, the establishment of back-office systems and general corporate purposes. See “Future Plans and Use of Proceeds — Use of Proceeds”. However, our management will have discretion as to our actual use of the net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend for the specific uses we will make of the net proceeds from this Global Offering.

Certain facts, forecasts and statistics contained in this prospectus with respect to China, Hong Kong and their economies and securities come from various government or third-party sources and may not be accurate, reliable, complete or up-to-date.

We have derived certain facts, forecasts and statistics in this prospectus related to China, Hong Kong and their economies and securities industries from various government or other third-party sources. Neither we nor any of the parties involved in this Global Offering have prepared or independently verified such facts, forecasts or statistics, which may not be prepared on a comparable basis or may not be consistent with other information compiled within or outside China. We cannot guarantee the accuracy or reliability of the information derived from official government or other third-party sources. Accordingly, you should not place undue reliance on such information as a basis for making your investment in H Shares.

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

Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering, which may include certain issues and information not contained in this prospectus. We have not authorized disclosure of any such information in the press or media. Such media coverage, whether or not accurate and whether or not applicable to us, may materially and adversely affect our results of operations and financial condition as

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well as the price of our H Shares. We make no representations as to the appropriateness, accuracy, completeness or reliability of such information and disclaim all responsibility for such information.

In addition, because our A Shares are listed on the Shanghai Stock Exchange, we are also required to make certain formal announcements in China and file certain reports with China's regulators relating to us and our A Shares. Such announcements and reports do not and will not form a part of this prospectus and should not be relied on by prospective investors in our H Shares.

CONSENTS AND WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

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

MANAGEMENT PRESENCE IN HONG KONG

Rules 8.12 and 19A.15 of the Hong Kong Listing Rules require a PRC-incorporated issuer to have sufficient management presence in Hong Kong. This normally means that at least two of the PRC-incorporated issuer's executive directors must be ordinarily resident in Hong Kong. Currently, none of our executive Directors resides in Hong Kong. Since our principal operations are in China, we do not and, for the foreseeable future, will not have executive Directors who are ordinarily resident in Hong Kong for the purposes of satisfying the requirements of Rules 8.12 and 19A.15 of the Hong Kong Listing Rules.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Hong Kong Listing Rules, subject to, among other conditions, our appointment of:

- two authorized representatives, Mr. Xue Feng and Mr. Ngai Wai Fung, who will act at all times as our principal channel of communication with the Hong Kong Stock Exchange; and
- our compliance advisor, CMB International Capital Limited, who will act as our principal channel of communication with the Hong Kong Stock Exchange, in addition to our authorized representatives, pursuant to Rules 3A.19 and 19A.06(4) of the Hong Kong Listing Rules.

We have made arrangements to maintain effective communication with the Hong Kong Stock Exchange as follows:

- each of our authorized representatives referred to above will have access to our Board and senior management at all times as and when the Hong Kong Stock Exchange wishes to contact them for any matters. All of our Directors have provided their respective mobile phone numbers, office phone numbers, email addresses and facsimile numbers to the Hong Kong Stock Exchange. We will also inform the Hong Kong Stock Exchange promptly in respect of any change in our authorized representatives;
- Mr. Ngai Wai Fung, one of our authorized representatives and our company secretary, ordinarily resides in Hong Kong and will be readily contactable by the Hong Kong Stock Exchange at all times for any matters. All Directors who are not ordinary residents in Hong Kong have confirmed that they possess or may apply for valid travel documents to visit Hong Kong and would be able to meet with the Hong Kong Stock Exchange upon reasonable notice; and
- in accordance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules, we have appointed CMB International Capital Limited as our compliance advisor for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Hong Kong Listing Rules in respect of our financial

results for the first full financial year commencing after the Listing Date. The compliance advisor will act as our additional channel of communication with the Hong Kong Stock Exchange and the compliance advisor shall have access at all times to our authorized representatives, our Directors and other officers to ensure that they are in a position to promptly respond to queries or requests from the Hong Kong Stock Exchange.

WAIVER IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions which will constitute non-exempt continuing connected transactions of our Company under the Hong Kong Listing Rules upon the Listing. Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, waivers in relation to certain continuing connected transactions between us and certain connected persons under Chapter 14A of the Listing Rules. For further details in this respect, see “Connected Transactions”.

WAIVER IN RELATION TO ALLOCATION OF H SHARES TO EXISTING PUBLIC HOLDERS OF A SHARES AND THEIR CLOSE ASSOCIATES UNDER RULE 10.04 AND PARAGRAPH 5(2) OF APPENDIX 6 TO THE HONG KONG LISTING RULES

Rules 10.04, 10.03(1) and 10.03(2) of the Hong Kong Listing Rules provide that a person who is an existing shareholder of the issuer may only subscribe for or purchase securities for which listing is sought which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the following conditions are fulfilled: (i) no securities are to be offered to the existing shareholders on a preferential basis and no preferential treatment is given to them in the allocation of the securities; and (ii) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Hong Kong Listing Rules is achieved.

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

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 10.04 of the Hong Kong Listing Rules, and its consent under Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules to permit the Company to allocate H Shares in the International Offering to existing public holders of A Shares and their close associates, subject to the following conditions:

- 1) each existing holder of A Shares to whom the Company may allocate H Shares in the International Offering must hold less than 5% of the voting rights in our Company prior to Listing;
- 2) such holders of A Shares and their close associates are not, and will not be, core connected persons (as defined under the Hong Kong Listing Rules) of our Company or any close associate (as defined under the Hong Kong Listing Rules) of any such core connected person immediately prior to or following the Global Offering;

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- 3) such holders of A Shares have no right to appoint directors of our Company and do not have other special rights in our Company;
- 4) allocation to such holders of A Shares and their close associates will not affect our Company's ability to satisfy the public float requirement under Rule 8.08 of the Hong Kong Listing Rules;
- 5) each of the Company, the Joint Bookrunners and the Joint Sponsors (based on their discussions with and confirmations from the Company and the Joint Bookrunners) confirm to the Hong Kong Stock Exchange in writing that no preferential treatment has been, nor will be, given to the existing shareholders and their close associates by virtue of their relationship with the Company in any allocation in the International Offering; and
- 6) the relevant information in respect of the allocation to the existing shareholders and/or their close associates will be disclosed in the allotment results announcement.

WAIVER IN RELATION TO ALLOCATION OF H SHARES TO A CLOSE ASSOCIATE OF AN EXISTING A SHAREHOLDER UNDER RULE 10.04 AND PARAGRAPH 5(2) OF APPENDIX 6 TO THE HONG KONG LISTING RULES AS CORNERSTONE INVESTOR

Rules 10.04, 10.03(1) and 10.03(2) of the Hong Kong Listing Rules provide that a person who is an existing shareholder of the issuer may only subscribe for or purchase securities for which listing is sought which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the following conditions are fulfilled: (i) no securities are to be offered to the existing shareholders on a preferential basis and no preferential treatment is given to them in the allocation of the securities; and (ii) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Hong Kong Listing Rules is achieved.

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

Dazhong Transportation (Hong Kong) Limited (大眾交通(香港)有限公司) (“Dazhong HK”) has entered into cornerstone investment agreement with us to subscribe for, as cornerstone investor, US\$30 million worth of Offer Shares at the Offer Price (equivalent to 18,576,400 Offer Shares, assuming an Offer Price of HK\$12.53 (being the mid-point of the indicative Offer Price range)). For details, please refer to the section headed “Our Cornerstone Investors — Cornerstone Investors — Dazhong Transportation (Hong Kong) Limited” in this prospectus.

CONSENTS AND WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES

Dazhong HK is a company incorporated in Hong Kong. It is principally engaged in trading and investment activities and is wholly owned by Dazhong Transportation (Group) Co., Ltd. (大眾交通(集團)股份有限公司) (“Dazhong Group”), a company listed on the Shanghai Stock Exchange (Stock code: 600611 (A shares) & 900903 (B shares)). Dazhong Group also holds 100% equity interest in Dazhong Car Leasing Co., Ltd. (大眾汽車租賃有限公司) (“Dazhong Leasing”), an existing Shareholder of the Company, which holds 13,064,614 A Shares, represent approximately 0.33% of the existing issued share capital of the Company as at the Latest Practicable Date. As such, Dazhong HK is considered as a close associate of Dazhong Leasing pursuant to the Hong Kong Listing Rules.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 10.04 of the Hong Kong Listing Rules, and its consent under Paragraph 5(2) of Appendix 6 to, the Hong Kong Listing Rules to permit the allocation of H Shares to Dazhong HK to subscribe for, and for us to place to it, H Shares as cornerstone investor, subject to the following conditions:

- 1) ***Dazhong Leasing is interested in less than 5% of the Company’s voting rights before listing on the Hong Kong Stock Exchange:*** as of the Latest Practicable Date, Dazhong Leasing is interested in approximately 0.33% of the existing issued share capital of the Company.
- 2) ***Each of Dazhong Leasing and Dazhong HK is/are not a core connected persons of the Company or their close associates:*** Dazhong Leasing currently holds 0.33% of the issued share capital of the Company. Upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Dazhong Leasing, together with Dazhong HK, are expected to hold less than 1% of the enlarged issued share capital of the Company. Thus, they will not become core connected persons of the Company or their close associates under the Hong Kong Listing Rules.
- 3) Neither Dazhong Group, Dazhong Leasing nor Dazhong HK has the power to appoint directors of the Company (other than as a shareholder of the Company) or any other special rights in the Company.
- 4) ***Allocation to Dazhong HK will not affect the Company’s ability to satisfy the public float requirement:*** as Dazhong HK is not a connected person to the Company, the participation of Dazhong HK in the Global Offering as a cornerstone investor will not affect the minimum 14.39% public float requirement. The shares to be held by Dazhong HK will be considered as part of the public float.
- 5) We have confirmed to the Hong Kong Stock Exchange that, (i) no preferential treatment has been, nor will be, given to Dazhong HK by virtue of its relationship with the Company other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEx-GL51-13; and (ii) the cornerstone investment agreement to be entered into between

the Company and Dazhong HK does not contain any material terms which are more favourable to Dazhong HK than those in other cornerstone investment agreements.

- 6) Based on the Company's confirmation above and the discussions with the Company and the Joint Bookrunners, the Joint Sponsors, to their best knowledge and belief, have no reason to believe that Dazhong HK has received or will receive any preferential treatment in the IPO allocation as a cornerstone investor by virtue of their relationship with the Company other than the preferential treatment of assured entitlement under a cornerstone investment following the principles set out in HKEEx-GL51-13.
- 7) Details of the allocation will be disclosed in this prospectus and/or the allotment results announcement of the Company, including (i) the name of, the number of H Shares allocated to, and the percentage of Offer Shares and/or total issued share capital taken up by Dazhong HK, and (ii) lock-up arrangement.

ALLOCATION OF H SHARES TO CORNERSTONE INVESTOR WHO IS CONNECTED WITH BOCOM SECURITIES

Paragraph 5(1) of Appendix 6 to the Hong Kong Listing Rules provides that, without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to "connected clients" of the lead broker or of any distributors.

Paragraph 13(7) of the Appendix 6 states that "connected clients" in relation to an exchange participant means any client which is a member of the same group of companies as such exchange participant.

Both BOCOM International Securities Limited ("BOCOM Securities") and BOCOM International Global Investment Limited ("BOCOM Investment") are indirect wholly-owned subsidiaries of Bank of Communications Co., Ltd. As a result, BOCOM Investment is a connected client of BOCOM Securities.

BOCOM Securities has been appointed by the Company as one of the Joint Global Coordinators, Joint Bookrunners and Underwriters of the Global Offering.

Headquartered in Shanghai, Bank of Communications Co., Ltd. is the first nationwide, state-owned joint-stock commercial bank in China with both national and global coverage. The Asset Management Business Centre ("BankComm AMBC") is a department under Bank of Communications Co., Ltd. mainly responsible for the overall investment operations of asset management businesses, research and development of relevant products and service systems, business risk management, system development and maintenance, and business operations support within the Bank of Communications Co., Ltd. group. BankComm AMBC (through BOCOM Investment), as cornerstone investor, will hold H Shares for and on behalf of the independent third party client of BankComm AMBC.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, its consent under paragraph 5(1) of Appendix 6 to the Hong Kong

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Listing Rules to permit BankComm AMBC (through BOCOM Investment) to participate in the Global Offering as a cornerstone investor subject to the following conditions:

1. any H Shares to be allocated to Bank Comm AMBC (through BOCOM Investment) will be held for, and on behalf of, independent third parties;
2. the cornerstone investment agreement to be entered with BOCOM Investment will not contain any material terms which are more favourable to BOCOM Investment than those in other cornerstone investment agreements;
3. BOCOM Securities does not participate in the decision-making process or relevant discussion as to whether BankComm AMBC (through BOCOM Investment) will be selected as a cornerstone investor;
4. BOCOM Investment has not received, and will not receive preferential treatment in the allocation as a cornerstone investor by virtue of its relationship with BOCOM Securities, other than the preferential treatment of assured entitlement under a cornerstone investment following the principles as set out in HKEX-GL51-13;
5. each of the Joint Sponsors, the Company, the Joint Bookrunners, BOCOM Securities and BOCOM AMBC will provide the Hong Kong Stock Exchange written confirmations in accordance with HKEX-GL85-16; and
6. details of the allocation will be disclosed in the prospectus and the allotment results announcement.

CORNERSTONE INVESTMENT BY A CORE CONNECTED PERSON

Pursuant to Rule 9.09(b) of the Listing Rules, there must be no dealing in the securities for which listing is sought by any core connected person of the issuer from four clear business days before the expected hearing date until listing is granted.

The Prudential Insurance Company of America (“PICA”) is a wholly owned subsidiary of Prudential Financial, Inc. (“PRU”), a company listed on the New York Stock Exchange (Ticker symbol: PRU). PRU, through its wholly owned subsidiary PGIM Holding Company, LLC owns PGIM, Inc. PGIM, Inc. is a 45% shareholder of Everbright Pramerica, and therefore PGIM, Inc. is a connected person of the Company at the subsidiary level. Everbright Pramerica is owned as to 55% by the Company and is a subsidiary of the Company. As such, PICA, being a fellow subsidiary of PGIM, Inc. and hence a close associate of PGIM, Inc., is also a core connected person of the Company at the subsidiary level.

The terms of the cornerstone investment by PICA are substantially the same as those of other cornerstone investors, and no preferential treatment or any direct/indirect benefits have been given to PICA. PICA (a) does not have access to material non-public information regarding the Global Offering; (b) will not be entitled to any right to appoint any Director or other senior management members of the Company; and (c) cannot exert any influence on and will not be treated preferentially during the Company's book building and H Shares allocation processes.

Notwithstanding the cornerstone investment by PICA, PICA will not become a substantial shareholder of the Company (at the issuer level) and will remain a core connected person at the subsidiary level upon the Listing. The H Shares to be held by PICA will not be counted as part of the public float of our Company for the purpose of Rule 8.24 of the Listing Rules.

PICA will not apply for additional H Shares under the placing tranche of the Global Offering.

Our Company has applied to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 9.09(b) of the Listing Rules so that PICA may participate in the Global Offering as a cornerstone investor. For further information of PICA's investment in the H Shares, please refer to the section headed "Our Cornerstone Investors" in this prospectus.

WAIVER IN RELATION TO THE THREE-YEAR RESTRICTION FOR SPIN-OFF UNDER PRACTICE NOTE 15 OF THE HONG KONG LISTING RULES

We intend to spin off our Hong Kong operations, including the businesses currently operated by ESIL and SHKFGL, as well as any other new Hong Kong business that we may acquire, through a listing on the Hong Kong Stock Exchange that we expect to occur between January 1, 2017 and June 1, 2018.

The proposed spin-off will be subject to our compliance with all applicable requirements under the Hong Kong Listing Rules, including, without limitation, Practice Note 15 ("Practice with Regard to Proposals Submitted by Issuers to Effect the Separate Listing on the Hong Kong Stock Exchange or Elsewhere of Assets or Businesses Wholly or Partly Within their Existing Groups"), unless otherwise waived by the Hong Kong Stock Exchange.

Paragraph 3(b) of Practice Note 15 currently provides that the Hong Kong Stock Exchange would not normally approve a spin-off within three years of the date of the listing of the parent. We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from the strict compliance with the three-year restriction requirement under paragraph 3(b) of Practice Note 15, subject to the following conditions:

- the waiver will remain valid up to 1 June 2018;
- we make the related disclosure that we have included in this prospectus;
- we announce in accordance with the Hong Kong Listing Rules more concrete details of the spin-off when they become available;
- we update the status of the spin-off in our annual and interim reports if the spin-off is not effected by June 1, 2018;
- if the spin-off results in our no longer consolidating the financial results of the spun-off business:
 - we provide in the announcement or circular in relation to the spin-off and in our first annual financial statements following the spin-off, supplemental consolidated financial information prepared on a basis as if the results of spun-off business are consolidated; and
 - report the spun-off business as a separate segment in our financial statements and include additional information regarding the proposed spin-off entity's income, profits or losses, current/long-term assets/liabilities and contingent liabilities in a note on associated companies; and
- we will voluntarily submit the proposed spin-off to a vote of our Shareholders irrespective of whether such shareholder approval is required under the Hong Kong Listing Rules.

The waiver nevertheless does not dispense with the requirement to obtain the approval of the Hong Kong Stock Exchange for the proposed spin-off, which will be evaluated with reference to the facts prevailing at the time the spin-off application is submitted, and the proposed spin-off will remain subject to the other requirements of Practice Note 15.

For further details of the disclosure requested by the Hong Kong Stock Exchange pursuant to this waiver, see “Business — Our Business — Spin-off of Hong Kong Operations”.

PUBLIC FLOAT

Rule 8.08(1) of the Hong Kong Listing Rules requires that there must be an open market in the securities for which listing is sought and the minimum public float of a listed issuer must at all times be at least 25% of the issuer’s total issued share capital. Rule 8.08(1)(b) of the Hong Kong Listing Rules provides that if an issuer has another class of securities, the total securities of the issuer held by the public at the time of listing must be at least 25% of the issuer’s total number of issued shares and the class of securities for which listing is sought must not be less than 15% of the issuer’s total number of issued shares, and must have an expected market capitalization at the time of listing of not less than HK\$50,000,000. We have applied to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has granted us, a waiver that the minimum public float requirement under Rule 8.08(1) of the Hong Kong Listing Rules be reduced and the minimum percentage of the H Shares from time to time held by the public to be the highest of:

- (a) 14.39% of the total issued share capital of the Company;
- (b) such percentage of H Shares of the total issued share capital of the Company to be held by the public immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised); or
- (c) such percentage of H Shares of the enlarged issued share capital of the Company to be held by the public after the exercise of the Over-allotment Option.

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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Companies Ordinance, the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Hong Kong Listing Rules for the purpose of giving our information to the public with regard to the Group. Our Directors, having made all reasonable enquiries confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in this prospectus materially misleading.

CSRC APPROVAL

The CSRC issued an approval letter on July 11, 2016 for the Global Offering and our application to list the H Shares on the Hong Kong Stock Exchange. In granting such approval, the CSRC accepts no responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the H Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of such information.

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

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the related Application Forms, and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Representatives the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

OFFER SHARES FULLY UNDERWRITTEN

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Global Offering is managed by the Joint Representatives. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters listed in "Underwriting"

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

and is subject to the Hong Kong Underwriting Agreement between us and the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) agreeing on the Offer Price on or before the Price Determination Date. The International Offering is expected to be fully underwritten by the International Underwriters. For further details about the Underwriters and the underwriting arrangements, see “Underwriting”.

If, for any reason, the Offer Price is not agreed among us and the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) on or before the Price Determination Date, the Global Offering will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, see “Underwriting”.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares are set out in “How to Apply for Hong Kong Offer Shares” and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

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

OVER-ALLOTMENT OPTION AND STABILIZATION

In connection with the Global Offering, the Stabilizing Manager or any person acting for it may over-allot Shares or effect any other transactions with a view to stabilizing and maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing action.

In connection with the Global Offering, we are expected to grant to the International Underwriters the Over-allotment Option, which is exercisable in full or in part by the Joint Representatives (on behalf of the International Underwriters) no later than 30 days after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, we may be required to issue at the Offer Price up to an aggregate of 100,000,000 H Shares, representing approximately 14.71% of the total number of H Shares initially available under the Global Offering to, among other things, cover over-allotment in the Global Offering, if any.

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in “Structure of the Global Offering”.

RESTRICTIONS ON OFFER AND SALE OF H SHARES

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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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

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

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, our H Shares in issue and to be issued pursuant to the Global Offering (including any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option).

Under section 44B(1) of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the permission for the H Shares to be listed the Hong Kong Stock Exchange pursuant to this prospectus has been refused before the expiration of three weeks from the date of the closing of the Global Offering or such longer period not exceeding six weeks as may, within the said three weeks, be notified to us by or on behalf of the Hong Kong Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 a.m. on August 18, 2016. Except for the A Shares that have been listed on the Shanghai Stock Exchange and our pending application to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares, no part of our Share is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

H SHARE REGISTER AND STAMP DUTY

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

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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

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

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

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of,

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

and/or dealing in the H Shares or exercising rights attached to them. None of us, the Joint Sponsors, the Joint Representatives, Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, or the exercise of any rights in relation to, the H Shares.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain Renminbi amounts into Hong Kong dollars, of Renminbi amounts into U.S. dollars and of Hong Kong dollars into U.S. dollars at specified rates. Unless indicated otherwise, the translation of Renminbi into Hong Kong dollars, of Renminbi into U.S. dollars and of Hong Kong dollars into U.S. dollars, and vice versa, in this prospectus was made at the following rate:

- RMB0.8575 to HK\$1.00 (being the prevailing exchange rate on July 29, 2016 set by the PBOC)
- HK\$7.7588 to US\$1.00 (being the noon buying rate in the City of New York for cable transfers as certified by the Federal Reserve Bank of New York on July 29, 2016)

No representation is made that any amounts in Renminbi, Hong Kong dollars or U.S. dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Provided, however, that translated English names of Chinese laws and regulations, governmental authorities, departments, entities (including certain of our subsidiaries), institutions, natural persons, facilities, certificates, titles and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

ROUNDING

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

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
Executive Director		
Mr. Xue Feng (薛峰)	No. 989, Xikang Road Putuo District Shanghai PRC	Chinese
Non-executive Directors		
Mr. Guo Xinshuang (郭新雙)	Unit 1-10, 10/F South Lane Baiyunguan Street Xicheng District Beijing PRC	Chinese
Mr. Tang Shuangning (唐雙寧)	12-2-701 Fenghui Park Xicheng District Beijing PRC	Chinese
Mr. Gao Yunlong (高雲龍)	Room 1215, 11/F Fuxingmenwai Avenue Xicheng District Beijing PRC	Chinese
Mr. Yin Lianchen (殷連臣)	No. 32 Chengfang Street Xicheng District Beijing PRC	Chinese
Mr. Chan Ming Kin (陳明堅)	Flat C, 13/F, Block 1 Phase 3, Whampoa Garden Hung Hom Kowloon Hong Kong	Chinese (Hong Kong)
Mr. Yang Guoping (楊國平)	Room 402, No. 2 Lane 271 Xingguo Road Xuhui District Shanghai PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Residential Address	Nationality
Independent non-executive Directors		
Mr. Zhu Ning (朱寧)	Unit 2-302, Building No. 8 Lianxiang Park Zone Fengtai District Beijing PRC	Chinese
Mr. Xu Jingchang (徐經長)	Room 501, Unit 1 Building No. 3 Yuanda Park Zone 1 Century City Haidian District Beijing PRC	Chinese
Mr. Xiong Yan (熊焰)	Unit 2-211, 3/F Jingu Park Baita Temple Shuangyushu Haidian District Beijing PRC	Chinese
Mr. Li Zheping (李哲平)	Room 8, 2/F, No. 3 Toutiao Dongan Street Fengtai Town Fengtai District Beijing PRC	Chinese
Mr. Au Sing Kun ⁽¹⁾ (區勝勤)	105 Robinson Road 8/F, Flat B, Jade Garden Hong Kong	Chinese (Hong Kong)

SUPERVISORS

Name	Residential Address	Nationality
Mr. Liu Jiping (劉濟平)	Unit 6-602, 20/F No. 15 Xueyuan Road Haidian District Beijing PRC	Chinese

(1) Mr. AU Sing Kun's appointment as our independent non-executive Director will become effective from the Listing Date.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Residential Address	Nationality
Ms. Jiang Bo (姜波)	No. 1607 No. 19 Erqi Juchang Road Xicheng District Beijing PRC	Chinese
Mr. Nie Ting Ming (聶廷銘)	Flat 2, 11/F, Block L Hung Hom Bay Centre Kowloon Hong Kong	Chinese (Hong Kong)
Mr. Zhu Wuxiang (朱武祥)	No. 302, Unit 5, Block 5 Xueqingyuan Haidian District Beijing PRC	Chinese
Mr. Zhang Limin (張立民)	Room 403, No. 666 Puyuan Area Sun Yat-sen University Haizhu District Guangzhou PRC	Chinese
Ms. Wang Wenyi (王文藝)	No. 1803, Unit 2 Building No. 3 No. 74 Baiziwan Nan Er Road Chaoyang District Beijing PRC	Chinese
Mr. Li Bingtao (李炳濤)	Flat A, 16/F Hang Shun Mansions 68-82 Jaffe Road Wan Chai Hong Kong	Chinese
Ms. Huang Qin (黃琴)	No. 679, Eshan Road Pudong New District Shanghai PRC	Chinese

See “Directors, Supervisors and Senior Management” for further details of our Directors and Supervisors.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

China Everbright Capital Limited
24th Floor, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

UBS Securities Hong Kong Limited
42/F, One Exchange Square
8 Connaught Place
Central, Hong Kong

Merrill Lynch Far East Limited
55/F Cheung Kong Center
2 Queen's Road
Central, Hong Kong

Joint Global Coordinators

China Everbright Securities (HK) Limited
24th Floor, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

UBS AG Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street
Central, Hong Kong

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

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

CEB International Capital Corporation Limited
22/F, AIA Central
1 Connaught Road Central
Central
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Bookrunners

China Everbright Securities (HK) Limited
24th Floor, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

UBS AG Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

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

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

CEB International Capital Corporation Limited
22/F, AIA Central
1 Connaught Road Central
Central
Hong Kong

Sun Hung Kai Investment Services Limited
28/F, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

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

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Yuanta Securities (Hong Kong) Company
Limited
23/F, Tower 1
Admiralty Centre
18 Harcourt Road
Admiralty
Hong Kong

Macquarie Capital Limited
Level 18
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

BOCI Asia Limited
26th Floor
Bank of China Tower
1 Garden Road
Hong Kong

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

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

CIMB Securities Limited
Unit 7706-08
Level 77
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Deutsche Bank AG, Hong Kong Branch
Level 52
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

China Merchants Securities (HK) Co., Limited
48/F., One Exchange Square
Central
Hong Kong

China Securities (International) Corporate
Finance Company Limited
18/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F., Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

China Industrial Securities International Capital
Limited
30/F, AIA Central
1 Connaught Road Central
Hong Kong

AMTD Asset Management Limited
Rooms 2501–2503
World Trade Centre
280 Gloucester Road
Causeway Bay
Hong Kong

Joint Lead Managers

China Everbright Securities (HK) Limited
24th Floor, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

Merrill Lynch International
(in relation to the International Offering only)
2 King Edward Street
London EC1A 1HQ
United Kingdom

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Merrill Lynch Far East Limited
(in relation to the Hong Kong Public Offering
only)
55/F, Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

UBS AG Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

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

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

CEB International Capital Corporation Limited
22/F, AIA Central
1 Connaught Road Central
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Hong Kong

Sun Hung Kai Investment Services Limited
28/F, Lee Garden One
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Causeway Bay
Hong Kong

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

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Yuanta Securities (Hong Kong) Company
Limited
23/F, Tower 1
Admiralty Centre
18 Harcourt Road
Admiralty
Hong Kong

Macquarie Capital Limited
Level 18
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

BOCI Asia Limited
26th Floor
Bank of China Tower
1 Garden Road
Hong Kong

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

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

CIMB Securities Limited
Unit 7706-08
Level 77
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Deutsche Bank AG, Hong Kong Branch
Level 52
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

China Merchants Securities (HK) Co., Limited
48/F., One Exchange Square
Central
Hong Kong

China Securities (International) Corporate
Finance Company Limited
18/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F., Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

China Industrial Securities International Capital
Limited
30/F, AIA Central
1 Connaught Road Central
Hong Kong

AMTD Asset Management Limited
Rooms 2501–2503
World Trade Centre
280 Gloucester Road
Causeway Bay
Hong Kong

Legal advisors to our Company

as to Hong Kong law and U.S. law:
Latham & Watkins
18/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

as to PRC law:
King & Wood Mallesons
20th Floor, East Tower
World Financial Center
1 Dongsanhuan Zhonglu
Chaoyang District
Beijing
PRC

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Legal advisors to the Joint Sponsors
and the Underwriters**

as to Hong Kong law and U.S. law:
Clifford Chance
27/F, Jardine House
One Connaught Place
Central
Hong Kong

as to PRC law:
Grandall Law Firm (Shanghai)
23–25/F, Garden Square
968 West Beijing Road
Shanghai
China

**Reporting accountant and independent
auditor**

KPMG
Certified Public Accountants
8/F, Prince's Building
10 Chater Road
Central
Hong Kong

Compliance Advisor

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

Internal Control Consultant

Protiviti Shanghai Co., Ltd.
Unit 2618-38, Central Plaza
No. 381 Huai Hai Zhong Road
Shanghai
China

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Receiving Banks**Bank of China (Hong Kong) Limited**

1 Garden Road
Hong Kong

Standard Chartered Bank (Hong Kong) Limited

15/F Standard Chartered Tower
388 Kwun Tong Road
Kwun Tong

**Bank of Communications Co., Ltd. Hong Kong
Branch**

20 Pedder Street
Central
Hong Kong

Wing Lung Bank Limited

Room 1503, Wing Lung Bank Center
636 Nathan Road
Kowloon
Hong Kong

CORPORATE INFORMATION

Registered office and principal place of business in the PRC	No. 1508, Xinzha Road Jing'an District Shanghai PRC
Principal place of business in Hong Kong	24/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Company's website	<u>www.ebscn.com</u> <i>(Information contained in this website does not form part of the prospectus)</i>
Company Secretary	Mr. Ngai Wai Fung <i>FCIS, FCS (PE), CPA, FCCA</i> 18/F, Tesbury Centre 28 Queen's Road East Wan Chai Hong Kong
Authorized representatives	Mr. Xue Feng Mr. Ngai Wai Fung
Remuneration, Nomination and Credentials Committee	Mr. Xiong Yan (<i>Chairman</i>) Mr. Guo Xinshuang Mr. Xue Feng Mr. Zhu Ning Mr. Xu Jingchang
Strategies and Development Committee	Mr. Guo Xinshuang (<i>Chairman</i>) Mr. Xue Feng Mr. Chen Mingjian Mr. Zhu Ning Mr. Xiong Yan
Audit Committee	Mr. Xu Jingchang (<i>Chairman</i>) Mr. Chen Mingjian Mr. Yang Guoping Mr. Xiong Yan Mr. Li Zheping
Risk Management Committee	Mr. Zhu Ning (<i>Chairman</i>) Mr. Yin Lianchen Mr. Yang Guoping Mr. Xu Jingchang Mr. Li Zheping

CORPORATE INFORMATION

H Share Registrar

Computershare Hong Kong Investor
Services Limited
Shops 1712–1716
17th Floor
Hopewell Centre
183 Queen’s Road East
Wanchai
Hong Kong

Principal Bankers

Industrial and Commercial Bank of China Limited
Shanghai Branch Business Division
24 Zhongshan East 1st Road
Huangpu District
Shanghai
PRC

Agricultural Bank of China Limited
Shanghai Jiangning Sub-Branch
383 Jiangning Road
Jing’an District
Shanghai
PRC

Agricultural Bank of China Limited
Shanghai Branch Business Division
518 Yan’an Road East
Huangpu District
Shanghai
PRC

China Everbright Bank Co., Ltd.
Shanghai Branch Business Division
1118 Century Avenue, Pudong
Pudong New Area
Shanghai
PRC

China Everbright Bank Co., Ltd.
Shanghai Changde Sub-Branch
1518 Xinzha Road
Jing’an District
Shanghai
PRC

CORPORATE INFORMATION

China Merchants Bank Co., Limited

Shanghai Branch Business Division
1088 Lujiazui Ring Road
Pudong New Area
Shanghai
PRC

Industrial Bank Co., Ltd.

Shanghai Branch Business Division
168 Jiangning Road
Jing'an District
Shanghai
PRC

INDUSTRY OVERVIEW

This section contains information and statistics on our industry derived from various official or publicly available materials, as well as from Wind Info, a leading integrated provider of financial data, information and software in China. Wind Info's financial database contains comprehensive information on stocks, bonds, futures, foreign exchange, insurance, derivatives and the macro-economy. Historical data and market estimates provided by Wind Info are collected by Wind Info independently from various public information sources, including, among others, the SAC, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Unless indicated otherwise, data presented in this section is sourced from Wind Info. We did not commission Wind Info to provide the information and data presented, which can be accessed by all of its subscribers.

We believe that the sources of the information in this section are appropriate sources and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. Neither we nor any other parties involved in the Global Offering have independently verified, or make any representation as to, the accuracy of the information derived from official government or other third party sources. The information may not be consistent with, and may not have been compiled with the same degree of accuracy or completeness as, other information compiled within or outside China, and accordingly, should not be unduly relied upon.

OVERVIEW OF THE PRC ECONOMY

China is the world's second largest economy. China's nominal GDP increased from RMB48.4 trillion, or RMB 36,017.6 per capita in 2011 to RMB67.7 trillion, or RMB51,621.6 per capita in 2015. China's economic growth has resulted in an increase in per capita disposable income. From 2009 to 2015, the per capita disposable income of China's urban population grew at a CAGR of approximately 10.5% from RMB17,175 to RMB31,195. The rapid accumulation of personal wealth in China is driving continued growth in the number of affluent individuals.

China's economy is currently at a stage of transformation and upgrade. After over three decades of rapid growth, China has reportedly entered a "new normal" stage of economic development. Economists expect that this stage of Chinese development will involve slower GDP growth during the next five years as China shifts from generating high GDP growth to reforming and improving its economic structure. Economic growth is expected to be driven by the service industry and domestic consumption. As a result, the PRC economy will transform from a production investment-driven model into an innovation-driven model. The PRC government has introduced a series of policies to deepen reforms, promote structural transformation of the economy, streamline administration and decentralize decision-making authority. It has formulated a "One Belt One Road (一帶一路)" strategy of economic development. It also utilizes the financial sector to promote the transformation and upgrading of China's real economy. Reforms in the financial industry include the liberalization of interest and exchange rates, internationalization of the RMB, relaxation of capital controls and simplification of approval procedures for capital market transactions. The PRC government places great emphasis on promoting cooperation among different regions and countries. The expansion of the domestic free trade zones, especially the Shanghai Free-Trade

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Zone, is expected to provide new momentum for regional economic development. The PRC government aims to further open its markets by introducing the New Silk Road Economic Zone (新絲綢之路經濟帶), which will link China with Europe through Central and Western Asia, and the 21st Century Maritime Silk Road (21世紀海上絲綢之路), which will connect China with Southeast Asia, Africa and Europe. These strategies are expected to create the driving force for China's further economic growth. The PRC government is also committed to accelerating the establishment of a multi-tiered capital market, prompting the development of direct financing and encouraging financial innovation. China's capital market, as an important emerging market, has strong long-term growth potential.

THE PRC CAPITAL MARKETS

Driven by China's economic growth, a conducive regulatory environment and the continued introduction of new financial products and services, the PRC capital markets have grown and matured rapidly over the past two decades. In recent years, the PRC government has provided strategic guidance for the future development of the PRC capital markets, including simplifying the approval procedures and establishing a multi-tiered capital market system with a rational structure and comprehensive functions.

Stock Market

Since the establishment of the Shanghai Stock Exchange and the Shenzhen Stock Exchange in 1990, the PRC stock market has rapidly grown into a multi-tiered market structure that includes the main board, the SME Board, the ChiNext Board, the NEEQ and regional equity markets.

The following table sets forth the key indices of the PRC stock market as of the dates indicated:

Key Index	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	March 31, 2016
SSE Composite					
Index	2,269.1	2,116.0	3,234.7	3,539.2	3,003.9
SZSE					
Component					
Index	9,116.5	8,121.8	11,014.6	12,664.9	10,455.4
CSI 300 Index . .	2,523.0	2,330.0	3,533.7	3,731.0	3,218.1

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The Shanghai Stock Exchange and the Shenzhen Stock Exchange reported that the total number of listed companies on the exchanges increased from 2,342 as of December 31, 2011 to 2,851 as of March 31, 2016. The total market capitalization of all companies listed on the two exchanges currently ranks No. 3 in the world, having grown from RMB21.5 trillion as of December 31, 2011 to RMB45.4 trillion as of March 31, 2016. According to the CSRC, the combined average daily trading volume for the two exchanges was RMB129.5 billion, RMB196.9 billion, RMB303.6 billion, RMB1,045.3 billion and RMB543.1 billion in 2012, 2013, 2014 and 2015 and for the three months ended March 31, 2016, respectively.

Driven by the growth of China's SMEs and their increasing financing needs, the SME Board and the ChiNext Board have grown rapidly in recent years. As of March 31, 2016, the total number of companies listed on the SME Board and the ChiNext Board was 782 and 501, respectively, and the market capitalization of companies listed on the SME Board and the ChiNext Board was RMB8.8 trillion and RMB4.7 trillion, respectively. The total number of companies listed on the SME Board and the ChiNext Board as a percentage of the total number of listed companies in China increased from 21.1% as of December 31, 2009 to 45.0% as of March 31, 2016. The total market capitalization of companies listed on the SME Board and the ChiNext Board as a percentage of the total market capitalization of all listed companies in China grew from 7.6% as of December 31, 2009 to 29.6% as of March 31, 2016. We expect the financing needs and demand for M&A and corporate restructuring by SMEs will continue to grow rapidly in the future, which will in turn drive the growth of the underwriting and financial advisory businesses of securities firms in China.

In 2006, the CSRC launched the OTC market to supplement the main board, the SME Board and the ChiNext Board. The NEEQ was established in 2013 to formalize the trial operations of the OTC market and expand its regional coverage nationwide, providing more opportunities for SMEs and micro-enterprises to access the capital markets. The total number of companies with shares quoted on the NEEQ increased from 356 as of December 31, 2013 to 6,349 as of March 31, 2016. In addition, regional equity exchanges across China provide share transfer services for non-listed small and micro-enterprises. As of December 31, 2015, the total number of companies listed on the regional equity exchanges was over 10,968. The number of companies listed on the OTC market exceeds that of the Shanghai Stock Exchange and the Shenzhen Stock Exchange. However, the OTC market needs to be further developed in market scale, service scope and resources integration.

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Bond Market

The PRC bond market for corporate issuers has grown rapidly in recent years. Since 2005, there has been a gradual increase in the variety of fixed income securities products, such as the launch of short-term financing bills in 2005, corporate bonds in 2007 and medium-term notes in 2008. Additionally, private placement notes for medium, small and micro-enterprises were introduced in 2012, which also provided new financing channels for SMEs in China. The following table sets forth the aggregate amount of proceeds raised through the major types of bond issuances in China for the periods indicated:

(RMB in billions)	2010	2011	2012	2013	2014	2015	Three months ended March 31, 2016
Short-term financing bills	689.2	1,012.2	1,422.3	1,613.5	2,185.0	3,280.6	1,014.8
Medium-term notes . . .	497.1	733.6	855.9	697.9	978.1	1,275.9	321.8
Enterprise bonds . .	282.7	248.5	649.9	475.2	697.2	342.1	191.8
Corporate bonds . .	51.2	129.1	262.6	172.3	144.4	1,007.9	838.0
Total	1,520.1	2,123.5	3,190.8	2,958.9	4,004.6	5,906.6	2,366.4

In recent years, the PRC government has promulgated a series of policies conducive to the development of China's bond markets. These policies include the Twelfth Five-year Plan, which aims to promote the development of the PRC bond market by improving the bond issuance mechanism, encouraging innovation and diversification of bond products and the development of securitization products. There were originally 25 market makers (including three PRC securities firms) in China's interbank bond market. In 2014, the CFETS approved an additional 46 probationary market makers (including 13 PRC securities firms) to further promote market-making activities in China's interbank bond market.

Furthermore, on January 15, 2015, the CSRC issued the Administrative Measures for the Issuance and Trading of Corporate Bonds, which expanded the scope of eligible bond issuers and trading markets, simplified approval procedures and expanded the types of offerings. These measures provide that the public issuance of corporate bonds requires regulatory approval while private placements of corporate bonds only require filing.

Funds Market

A favorable regulatory environment has promoted significant growth in the PRC funds market in recent years. As of December 31, 2015, mutual funds under management by fund management companies totaled RMB8.4 trillion. In February 2014, the Measures for the Registration of Managers of Privately-raised Investment Funds and Filing of Funds (Trial Implementation) came into effect to regulate the registration of managers of privately-raised investment funds and the filing procedures for privately-raised funds. These measures have led

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to the standardization and growth of the privately-raised fund market in China. As of March 31, 2016, there were 25,901 registered managers of privately-raised funds and the total AUM of privately-raised fund managers reached RMB5.7 trillion.

Derivatives Market

Since its establishment in the 1990s, the PRC derivatives market has grown significantly. The derivatives market consists primarily of commodity futures, financial futures, interest rate swaps and stock options. According to the China Futures Association, the total trading volume of commodity futures increased from RMB93.7 trillion in 2011 to RMB136.5 trillion in 2015. Stock index futures were launched in China in April 2010 and total trading volume of stock index futures in China reached RMB411.7 trillion in 2015, representing approximately 74% of the future market's total trading volume. In February 2015, the Shanghai Stock Exchange launched the 50 ETF option. The trading volume of 50 ETF options reached 12.9 million contracts for the three months ended March 31, 2016.

Regulatory restrictions limit the types of derivative products available in the PRC. Many financial derivatives actively traded in major capital markets, such as foreign exchange futures and interest rate futures, are not available in China. Driven by the growing demand of an increasingly more diversified and sophisticated investor base for structured financial products, new types of derivative products are expected to be launched in the future, which will create more business opportunities for PRC securities firms and further diversify their source of revenues. Additionally, the PRC regulators have relaxed their regulation of derivatives in recent years. For example, in March 2013, the SAC promulgated regulations to facilitate the financial derivatives trading business of PRC securities firms. In January 2015, the CSRC promulgated regulations to allow PRC securities firms to engage in the trading and market-making of stock options.

Development Trends in the PRC Capital Markets

The PRC capital markets have played an increasingly important role in the growth of China's economy. Over the years, gradual maturation of the regulation and sophistication of the PRC capital markets have played a key role in the growth of medium, small and micro-enterprises, the development of new technology, products and industries, greater efficiency in resources integration and allocation, mitigation of financial risks and the reduction of financing costs. As a result, the PRC capital markets have steadily diversified and now feature expanded scope and coverage, more balanced investment and financing, multi-tiered development, improved risk management and mitigation functions, and growth in direct financing.

Growing participation by institutional investors

Individual investors have historically been the main participants in the PRC capital markets. While we expect individual investors to continue to be the primary participants in the PRC capital markets for the foreseeable future, we believe that growing participation by institutional investors will lead to a more diversified investor composition. According to the

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data released by the CSDC, the number of A share accounts held by institutional investors grew from 540,558 as of December 31, 2009 to 760,825 as of June 30, 2015. Looking forward, we expect to see greater participation by insurance companies, corporate pension funds, the NSSF and foreign investors.

Diversification of financial products

Regulatory restrictions and low investor acceptance have limited the types of financial products and services available in China. Some financial products that are actively traded in other major capital markets are not available in China. The PRC markets for other products, such as asset-backed securities and exchangeable bonds, are also significantly smaller than those in other countries. We believe that increasing participation in the PRC capital market by sophisticated institutional investors and their growing demand for investment options will drive the demand for and development of diversified financial products and services in China. For example, liquidity management and short-term wealth management products will provide tools to enhance the efficiency of client fund utilization. Additionally, regulators permitted the re-launch of securitized products in 2012, providing institutional investors with additional channels to configure the risk profiles of certain investment portfolios. We believe that additional financial products will be introduced as the PRC capital markets continue to diversify and mature.

Optimization of financing structure

Currently, the primary source of financing for PRC companies is indirect financing in the form of bank loans. The proportion of direct investment remains low as compared with more developed markets such as the United States. Furthermore, the PRC's securitization ratio (total market capitalization of domestically listed companies divided by nominal GDP) of 64.9% was significantly lower than the 138.4% securitization ratio of the United States as of March 31, 2016.

We believe that the current imbalance in the PRC financing structure represents significant growth potential for the PRC capital markets. Direct financing is expected to become increasingly important as the PRC government implements measures to rebalance the financing structure. For example, in its Twelfth Five-Year Plan, the PRC government clearly stated that the government will encourage streamlining the approval process for bond issuances, expand the size of the bond market and enhance the bond market infrastructure to create a better environment for growth.

Globalization of the PRC capital markets

Since the establishment of the Shanghai Stock Exchange in 1990, the PRC capital markets have gradually opened to foreign investors with an expanding suite of investable securities. At the same time, participation by PRC domestic investors in foreign capital markets has been gradually increasing. For example, in November 2014, the CSRC and the SFC launched the Shanghai-Hong Kong Stock Connect, which allows eligible investors in the PRC and Hong Kong to trade eligible securities listed on the Shanghai Stock Exchange and

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the Hong Kong Stock Exchange. We expect the launch of the Shanghai-Hong Kong Stock Connect and the upcoming Shenzhen-Hong Kong Stock Exchange to strengthen the connection between foreign and domestic capital markets, opening up new opportunities for both PRC and foreign investors.

Additionally, in July 2015, the CSRC and the SFC officially launched the Mainland-Hong Kong Mutual Recognition of Funds (“MRF”) initiative, which allows qualified Hong Kong funds to be sold to PRC retail investors under streamlined procedures, with similar treatment accorded to PRC funds sold in Hong Kong market. It is expected that the MRF will become the platform for connecting foreign funds registered in Hong Kong with PRC retail investors and also increase the investor base for PRC funds. We believe that increased cross-border trading activity will lead to greater standardization of both regulations and product offerings between PRC and foreign capital markets.

THE PRC SECURITIES INDUSTRY

The PRC securities industry has entered a rapid development phase driven by various factors. According to the SAC, as of December 31, 2015, there were 125 registered securities firms in China. As of the same date, the total assets and net assets of the PRC securities industry amounted to RMB6.4 trillion and RMB1.5 trillion, respectively.

Competitive Landscape in the PRC Securities Industry

As of December 31, 2015, there were 125 registered securities firms in China. The following table sets forth the net capital, net assets, total assets, total revenue and net profit of the top 15 PRC securities firms as of December 31, 2015 on an unconsolidated basis:

Top 15 Securities Firms (Based on net capital)	Net capital	Net assets ⁽¹⁾	Total assets ⁽¹⁾	Total revenue ⁽¹⁾	Net profit ⁽¹⁾
	(RMB in millions)				
CITIC Securities	89,415.2	116,207.6	484,125.6	34,093.0	15,097.6
Haitong Securities	85,521.2	101,119.7	385,692.9	25,692.1	13,515.8
Guotai Junan	77,336.4	87,532.0	351,567.1	29,828.8	13,712.9
GF Securities	64,346.3	72,337.3	378,498.9	27,242.7	11,255.1
China Galaxy Securities	60,638.0	56,257.7	282,623.8	24,924.3	9,558.5
Huatai Securities	52,362.0	74,445.3	323,550.3	21,611.4	9,145.2
Guosen Securities	47,839.1	48,220.9	219,644.7	27,360.8	13,411.4
China Merchants Securities	37,153.9	46,274.1	269,664.8	23,183.8	10,153.3
Everbright Securities	36,574.4	39,327.9	158,853.2	13,324.5	6,569.5
Shenwan Hongyuan	33,000.0	46,790.2	276,793.3	23,339.0	10,046.2
Orient Securities	25,758.9	33,875.2	180,594.4	12,629.6	6,817.8
China Securities	24,476.6	29,488.1	164,542.4	18,001.2	8,236.3
Essence Securities	21,403.2	21,411.3	123,675.9	11,771.0	4,187.0
Ping An Securities	18,933.7	22,681.2	89,370.1	7,626.7	2,355.1
Zhong Tai Securities	18,455.7	30,509.8	125,407.3	13,186.7	5,569.0
Total	693,214.6	826,478.2	3,814,604.7	313,815.4	139,630.5

(1) These financial data are prepared based on PRC GAAP.
Source: SAC

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Securities firms are mainly engaged in brokerage, margin financing and securities lending, investment banking, proprietary trading, asset and fund management, private equity investment and management and alternative investment businesses.

Brokerage

Stock and fund trading volume in the PRC brokerage industry has been affected by fluctuations in China's stock market in recent years. According to statistics of the Shanghai Stock Exchange and the Shenzhen Stock Exchange, in 2015, the total stock and fund trading volume of the PRC brokerage industry was RMB539.8 trillion and the top 10 PRC securities firms by stock and fund trading volume accounted for approximately 48.1% of the total stock and fund trading volume of the PRC brokerage industry.

In November 2012, the CSRC promulgated regulations to allow securities firms to sell financial products developed by other financial institutions, including wealth management products, structured notes, securitization products, trust schemes and insurance products. We believe this will enable PRC securities firms to diversify their product offerings and sources of revenue.

In addition, we expect the Shanghai-Hong Kong Stock Connect and the MRF to better satisfy the securities investment demand of domestic and Hong Kong investors and create wealth management business opportunities for securities firms with branches in both Hong Kong and the PRC.

Margin Financing and Securities Lending

Since the CSRC permitted securities firms to engage in the margin financing and securities lending business in March 2010, the balance of margin financing and securities lending has grown from RMB12.8 billion as of December 31, 2010 to RMB880.9 billion as of March 31, 2016. The following table sets forth the total balance of margin financing and securities lending in China as of the dates indicated:

(RMB in billions)	December 31, 2010	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	March 31, 2016
Balance of margin financing and securities lending . . .	12.8	38.2	89.5	346.5	1,025.7	1,174.3	880.9

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As of December 31, 2015, the top 10 PRC securities firms (in terms of balance of margin financing and securities lending) accounted for approximately 53% of the total balance of margin financing and securities lending in China. The following table sets forth the balance of margin financing and securities lending in the PRC market of the top 10 securities firms as of December 31, 2015:

(RMB in billions)	CITIC Securities	Shenwan Hongyuan Securities	China Galaxy Securities	GF Securities	Huatai Securities	Guotai Junan Securities	China Merchants Securities	Haitong Securities	Guosen Securities	Everbright Securities
Balance of margin financing and securities lending . . .	74.0	71.6	69.1	66.9	66.1	65.2	62.8	60.7	46.1	38.8

Investment Banking

The investment banking industry is primarily involved in equity and debt underwriting and the provision of financial advisory services.

Equity Underwriting

Equity offerings in China are affected by government regulatory policies and fluctuations in the stock market. The following table sets forth the amount of capital raised from equity offerings in China for the periods indicated:

(RMB in billions)	2010	2011	2012	2013	2014	2015	Three months ended March 31, 2016
IPOs	491.1	272.0	99.5	–	78.7	157.8	11.7
Follow-on equity offerings	398.4	225.5	216.6	269.0	436.8	1,332.6	333.4
Total	889.5	497.5	316.1	269.0	515.5	1,490.5	345.2

The following table sets forth information related to IPOs underwritten by the top 10 PRC securities firms (in terms of the amount underwritten) in 2015:

(RMB in billions, except percentages)	UBS Securities	Everbright Securities	CITIC Securities	Ping An Securities	Huatai United Securities	Guosen Securities	Southwest Securities	Chinalion Securities	China Galaxy Securities	Huarong Securities
Amount underwritten	14.1	13.0	12.1	12.0	11.7	10.3	7.6	6.1	6.0	6.0
Market share	8.9%	8.2%	7.7%	7.6%	7.4%	6.5%	4.8%	3.9%	3.8%	3.8%

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Debt Underwriting

Capital raised from bond issuances underwritten by PRC securities firms increased from RMB666.9 billion in 2010 to RMB3,068.4 billion in 2015, representing a CAGR of approximately 36%. The following table sets forth the amount of capital raised from bond issuances in China underwritten by PRC securities firms for the periods indicated:

(RMB in billions)	2010	2011	2012	2013	2014	2015	Three months ended March 31, 2016
Short-term financing bills and medium-term notes	49.1	65.2	67.9	63.3	106.6	187.4	34.9
Enterprise bonds	264.8	242.3	649.9	471.0	694.0	339.9	833.7
Corporate bonds	51.2	129.1	260.0	167.2	136.6	991.9	191.8
Others	296.6	512.3	660.5	466.3	1,054.8	1,549.2	302.3
Total	661.6	949.2	1,638.4	1,167.8	1,992.0	3,068.4	1,362.6

The following table sets forth information related to bond issuances underwritten by the top 10 PRC securities firms (in terms of the amount underwritten) in 2015:

(RMB in billions)	CITIC Securities	China Securities	Guotai Junan Securities	China Merchant Securities	China International Capital Corporation	China Development Bank Securities	Haitong Securities	Everbright Securities	China Galaxy Securities	GF Securities
Amount underwritten	384.5	348.1	231.9	215.7	135.4	106.3	103.7	89.0	82.8	73.2

Securitization products, an important type of fixed-income products, also have strong growth potential. From January 1, 2012 to December 31, 2015, the total offering size of China's securitization products was RMB993.2 billion. In 2014, the CBRC and the CSRC launched registration-based systems for securitization products. We expect that the deregulation of the securitization business will increase market demand for securitization products in China and create new business opportunities for securities firms with innovation capabilities in structured products.

Financial Advisory

Financial advisory services primarily comprise advisory services for M&A, strategic alliances, corporate restructuring and the disposal and acquisition of joint ventures and corporate assets. The transformation and upgrading of China's industry structures have increased enterprises' demand for M&A and have driven the growth of China's M&A and restructuring market. The PRC government working report of 2014 encourages M&A and restructurings. In October 2014, the CSRC amended its regulations to significantly simplify the approval process for M&As and restructurings, optimize the pricing mechanism for valuing shares used as consideration for asset purchases and encourage the participation of M&A funds and industry investment funds in M&As and restructurings involving China's listed companies. In addition, the regulations permit the use of innovative payment

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consideration for M&As and restructurings, such as convertible bonds, warrants and preference shares. We believe these developments will generate substantial financial advisory business opportunities in China's M&A and restructuring market in the future.

NEEQ Service

The number of listed companies on NEEQ has increased significantly from 200 as of December 31, 2012 to 6,349 as of March 31, 2016, representing a CAGR of 189.8%. The growth of NEEQ will benefit securities firms with stronger NEEQ business capabilities and generate significant business opportunities for them.

The investment banking market in the PRC is relatively concentrated. Large securities firms are generally able to leverage their advantages in capital strength, IT infrastructure and shareholder background to obtain opportunities to sponsor and underwrite large-scale securities offerings. Regional securities firms, on the other hand, typically focus their efforts on sponsoring and underwriting small- to medium-scale securities offerings. In the three months ended March 31, 2016, the top three and the top ten securities firms accounted for approximately 27.0% and 49.3% as to the aggregate proceeds raised by equity and debt issuances underwritten by PRC securities firms.

Proprietary Trading

In May 2014, the CSRC promulgated guidelines to encourage the development of FICC innovative businesses in China. We expect FICC to become an important part of institutional client services for PRC securities firms. In August 2014, the CSRC promulgated regulations to permit securities firms to engage in OTC businesses and provide market-making services for non-standardized financial products. In January 2015, the CSRC promulgated regulations to allow PRC securities firms to engage in the trading and market-making of stock options. We believe this will further drive the growth of the proprietary trading business of PRC securities firms.

Asset and Fund Management

The asset management business of PRC securities firms has developed rapidly with the total AUM increased from RMB186.6 billion as of December 31, 2010 to RMB11.9 trillion as of December 31, 2015, representing a CAGR of 129.5%. The following table sets forth the total AUM of PRC securities firms as of the dates indicated:

(RMB in billions)	December 31, 2010	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015
AUM	187	282	1,890	5,200	7,970	11,900

Source: Asset Management Association of China

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The total AUM of PRC fund managers increased from RMB2.5 trillion as of December 31, 2010 to RMB8.4 trillion as of December 31, 2015, representing a CAGR of 27.4%. The following table sets forth the total AUM of PRC fund management firms as of the dates indicated:

(RMB in billions)	December 31, 2010	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015
AUM	<u>2,504</u>	<u>2,192</u>	<u>2,866</u>	<u>3,001</u>	<u>4,535</u>	<u>8,357</u>

Source: SAC

In October 2012, the CSRC introduced a registration-based system for CAM schemes and expanded the permitted investment scope and use of funds for CAM schemes. In March 2013, the CSRC promulgated regulations to allow PRC securities firms to raise and manage mutual funds. These policies will enable securities firms with leading asset management and fund businesses to capture market share in China's asset management market by structuring and offering more diversified asset management products.

The PRC asset management business is relatively concentrated, with competition focusing on areas such as investment research, product innovation, cross-selling capabilities, capital base, pricing and performance. According to the SAC, as of December 31, 2015, the entrusted AUM of the top three securities firms in the PRC accounted for 20.1% of the industry's total entrusted AUM.

Private Equity Investment and Management

Private equity investments and management by securities firms in China have grown significantly in recent years. In July 2011, the CSRC issued guidelines to permit private equity investment subsidiaries of PRC securities firms to raise funds through private placements and engage in angel, venture capital, pre-IPO and M&A investments. We believe these guidelines will drive the transformation of the private equity business from a pure principal investment model to an investment management model.

Alternative Investment

In May 2011, the CSRC promulgated regulations to allow PRC securities firms to establish subsidiaries to invest in financial products that are outside the permitted scope of their proprietary trading portfolios. Accordingly, PRC securities firms have a new source of revenue from making alternative investments in financial products through these subsidiaries. This development enables securities firms to invest in private placements, non-standard fixed-income products and structured products, and to develop a diversified business model across various asset classes, investment strategies and markets.

Development Trends of the PRC Securities Industry

Diversification of the PRC capital markets is leading to larger strategic growth potential for large securities firms

The growth of capital markets in general, and direct financing in particular, presents significant opportunities for the strategic development of the securities industry. The implementation of a filing system for securitized assets offering and private placement, an

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approval system for public issuances of corporate bonds and a registration-based IPO system is expected to open space for large scale development of PRC securities firms and is also conducive to the development of direct financing market. We believe that large PRC securities firms will be able to leverage their strengths in business innovation, client base, distribution capabilities and human resources to benefit from the growth potential of the PRC capital markets. For example, large securities firms generally have a full range of licenses allowing them to provide customers with comprehensive financial services. As client demands evolve and new products are introduced, these firms can utilize their comprehensive platform of financial services to flexibly offer a wide variety of products based on current market conditions.

Regulatory reform in the securities industry is promoting greater innovation

In May 2014, the CSRC released The Opinions on Further Promoting Innovative Development of Securities Service Providers. These opinions aim to promote PRC securities firm innovation in three aspects: first, they call for the establishment of modern investment banks with stronger financial service capabilities and increased financing channels; second, they encourage securities firms to actively develop OTC and wealth management businesses; and third, they call for a shift from an approval-based system to a registration-based system for market entry. With the continued promulgation of reform measures for the implementation of these opinions, securities firms will gradually have more latitude to promote innovative products and services.

The growth of Internet finance will accelerate the transformation of securities firms' operating models

With the growth of the Internet, securities firms have been transforming their business from traditional fee-based models to diversified models focused on professional services, customer relations and Internet-based services. The fee-based business model has become standardized, with an increasing number of securities firms bringing their business online and, at the same time, centralizing their middle- and back-offices to streamline operations, reduce costs and improve operating efficiency. These Internet-based operating models enable securities firms to gather large amounts of customer data and use such data to better meet the needs of existing and potential customers. Internet-based platforms also allow securities firms to offer a broad variety of products and services through a single access point.

As an increased number of standardized products are sold on the Internet, securities firm branch offices will become more focused on providing customized services for high-net-worth individuals and institutional investors. Such individuals and investors are increasingly calling for a broader range of options beyond traditional investment products. As investor confidence in the Internet continues to grow, we expect to see a greater divergence in the services offered online and those offered at branch offices.

Enhanced cross border capabilities will enable PRC securities firms to develop globalized operations

The demand for overseas investment and financing services by PRC companies and individuals and for greater participation in the PRC capital markets by foreign investors has accelerated the growth of cross-border business within the PRC securities industry. PRC

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securities firms have begun to establish dedicated international business departments and establish overseas subsidiaries. These businesses are focused on helping overseas clients participate in the PRC capital markets and PRC clients participate in foreign capital markets. A number of developments in China, including the launch of the Shanghai-Hong Kong Stock Connect in November 2014 and the launch of the MRF initiative in June 2015, have provided greater growth potential for globalized operations. PRC securities firms with dedicated offshore platforms will benefit from their first-mover advantage in seizing future growth opportunities.

HONG KONG CAPITAL MARKETS

Established in the 19th century, the Hong Kong Stock Exchange, comprised of the Main Board and the GEM, is the principal capital market in Hong Kong and has developed into a key capital market in Asia for PRC enterprises and overseas investors. The importance of the Hong Kong Stock Exchange among global capital markets has been bolstered by the rapid development of the PRC economy. As of March 31, 2016, the Hong Kong Stock Exchange ranked No. 12 in terms of annual and daily average trading volume and No. 7 in terms of market capitalisation. Due to the globalization of Hong Kong capital markets, high participation of institutional investors and increased participation by Chinese investors, the Hong Kong Stock Exchange has become an attractive listing venue for both domestic and overseas enterprises.

According to market information of the Hong Kong Stock Exchange, the number of newly listed companies on both the Main Board and the GEM increased from 64 in 2012 to 138 in 2015, representing a growth rate of 115.6%. Total funds raised (including IPOs and follow-on offerings) increased from approximately HK\$305.4 billion in 2012 to HK\$1,115.6 billion in 2015, representing a growth rate of 265.3%. The number of PRC-related enterprises listed on the Main Board and the GEM increased from 721 as of December 31, 2012 to 962 as of March 31, 2016, with the market capitalization of such enterprises increasing from HK\$12,597.8 billion to HK\$14,559.1 billion over the same period. As at March 31, 2016, PRC-related enterprises accounted for 62.1% of the total market capitalization of the Hong Kong Stock Exchange. The following table sets forth certain information regarding enterprises listed on the Main Board and the GEM as of the dates indicated:

(HK\$ in billions)	December 31, 2010	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	March 31, 2016
Market capitalization of H share enterprises	5,231	4,101	4,896	4,913	5,730	5,165	4,854
Market capitalization of Red Chip enterprises	4,386	4,003	4,839	4,828	5,228	5,151	4,900
Private enterprises	2,319	1,620	2,863	3,950	4,120	5,004	4,804
Total market capitalization of PRC-related enterprises	11,936	9,724	12,598	13,691	15,078	15,320	14,558

INDUSTRY OVERVIEW

(HK\$ in billions)	December 31, 2010	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	March 31, 2016
Total market capitalization of enterprises listed on the Hong Kong Stock Exchange	20,942	17,453	21,872	23,909	24,892	24,684	23,444
Total market capitalization of PRC-related enterprises/as a percentage of total market capitalization of enterprises listed on the Hong Kong Stock Exchange . . .	57%	55%	57%	57%	60%	62%	62%

Source: Hong Kong Stock Exchange

The Shanghai-Hong Kong Stock Connect, which was launched in November 2014, and the upcoming Shenzhen-Hong Kong Stock Connect are aimed at attracting foreign investors to China via the Hong Kong capital markets and, at the same time, providing PRC investors with overseas investment opportunities. The trading volume of the northbound trading link increased by 78.6% from RMB46,589.2 million in November 2014 to RMB83,188.3 million in March 2016. The trading volume of the southbound trading link increased by 563.7% from HK\$7,600.3 million in November 2014 to HK\$50,441.8 million in March 2016.

The global significance of the Hong Kong capital markets, particularly as a platform for investment into and out of China, has led most of the global investment banks to establish important subsidiaries in Hong Kong. New business opportunities stemming from the influx of PRC issuers and investors to the Hong Kong Stock Exchange have also led many PRC securities firms to enter the Hong Kong securities market. These firms have gradually evolved from providing securities brokerages services into full service investment banks with a wide range of services, including investment banking, brokerage, sales and trading, private wealth management, asset management and investment research. We believe that the importance of PRC securities firms in the Hong Kong capital markets will continue to grow as they become more matured and experienced.

SUPERVISION AND REGULATION

SUMMARY OF CHINA'S REGULATORY ENVIRONMENT

Regulatory Authorities and Self-regulatory Organizations

Our business activities are regulated and supervised principally by the following relevant PRC authorities:

CSRC

The CSRC supervises and regulates the securities and futures industry in China. Pursuant to PRC laws and regulations, the CSRC is responsible for maintaining the order of the securities and futures markets, drafting and enforcing relevant laws, regulations and standards and ensuring the lawful operation of the securities and futures markets.

SAC

The SAC is a non-commercial self-regulatory organization as well as a non-profit social legal entity under the supervision of the CSRC and the Ministry of Civil Affairs of the PRC. SAC's main duties are to formulate standards of conduct for, and to monitor the conduct, of its members.

Stock Exchanges

The two principal stock exchanges in China are the Shanghai Stock Exchange and the Shenzhen Stock Exchange, both of which operate as self-regulatory organizations. The stock exchanges provide venues and facilities for the centralized trading of securities and formulate and enforce rules for such activities.

Futures Exchanges

Futures exchanges are legal entities that adopt self-regulatory management which provide venues and facilities for the centralized trading of futures. They also formulate and enforce rules and standards for such trading.

Other Industry Authorities

Other industry authorities related to our business and operating activities mainly include the China Futures Association, the Asset Management Association of China, CSDC, China Securities Investor Protection Fund Corporation Limited, China Futures Market Monitoring Center Co., Ltd., National Association of Financial Market Institutional Investors and National Equities Exchange and Quotations Co., Ltd.

Industry Entry Requirements

Securities Companies

Establishment

The PRC Securities Law and the Regulations on Supervision and Administration of Securities Companies (證券公司監督管理條例) set forth, among others, the licensing requirements for entry into the securities industry, the business scope of securities firms and

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rules related to the operation of securities firms. The establishment of a securities firm is subject to the approval of the CSRC and satisfying relevant licensing requirements. These requirements include, among others, conditions regarding a securities firm's corporate organizational documents, profitability requirements for major shareholders, requirements in relation to statutory registered capital and the enhancement of risk management and control systems. Securities companies with foreign equity participation are subject to additional requirements, restrictions and approval processes.

Business Scope

According to the PRC Securities Law, a securities firm may engage in part or all of the following businesses with CSRC approval:

- securities brokerage;
- securities investment consultation;
- financial advisory in relation to securities trading and investment activities;
- securities underwriting and sponsorship;
- securities proprietary trading;
- securities asset management; and
- other businesses in relation to securities.

The change in business scope by a securities firm is subject to the approval of the CSRC. In addition to the prescribed businesses above, with the approval of the CSRC, a securities firm may also operate a new or innovative business not clearly defined under the relevant laws or regulations.

Material Changes

A securities firm must also receive the approval/filing of the CSRC or its despatched offices for certain material changes to its business, including the establishment, acquisition or withdrawal of a branch office, a change in scope of business or registered capital, a change of shareholders or effective control persons holding more than 5% of the shares of the company, the amendment of material provisions of its articles of association, any merger, division, change of incorporation, cessation, dissolution or bankruptcy, or the establishment, acquisition or equity participation in securities firms.

In addition, if an enterprise with direct or indirect foreign equity participation by a foreign investor becomes a shareholder of a securities firm, if calculated using interest penetration, the indirect interest of the foreign investor in the securities firm may not exceed 5%, subject to several exceptions.

Establishment of Subsidiaries and Branches

With CSRC approval, securities firms may establish wholly-owned subsidiaries or invest jointly in the establishment of subsidiaries with other investors that meet certain

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requirements. Securities companies and their subsidiaries or subsidiaries under the control of the same securities firm, however, may not operate similar businesses involving a conflict of interest or competition.

Futures Companies

Establishment

The Regulations on Futures Trading and the Measures on the Supervision and Administration of Futures Companies (期貨公司監督管理辦法) set forth the requirements for the establishment of a futures company. These requirements include, among others, conditions concerning minimum registered capital, qualified director, supervisor and senior management, corporate organizational documents are in compliance with the relevant regulations, the major shareholders and effective controlling persons maintain sustainable profitability and risk management and internal control systems are in place.

Material Changes

CSRC approval is required for certain shareholder changes, including, among others, a change in the first controlling shareholder, individual shareholder and a shareholder of its associates increasing its holdings to 100% and an individual shareholder or a shareholder of its associates increasing its holdings to 5% or greater (which involves foreign shareholders). Approval from the local despatched office of the CSRC is required for other situations where an individual shareholder or a shareholder of its associates in aggregate increase their holdings to 5% or greater.

Direct Investment Companies

Establishment

According to the Rules for the Direct Investment Business of Securities Companies (證券公司直接投資業務規範) issued by the SAC, a securities firm must establish a direct investment business subsidiary (the “direct investment subsidiary”) in order to conduct direct investment business in accordance with the relevant regulations. The securities firm may not conduct direct investment business in other forms.

Scope of Business

With the approval of the CSRC, a direct investment subsidiary of a securities firm in China is permitted to engage in the following businesses:

- investment in the equity or debt of enterprises or in other investment funds associated with equity and debt investments with its own funds or via establishment of direct investment funds;
- provision of financial advisory services to clients on equity and debt investments; and

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- other businesses as permitted by the CSRC.

A direct investment subsidiary may not conduct such securities business which shall be conducted by a securities firm according to laws.

Fund Management Companies

Establishment

The Measures on the Administration of Securities Investment Fund Management Companies (證券投資基金管理公司管理辦法) set forth the requirements for the establishment of a securities investment fund management company. Such requirements include, among others, conditions on shareholders, corporate organizational documents, registered capital, senior management, business staff, operating facilities and supervision, and audit and risk control mechanism and other internal control mechanism.

Material Changes

CSRC approval is required for certain changes to fund management companies, including, among others, changes in shareholders holding more than 5% of shares, changes in shareholders holding less than 5% but influential to the corporate governance, changes in shareholdings more than 5% amendments of material terms of the articles of association and the establishment of subsidiaries or branches.

Securities Company Operations

Securities Brokerage

According to the Regulations on Supervision and Administration of Securities Companies (證券公司監督管理條例) and the Provisions on Strengthening the Management of the Securities Brokerage Business (關於加強證券經紀業務管理的規定):

- A securities firm shall establish and improve its management system of the securities brokerage business;
- Where a securities firm is engaged in the securities brokerage business, it shall objectively indicate its business qualification, service duties and scope, etc.;
- A securities firm shall establish and improve the client management system and client service system of the securities brokerage business, strengthen the education of investors and protect the legitimate rights and interests of clients;
- A securities firm shall establish and improve the personnel management system of securities brokerage business, and scientific and rational performance appraisal system to regulate the behavior of personnel engaged in the securities brokerage business;

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- A securities firm shall establish and improve the management system for its securities operation department to ensure a standardized, stable and safe operation of the securities operation department;
- A securities firm shall establish and manage the information systems such as client account management, client deposits management, agency trading, agency clearing and settlement, securities depository, transaction risk monitoring on an unified basis, and an business data shall be stored centrally;
- If the securities operation department or a securities practitioner violates laws, administrative regulations, provisions stipulated by regulatory agencies and other administrative departments, self-regulatory rules or regulations of securities firms for the management securities brokerage business, the securities firm shall pursue its/his/her liabilities; and
- If a securities firm or its securities operation department violates the provisions, the CSRC and its resident agencies will take regulatory measures such as rectification order, regulatory interview, issuance of warning letter, temporary suspension of documents relating to administration permit order to punish related personnel, suspension for approval of new businesses, restrictions on business activities according to law. Anyone who violates any laws and regulations will be subject to administrative punishment in accordance with law. If a crime is committed, the company or department in question will be transferred to the judicial authority for handling.

Futures Brokerage

Under the Regulations on Futures Trading, a futures company must obtain licenses from the CSRC for the types of commodity futures businesses and the financial futures businesses in which it engages. A futures company may also apply for approval to engage in overseas futures brokerage, futures investment consulting and other futures businesses. The margins system shall be strictly implemented in futures trading. When a futures company engages in brokerage business and conducts futures trading in its name as commissioned by clients, clients shall bear the trading results.

Investment Banking

According to the Administrative Measures for the Sponsorship of the Offering and Listing of Securities (證券發行上市保薦業務管理辦法), securities firms engaged in the sponsorship of the offering and listing of securities shall apply to the CSRC for the qualification of sponsor. In order to discharge sponsorship responsibilities, a sponsor shall designate an individual who has obtained the qualification sponsor representative to be responsible for sponsorship duties. An Issuer shall retain a securities firm with the qualification of sponsor to perform the sponsorship duties for initial public offering and listing, issuance of new shares or convertible corporate bonds by listing companies or other circumstances identified by the CSRC.

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Any securities firm applying for the qualification of sponsor shall meet the following conditions:

- its registered capital shall be no less than RMB100 million and its net capital shall be no less than RMB50 million;
- it shall have comprehensive systems of corporate governance and internal control and its risk control indicators shall be in line with relevant requirements;
- its sponsorship business department shall have sound business rules, internal risk assessment and control system, as well as a reasonable internal organization structure in place, with bank office support such as relevant research and marketing capabilities;
- it shall have a strong sponsorship business team, with reasonable professional structure. The number of practitioners shall not be less than 35, among which, the number of personnel who have engaged in sponsorship-related businesses in the recent three years shall not less than 20;
- the number of its practitioners who have qualified as sponsor representatives shall not be less than four;
- it has not been subject to any administrative punishment for any material breach of laws and regulations during the recent three years;
- other conditions stipulated by the CSRC.

The Measures for the Administration of Securities Offering and Underwriting (證券發行與承銷管理辦法) regulate the offering of shares or convertible bonds in the PRC by issuers, and the underwriting of securities in the PRC by securities firms in various aspects, including quotation and pricing, sale of securities, underwriting of securities, and information disclosure. A securities firm shall submit an offering and underwriting plan to the CSRC prior to engaging in any underwriting activities.

In addition, the Opinions of the CSRC on Further Promoting the Reform of New Shares Offering System (中國證監會關於進一步推進新股發行體制改革的意見) further stipulate that securities service institutions such as sponsors and accounting firms shall publicly undertake in public offering and listing documents that if there are any false representation, or misleading statements, or material omissions in the documents prepared and issued by them in connection with the IPO of an issuer and therefore causes losses to investors, they will compensate the investors for such losses in accordance with the law.

According to the Regulations for the Administration of Corporate Bonds (企業債券管理條例) any offer of corporate bonds by an enterprise shall be underwritten by securities brokerage institutions, which shall verify the truthfulness, accuracy and completeness of the prospectus and other documents of such enterprise.

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According to the Measures for the Administration of Offering and Trading of Corporate Bonds (公司債券發行與交易管理辦法), the offering of corporate bonds shall be underwritten by securities firms with qualification to engage in securities underwriting business. When underwriting corporate bonds, underwriters shall formulate stringent risk management system and internal control system and strengthen the management of pricing and placing process pursuant to the Measures for the Administration of the Offering and Trading of Corporate Bonds and the relevant requirements of the CSRC and the SAC with respect to due diligence, risk control and internal control.

Commissioned Sale of Financial Products

Under the Provisions on the Administration of the Sales of Financial Products on a Commission Basis, a securities firm shall appraise the clients' suitability for the purchase of financial products before introducing financial products to them; provide clients with a comprehensive, fair and accurate introduction to promoted financial products; and establish a client callback system.

Sale of Securities Investment Funds

Under the Measures on the Administration of the Sale of Securities Investment Funds, a securities firm operating a fund sales agency must establish a comprehensive system for the management of fund shareholder accounts and capital accounts, procedures for the depositing and withdrawal of fund shareholders' capital, an authorization and approval system, and a system for the management of fund sale applicability.

Margin Financing and Securities Lending

Under the Measures on the Administration of the Margin Financing and Securities Lending Business of Securities Companies, a securities firm must, in its own name, open a special securities lending account, a securities guaranty account for customers' credit, a securities settlement account and a fund settlement account for credit transactions. These accounts must be opened at securities registration and settlement institutions. Additionally, the securities firm must open a special fund financing account and a fund guaranty account for customer credit transactions at a commercial bank. The capital and securities provided by securities firms to their clients are limited to those capital and securities in the special margin financing account and special securities lending account.

In addition, the SAC has prohibited PRC securities firms from financing the trading of securities by clients through total return swaps traded on the OTC market since November 2015.

Refinancing

Under the Provisional Measures on the Supervision and Administration of Refinancing, a securities finance company operating a refinancing business must, in its own name, open a special securities account for refinancing, a securities account for the guarantee of refinancing and a securities settlement account for refinancing. It must establish a client credit assessment mechanism, assess the credit standing of securities firms, determine and adjust lines of credit

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in accordance with the assessment results. A securities financial company that intends to develop refinancing business shall collect margins at a certain proportion from securities firm and fulfill other duties required by the CSRC.

Investment Consulting

According to the Provisional Measures on the Administration of Securities and Futures Investment Consulting (證券、期貨投資諮詢管理暫行辦法), Provisional Regulation the Securities Investment Advisory Business (證券投資顧問業務暫行規定) and Provisional Regulations on the Publication of Securities Research Reports (發佈證券研究報告暫行規定), a securities firm must obtain a permit from the CSRC to engage in securities investment consulting. Securities professionals are also required to obtain the relevant qualifications and must be employed by a qualified securities investment consulting institution to engage in such services. A securities firm and its investment advisors must act in good faith and must not jeopardize clients' interests by acting in favor of the company and its related parties or by acting in favor of other clients. When publishing securities research reports, the securities firm must comply with all laws, administrative regulations and other relevant requirements.

Acting as Hosting Brokers in the National Equities Exchange and Quotations System

Under the Provisional Measures on the Administration of National Equities Exchange and Quotations Co., Ltd. (全國中小企業股份轉讓系統有限責任公司管理暫行辦法), as the hosting broker, a securities firm must recommend the listing of joint stock companies' stocks, continuously supervise the listed companies, purchase and sell the listed companies' stocks as the investors' agent, and provide market-making and other services required by the National Equities Exchange and Quotations Co., Ltd.

Proprietary Trading of Securities

Under the Regulations on Supervision and Administration of Securities Companies (證券公司監督管理條例) and the Guidelines on Proprietary Business of Securities Companies (證券公司證券自營業務指引), securities firms engaging in proprietary securities trading shall be limited to the trading of lawfully and publicly offered stocks, debentures, warrants, securities investment funds or other securities approved by the securities regulatory authority of the State Council. A securities firm that engages in proprietary securities trading business shall register its proprietary securities account under our Company's name.

Stock Index Futures

According to the Guidelines on Securities Companies Participating in Stock Index Futures and Treasury Bond Futures Trading (證券公司參與股指期貨、國債期貨交易指引), securities firms that participate in the trading of stock index futures using their own funds or entrusted funds managed by them shall formulate the relevant trading system, including investment decision-making procedures, investment objectives, scale of investment and risk control, etc. Securities companies engaging in stock index futures trading shall have professionals who are familiar with stock index futures, sound risk control and internal control system, and an effective, dynamic risk monitoring system to ensure that the risks relating to engaging in stock index futures trading are measurable, controllable and tolerable.

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Additionally, a securities firm that uses its own funds to engage in stock index futures trading must deduct from its net capital the trading deposit taken up by stock index futures contracts, calculate risk capital reserves in accordance with the relevant regulation and ensure that the aggregate amount of proprietary equity securities and securities derivatives it holds does not exceed its net capital.

In September 2015, China Financial Futures Exchange promulgated a number of regulatory measures governing stock index futures to curb overly speculative activities on the market and promote an orderly operation of the stock index futures market. These measures include adjusting the restrictions on opening daily positions, raising the maintenance margin requirements for stock futures contracts, substantially increasing the fees for settling positions and strengthening the management of dormant accounts.

National Interbank Market Bond Trading

Under the Regulations on Securities Companies Entering the Interbank Market, an approved securities firm must carry out interbank funding and bond trading through the National Interbank Funding Center and is required to maintain the mandatory capital adequacy ratio, have sound internal management systems in place and comply with relevant requirements of the Securities Law and CSRC standards.

Securities companies engaging in the interbank bonds market in China must also act in accordance with the relevant provisions of Interim Regulations on the Interbank Bond Repurchase, Rules on the Trial Interbank Bond Trading and Rules on the Interbank Bond Trading Settlement and other requirements.

OTC Market Business

The Trial Measures for the OTC Market Management of Securities Companies governs the products that securities firms may issue, sell or transfer on the OTC market, including, among others, asset management programs that securities firms or their subsidiaries establish or underwrite in the form of non-public offerings and corporate debt financing instruments.

Assets Management

Pursuant to the Measures for the Administration of Customer Asset Management of Securities Companies, Detailed Rules for the Implementation of Directional Asset Management of Securities Companies, and Detailed Rules for the Implementation of Collective Asset Management of Securities Companies, an approved securities firm may handle directional asset management for any single customer, collective asset management for multiple customers and special purpose asset management for customers.

The Regulations on the Asset Securitization of Subsidiaries of Securities Companies and Fund Management Companies allow subsidiaries of securities and fund management companies which are qualified for client asset management to carry out asset securitization.

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Fund Management

Pursuant to the Measures for the Administration of Securities Investment Fund Management Companies, a fund management company, and its subsidiaries, branches, and other forms of operation units prescribed by the CSRC must establish an internal control system and a sound investment management system constituted by such segments as authorization, decision-making, execution, and assessment.

Direct Investment

The Rules on Direct Investment of Securities Companies require securities firms engaged in direct investment to set up a direct investment subsidiary in accordance with relevant regulatory requirements. Securities companies may not participate in direct investment in any other form. The direct investment subsidiary and its affiliates must also comply with operational requirements concerning, among others, decision-making procedures, investment processes and investment management and investment withdrawal.

Corporate Governance and Risk Management

Corporate Governance and Risk Management of Securities Companies

Corporate Governance

Securities companies must comply with corporate governance requirements set forth by the PRC Company Law, the PRC Securities Law, the Regulations on Supervision and Administration of Securities Companies and Rules for Governance of Securities Companies, the Guidelines for the Internal Control of Securities Companies and other laws and regulations relating to the composition, functioning, convening and voting procedures of the shareholders meeting, the board of directors and the supervisory committee. These measures include requirements related to the qualification of directors, supervisors and senior management. Directors, supervisors and senior management must also obtain approval from regulatory authorities before taking office.

The CSRC requires a securities firm to appoint independent directors who do not hold any other positions in the company or have any relationships with the company that may affect their independent and objective judgment.

The board of a securities firm that engages in two or more businesses among securities brokerage business, asset management business, margin financing and securities lending business and securities underwriting and sponsoring business must establish a remuneration and nomination committee, an audit committee and a risk management committee, each to perform the relevant functions and powers specified in the articles of association. Committees for remuneration and nomination and auditing must be chaired by independent directors.

Internal Controls and Risk Management

Under the PRC Securities Law and other relevant laws and regulations, a securities firm must establish effective internal control mechanisms and systems and a dynamic net capital

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monitoring system to regularly evaluate the effectiveness of its internal control system and comply with net capital calculation and provisions of risk capital.

Pursuant to the Norms for the Comprehensive Risk Management of Securities Companies (證券公司全面風險管理規範), securities firms shall implement all-rounded risk management to avoid risks of business operation, such as liquidity risks, market risks, credit risk and operating risks, and shall establish and improve a well-rounded risk management system that is in line with their respective development strategies.

Regulatory Ratings

Pursuant to the Regulations on Classification of Securities Companies, the CSRC assigns regularly ratings to PRC securities firms. These ratings include, from highest to lowest, Class A (AAA, AA, A), Class B (BBB, BB, B), Class C (CCC, CC, C), Class D and Class E, based on the evaluation results of risk management capabilities, market competitiveness and status of sustainable compliance.

According to the principle of classified regulation, the CSRC sets up different standards on risk indicators, calculates proportions of risk capital reserve for different types of securities firms, and treats such companies differently in terms of regulation resource allocation and the frequency of on-site and off-site inspections.

Corporate Governance and Risk Management of Futures Companies

Corporate Governance

Pursuant to the Measures on Supervision and Administrative of Futures Companies (期貨公司監督管理辦法) and the Management Measures on Qualifications of Directors, Supervisors and Senior Management of Futures Companies (期貨公司董事、監事和高級管理人員任職資格管理辦法), a futures company must separate its business, personnel, assets, finance and place of business, from those of its controlling shareholder and have independent operations and accounting. It must also comply with requirements concerning its directors, supervisors and senior management.

Risk Controls and Risk Management

A futures company engaging in futures brokerage business and other futures business at the same time shall strictly implement systems for separation of business and capital, and shall be prohibited from mixed operations. It must also establish and strictly implement business management rules, risk management systems, and information disclosure systems to guarantee security of the clients' guarantee deposits.

Regulatory Ratings

Pursuant to the Regulations on Classification of Futures Companies (期貨公司分類監管規定), the CSRC assigns regularly ratings to futures companies. These ratings include, from highest to lowest, Class A (AAA, AA, A), Class B (BBB, BB, B), Class C (CCC, CC, C), Class D and Class E, based on the evaluation results of risk management capabilities, risk

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management capabilities, market competitiveness, development of institutional investors and status of sustainable compliance. The CSRC sets up different calculating proportions of contribution to the Futures Investors Protection Fund for different types of futures companies, and treats them differently with respect to regulation resource allocation and frequency of on-site and off-site inspections.

Corporate Governance and Risk Management of Direct Investment Company

Corporate Governance

Pursuant to the Rules for Direct Investment Business of Securities Companies (證券公司直接投資業務規範), a practitioner in a securities firm shall not serve concurrently as the senior management or direct investment practitioner in its direct investment subsidiary and its affiliates or its direct investment funds, or unlawfully engage in direct investment business in other manners. A practitioner who has a conflict of interest with securities firms shall not serve as a director, supervisor or member of investment decision-making committee of the above institutions; for other practitioners who hold the above positions, securities firms shall establish strict and effective internal control systems to prevent a potential conflict of interest and moral hazard. Effective information segregation mechanisms shall be established between a securities firm and its direct investment companies affiliates and direct investment funds.

Risk Management

Pursuant to the Rules for Direct Investment Business of Securities Companies (證券公司直接投資業務規範), a direct investment subsidiary and its affiliates must establish a sound investment management system, and a specific investment decision-making committee to manage investment risks. A direct investment subsidiary and its affiliates may not provide guarantees to entities or individuals other than the direct investment subsidiary and its affiliates and direct investment funds or assume joint liability for debts of the invested enterprises as a contributor. It must enhance the management of the invested enterprises to deal with any potential investment risk in a timely manner.

Corporate Governance and Risk Control of Fund Companies

Corporate Governance

Pursuant to the Measures on the Administration of Securities Investment Fund Management Companies and other relevant requirements of laws in relation to securities, a fund management company must establish and organize a governance framework with sound structure, clear delineation of duties and responsibilities, effective check and balance, supervision and reasonable incentives and constraints to maintain regulated company operations that prioritizes and protects the interests of stakeholders of funds. Fund management companies must also establish an information system that segregates key business and client information for its shareholders.

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Risk Management

A fund management company must comply with the requirements of the Measures on the Administration of Securities Investment Fund Management Companies, including, among others, establishing a logical, strictly controlled and efficiently operating internal control system, formulating comprehensive internal control rules, and maintaining legal, compliant operations and effective internal controls.

Other Regulations

Information Disclosure

The Regulations Regarding The Notice on the Relevant Issues Regarding the Information Disclosure of Securities Companies (關於證券公司信息公示有關事項的通知) sets forth the manner and content of disclosure that securities firms must comply with.

Under the Regulations Regarding Strengthening the Supervision and Administration of Listed Securities Companies (關於加強上市證券公司監管的規定), the listed securities firms must publish periodic and ad hoc reports within a prescribed time, and to establish a sound information management system in accordance with the characteristics of the securities industry in China, their practices and general regulations regarding information disclosure by listed companies.

Anti-Money Laundering

Licensed companies must comply with the Anti-money Laundering Law (中華人民共和國反洗錢法), the Anti-money Laundering for Financial Institutions (金融機構反洗錢規定) and the Measures on the Administration of Client Identity Identification and Materials and Transaction Recording of Financial Institutions (金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法) and other relevant laws and regulations. Under these laws, a security company is required to categorize clients according to the level of risks they represent, and establish and maintain internal rules on the management of client risk classification systems.

The CSRC's Implementation Measures on the Anti-money Laundering by Securities and Futures Industry (證券期貨業反洗錢工作實施辦法) set forth the anti-money laundering regulations for the securities and futures industry, as well as the anti-money laundering responsibilities of the institutions engaging in sales of funds in their business operation. Securities and futures entities must establish enhanced anti-money laundering internal controls.

Anti-corruption

The PRC is a party to the United Nations Convention against Corruption and, therefore, licensed corporations must implement anti-corruption measures to promote the prevention, detection and sanctioning of corruption.

SUPERVISION AND REGULATION

OVERVIEW OF REGULATORY ENVIRONMENT IN HONG KONG

Introduction

The SFO (including its subsidiary legislation) is the principal legislation to regulate the securities and futures industry in Hong Kong, including the regulation of securities, futures and leveraged foreign exchange markets, the offering of investments to the public in Hong Kong, and intermediaries and any regulated activities conducted by them in such capacity. Part V of the SFO particularly deals with licensing and registration matters.

The SFO is administered by the SFC, which is an independent statutory body in Hong Kong set up to regulate the securities and futures markets and the non-bank retail leveraged foreign exchange market in Hong Kong.

In addition to the SFO, Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance (including its subsidiary legislation) provides that the SFC approves the prospectuses for offerings of shares and debentures and/or grants the relevant waivers.

Types of regulated activities

The SFO promulgates a single licensing regime where a person only needs one license or registration to carry on different types of regulated activities as defined in Schedule 5 to the SFO for which it is licensed. The regulated activities defined in the SFO are as follows:

<u>License</u>	<u>Regulated activity</u>
Type 1:	dealing in securities
Type 2:	dealing in futures contracts
Type 3:	leveraged foreign exchange trading
Type 4:	advising on securities
Type 5:	advising on futures contracts
Type 6:	advising on corporate finance
Type 7:	providing automated trading services
Type 8:	securities margin financing
Type 9:	asset management
Type 10:	providing credit rating services

As of the Latest Practicable Date, the following members of our Group were licensed under the SFO to carry on the following regulated activities:

<u>Group company</u>	<u>Type of license</u>
China Everbright Capital Limited	Type 1 ⁽¹⁾ Type 4 Type 6 ⁽²⁾
China Everbright Research Limited	Type 4 ⁽³⁾

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Group company	Type of license
China Everbright Securities (HK) Limited	Type 1 Type 4 Type 6 ⁽⁴⁾⁽⁵⁾ Type 9
China Everbright Forex & Futures (HK) Limited	Type 2 Type 3 ⁽⁶⁾ Type 5 Type 9
China Everbright Securities Asset Management Limited	Type 1 ^{(7) (8)} Type 4 ⁽⁷⁾ Type 9 ⁽⁷⁾
Sun Hung Kai Investment Services Limited	Type 1 Type 4
Sun Hung Kai International Limited	Type 1 ⁽⁹⁾ Type 6 ⁽¹⁰⁾
Sun Hung Kai Commodities Limited	Type 2
SHK Online (Securities) Limited	Type 1
SHK Fund Management Limited	Type 1 Type 4 Type 9
Shun Loong Securities Company Limited	Type 1 ⁽¹¹⁾

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- (1) on the condition that the licensee shall not engage in dealing activities other than those relating to corporate finance
 - (2) on the condition that the licensee must, in the capacity as an adviser to a client on matters/transactions falling within the ambit of the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, act together with another adviser (to the client) not subject to this condition
 - (3) on the condition that the licensee shall not hold client assets
 - (4) on the condition that the licensee must, in the capacity as an adviser to a client on matters/transactions falling within the ambit of the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, act together with another adviser (to the client) not subject to this condition
 - (5) on the condition that the licensee shall not act as sponsor in respect of an application for the listing on a recognized stock market of any securities
 - (6) on the condition that the licensee shall not provide discretionary account services
 - (7) on the condition that the licensee shall not hold client assets
 - (8) on the condition that the licensee shall only carry on the business of dealing in collective investment schemes
 - (9) on the condition that the licensee shall not engage in dealing activities other than those relating to corporate finance
 - (10) on the condition that the licensee shall not act as sponsor in respect of an application for the listing on a recognized stock market of any securities
 - (11) ceased business of regulated activities since October 5, 2012

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

Overview of Licensing Requirements under the SFO

Under the SFO, any person who:

- (a) carries on a business in a regulated activity; or
- (b) holds itself out as carrying on a business in a regulated activity,

must be licensed under the relevant provisions of the SFO to carry on that regulated activity, unless one of the exemptions under the SFO applies. It is a serious offense for a person to conduct any regulated activity without the appropriate license issued by the SFC.

In order for a licensed corporation to carry on regulated activities, it must designate no less than two persons, one of which must be its executive director, to oversee the regulated activities. An “executive director” of a licensed corporation is defined as a director of the corporation who (a) actively participates in, or (b) is responsible for directly supervising, any business of the regulated activities for which the corporation is licensed. Each such executive director who is an individual must be approved by the SFC to serve as the responsible officer of such regulated activities of the corporation.

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

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

- (a) performs any regulated function for his principal which is a licensed corporation in relation to a regulated activity carried on as a business; or
- (b) holds himself out as performing such regulated function,

must separately be licensed under the SFO as a licensed representative accredited to his principal.

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Persons applying for licenses under the SFO must satisfy and continue to satisfy after the grant of such licenses by the SFC that they are fit and proper persons to be so licensed. The Fit and Proper Guidelines together with its Appendix I, which sets out the Additional Fit and Proper Guidelines for Corporations applying or continuing to act as Sponsors and Compliance Advisers, issued by the SFC, summarize certain issues generally to be considered by the SFC in determining the fitness and properness of an applicant to grant relevant licenses to such applicant in accordance with the SFO. In addition to any other issues as it may consider to be relevant, the SFC will consider:

- (a) the financial status or solvency of the applicant;
- (b) the educational or other qualifications or experience of the applicant having regard to the nature of the functions to be performed;
- (c) the ability of the applicant to carry on the regulated activities competently, honestly and fairly; and
- (d) the reputation, character, reliability and financial integrity of the applicant or (if the applicant is a corporation) corporation and any of its officer.

In addition to the above, the SFC will also take into account of the following factors:

- (a) any decisions made by the Monetary Authority, the Insurance Authority, the Mandatory Provident Fund Schemes Authority or any other authorities or organizations performing similar functions as those of SFC whether in Hong Kong or elsewhere in respect of the applicant;
- (b) any information in the possession of the SFC relating to:
 - (i) any person who is or is to be employed by, or associated with, the applicant for the purposes of the regulated activity in question;
 - (ii) any person who will be acting for or on behalf of the applicant in relation to the regulated activity in question; and
 - (iii) if the applicant is a corporation in a group of companies, any other corporation in the same group of companies or any substantial shareholder or officer of any such inter-group company.
- (c) whether the applicant has established effective internal control procedures and risk management systems to ensure compliance with all applicable regulatory requirements under any of the relevant provisions; and
- (d) the state of affairs of any other business which the person carries on or proposes to carry on.

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Continuing Obligations of Licensed Corporations

Licensed corporations, licensed representatives and responsible persons must remain fit and proper at all times. They are required to comply with all applicable provisions of the SFO and its subsidiary rules and regulations, as well as the codes and guidelines issued by SFC.

Outlined below are some of the key continuing obligations of our licensed subsidiaries in Hong Kong:

- maintenance of minimum paid-up share capital and liquid capital, and submission of financial returns to the SFC in accordance with the requirements under the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong) (“FRR”);
- maintenance of segregated account(s), and custody and handling of client securities in accordance with the requirements under the Securities and Futures (Client Securities) Rules (Chapter 571H of the Laws of Hong Kong);
- maintenance of segregated account(s), and holding and payment of client money in accordance with the requirements under the Securities and Futures (Client Money) Rules (Chapter 571I of the Laws of Hong Kong);
- issue of contract notes, statements of account and receipts in accordance with the requirements under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules (Chapter 571Q of the Laws of Hong Kong);
- maintenance of proper records in accordance with the requirements prescribed under the Securities and Futures (Keeping of Records) Rules (Chapter 571O of the Laws of Hong Kong);
- submission of audited accounts and other required documents in accordance with the requirements under the Securities and Futures (Accounts and Audit) Rules (Chapter 571P of the Laws of Hong Kong);
- maintenance of insurance against specific risks for specified amounts in accordance with the requirements under the Securities and Futures (Insurance) Rules (Chapter 571AI of the Laws of Hong Kong);
- payment of annual fees and submission of annual returns to the SFC within one month after each anniversary date of the license;
- notification to the SFC of certain changes and events in accordance with the requirements under Securities and Futures (Licensing and Registration) (Information) Rules (Chapter 571S of the Laws of Hong Kong);
- complying with the continuous professional training requirements under the Guidelines on Continuous Professional Training issued by the SFC;

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- implementation of appropriate policies and procedures relating to client acceptance, client due diligence, record keeping, identification and reporting of suspicious transactions and staff screening, education and training in accordance with the requirements under the Guideline on Anti-Money Laundering and Counter-Terrorist Financing issued by the SFC in July 2012 (the “AMLCTF Guideline”);
- complying with the business conduct requirements under the Code of Conduct for Persons Licensed by or Registered with the SFC, the Code of Conduct for Fund Managers, the Code of Conduct for Corporate Finance Advisers and other applicable codes issued by the SFC; and
- complying with the business conduct requirements under the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC, the Advertising Guidelines Applicable to Collective Investment Schemes Authorized under the Product Codes, the Guidelines on Disclosure of Fees and Charges Relating to Securities Services and other applicable guidelines issued by the SFC.

The Securities and Futures (Financial Resources) Rules

Subject to certain exemptions described below, a licensed corporation is required to maintain minimum paid-up share capital. The following table sets out a summary of those rules which regulate the minimum paid-up share capital and are applicable to our licensed subsidiaries in Hong Kong:

Minimum amount of paid-up capital	Regulated activity	Applicable to our licensed subsidiaries
HK\$10,000,000	A corporation licensed for Type 1, Type 4 and Type 6 regulated activities that acts as a sponsor	China Everbright Capital Limited
HK\$5,000,000	A corporation licensed for Type 4 regulated activity that is subject to the licensing condition that it shall not hold client assets	China Everbright Research Limited
HK\$10,000,000	A corporation licensed for Type 1, Type 4, Type 6 and Type 9 regulated activities that is an approved introducing agent	China Everbright Securities (HK) Limited
HK\$30,000,000	A corporation licensed for Type 2, Type 3, Type 5 and Type 9 regulated activities that is a trader	China Everbright Forex & Futures (HK) Limited
HK\$5,000,000	A corporation licensed for Type 1, Type 4 and Type 9 regulated activities that is subject to the licensing condition that it shall not hold client assets	China Everbright Securities Asset Management Limited

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<u>Minimum amount of paid-up capital</u>	<u>Regulated activity</u>	<u>Applicable to our licensed subsidiaries</u>
HK\$10,000,000	A corporation licensed for Type 1 and Type 4 that provides securities margin financing	Sun Hung Kai Investment Services Limited
HK\$10,000,000	A corporation licensed for Type 1 and Type 6	Sun Hung Kai International Limited
HK\$5,000,000	A corporation licensed for Type 2	Sun Hung Kai Commodities Limited
HK\$10,000,000	A corporation licensed for Type 1	Shun Loong Securities Company Limited
HK\$10,000,000	A corporation licensed for Type 1 that provides securities margin financing	SHK Online (Securities) Limited
HK\$5,000,000	A corporation licensed for Type 1, Type 4 and Type 9	SHK Fund Management Limited

Other than minimum paid-up share capital requirements, the FRR also stipulates that, the licensed corporation is required to maintain minimum liquidity, which is an excess of assets over liabilities with the same level in a licensed corporation. Pursuant to the FRR, the minimum liquidity applicable to our licensed subsidiaries in Hong Kong shall be the higher of the amount of (a) and (b) below:

(a) The below amount of:

<u>Minimum amount of liquid capital</u>	<u>Regulated activity</u>	<u>Applicable to our licensed subsidiaries</u>
HK\$3,000,000	A corporation licensed for Type 1, Type 4 and Type 6 regulated activities that is not subject to the licensing condition that it shall not hold client assets	China Everbright Capital Limited
HK\$100,000	A corporation licensed for Type 4 regulated activity that is subject to the licensing condition that it shall not hold client assets	China Everbright Research Limited
HK\$3,000,000	A corporation licensed for Type 1, Type 4, Type 6 and Type 9 regulated activities that is an approved introducing agent and not subject to the licensing condition that it shall not hold client assets	China Everbright Securities (HK) Limited
HK\$3,000,000	A corporation licensed for Type 2, Type 3, Type 5 and Type 9 regulated activities that is a trade	China Everbright Forex & Futures (HK) Limited

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Minimum amount of liquid capital	Regulated activity	Applicable to our licensed subsidiaries
HK\$3,000,000	A corporation licensed for Type 1, Type 4 and Type 9 regulated activities that is subject to the licensing condition that it shall not hold client assets	China Everbright Securities Asset Management Limited
HK\$3,000,000	A corporation licensed for Type 1 and Type 4 that provides margin financing	Sun Hung Kai Investment Services Limited
HK\$3,000,000	A corporation licensed for Type 1 and Type 6	Sun Hung Kai International Limited
HK\$3,000,000	A corporation licensed for Type 2	Sun Hung Kai Commodities Limited
HK\$3,000,000	A corporation licensed for Type 1	Shun Loong Securities Company Limited
HK\$3,000,000	A corporation licensed for Type 1 that provides margin financing	SHK Online (Securities) Limited
HK\$3,000,000	A corporation licensed for Type 1, Type 4 and Type 9	SHK Fund Management Limited

- (b) In the case of a corporation licensed for any regulated activities other than Type 3 regulated activity, its variable required liquidity means 5% of the aggregate of (i) its adjusted liabilities, (ii) the aggregate of the initial margin requirements in respect of outstanding futures contracts or outstanding options contracts held by it on behalf of its clients, and (iii) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts or outstanding options contracts held by it on behalf of its clients, to the extent that such contracts are not subject to the requirement of payment of initial margin.

Anti-Money Laundering and Counter-Terrorist Financing

Licensed corporations are required to comply with the applicable anti-money laundering and counter-terrorist financing laws and regulations in Hong Kong as well as the AMLCTF Guideline and the Prevention of Money Laundering and Terrorist Financing Guideline issued by the SFC for Associated Entities published by the SFC in April 2012.

The AMLCTF Guideline assists licensed corporations and their senior management in formulating and implementing appropriate and effective policies, procedures and controls in order to meet applicable legal and regulatory requirements. Under the AMLCTF Guideline, licensed corporations must, among other things:

- assess the risks of any new products and services before they are launched and ensure that appropriate additional measures and controls are implemented to mitigate and manage the risks associated with money laundering and terrorist financing;

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- identify the client and verify the client’s identity by reference to any documents, information or data from reliable and independent sources, and take steps from time to time to ensure that the client information obtained is up-to-date and relevant;
- conduct on-going monitoring of activities of the clients to ensure that they are consistent with the nature of business, the risk profile and source of funds, as well as identify transactions that are complicated, large or unusual, or patterns of transactions that have no apparent economic or lawful purpose and may indicate money laundering and terrorists financing;
- maintain a database of names and particulars of terrorist suspects and designated parties which consolidates the information from various lists that have been made known to them, as well as conduct comprehensive on-going screening of the client database; and
- conduct on-going monitoring for identification of suspicious transactions and ensure compliance with their legal obligations of reporting funds or property known or suspected to be proceeds of crime or terrorist property to the Joint Financial Intelligence Unit, a unit jointly run by the Hong Kong Police Force and the Hong Kong Customs & Excise Department to monitor and investigate suspected money laundering.

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

Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong) (“AMLO”)

Among other things, the AMLO imposes requirements relating to client due diligence and maintenance of records of specific financial institutions and empowers competent authorities to supervise compliance with the requirements under the AMLO. In addition, the competent authorities are empowered to (1) ensure that proper safeguards exist to prevent contravention of specified provisions in the AMLO, and (2) mitigate money laundering and terrorist financing risks.

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

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

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

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

United Nations (Anti-terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong) (“UNATMO”)

Among other things, the UNATMO provides that it would be a criminal offense to: (1) provide or collect funds (by any means, directly or indirectly) with the intention or knowledge that the funds will be used to commit, in whole or in part, one or more terrorist acts; or (2) make any funds or financial (or related) services available, directly or indirectly, to or for the benefit of a person knowing that, or being reckless as to whether, such person is a terrorist or terrorist associate. The UNATMO also requires a person to report his knowledge or suspicion of terrorist property to an authorized officer, and failure to make such disclosure constitutes an offense under the UNATMO.

THE U.S. FOREIGN ACCOUNT TAX COMPLIANCE ACT (“FATCA”)

U.S. Treasury Regulations commonly referred to as FATCA target non-compliance by U.S. taxpayers using foreign accounts. FATCA seeks to obtain information on accounts held by U.S. taxpayers in other countries by requiring FFIs to report to the U.S. Internal Revenue Service (“IRS”) information about financial accounts held by U.S. taxpayers, or by foreign entities in which U.S. taxpayers hold a minimum ownership interest. Governments have the option of permitting their FFIs to enter into agreements directly with the IRS to comply with FATCA under U.S. Treasury Regulations or to implement FATCA by entering into one of two alternative model IGAs with the United States.

The governments of the United States and Hong Kong have entered into a Model 2 IGA. Under this agreement, Hong Kong will direct and legally enable FFIs located in Hong Kong to register with the IRS and report the information required by FATCA about consenting U.S. accounts directly to the IRS. This requirement is supplemented by government-to-government exchange of information regarding certain pre-existing non-consenting accounts on request.

The governments of the United States and the PRC have in substance agreed to a Model 1 IGA. Under a Model 1 IGA, FFIs will report the information required under FATCA about U.S. accounts to their home governments, which in turn will report the information to the IRS. These agreements are reciprocal, meaning that the United States will also provide similar tax information to these governments regarding individuals and entities from their jurisdictions with accounts in the United States.

A withholding tax of 30% may be imposed under FATCA on certain payments made to us and our subsidiaries that are treated as FFIs, including payments of United States source interest and dividends, as well as the gross proceeds of the disposition of assets that can

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produce United States source interest or dividends, unless we and our subsidiaries that are treated as FFIs (a) enter into an agreement with the United States Treasury to collect and provide to the U.S. tax authorities information regarding United States persons (or foreign entities in which United States persons hold a minimum ownership interest) that directly or indirectly maintain accounts with the FFI (including, in certain circumstances, owning equity or debt issued by the FFI), or (b) comply with legislation that implemented an IGA between the applicable FFI's, jurisdiction and the United States. The Company and its subsidiaries in the PRC intend to comply with any applicable requirements of FATCA, and its subsidiaries in Hong Kong have complied with the applicable requirements of FATCA.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

OUR HISTORY AND MAJOR CHANGES IN SHARE CAPITAL

Establishment

On June 21, 1995, the PBOC approved the establishment of Everbright Securities Limited (our former name) by the Everbright Group to consolidate its original securities brokerage (business) department. On April 23, 1996, Everbright Securities Limited was established. Our initial registered capital was RMB250,000,000, with RMB157,000,000 contributed by the Everbright Group and RMB93,000,000 contributed by its then subsidiary, China Everbright International Trust and Investment Company (“Everbright International Trust”), each with their own funds. As a result, at the time of our incorporation, we were held as to 62.8% by the Everbright Group and 37.2% by Everbright International Trust.

Capital increase in 1997

On November 5, 1997, the Everbright Group contributed an additional RMB250,000,000 to our registered capital, which was increased to RMB500,000,000 as a result. As a result of the capital increase, we were owned as to 81.4% by the Everbright Group and 18.6% by Everbright International Trust.

Equity transfers between 1999 and 2002

On May 10, 1999, the Everbright Group agreed to transfer 49% of its interest in our Company to Everbright Limited at a consideration of RMB1,318,240,000. On August 25, 2000, Everbright International Trust agreed to transfer 18.6% of its interest in our Company to the Everbright Group at a consideration of RMB93,000,000. These two equity transfers were completed on February 5, 2002, following which, we were owned as to 51% by the Everbright Group and 49% by Everbright Limited, with our registered capital remaining unchanged.

Capital increase in 2002

On September 29, 2002, our Company increased its registered capital to RMB2,600,000,000. The capital increase was effected by a transfer of RMB984,660,000 from our capital reserves and undistributed profits, and monetary capital of RMB823,823,400 and RMB791,516,600 by the Everbright Group and Everbright Limited, respectively, according to their respective interests in our Company. Our shareholding structure remained the same after this capital increase.

Restructuring into a joint stock company in 2005

On July 14, 2005, our Company converted into a joint stock company and changed its name to Everbright Securities Company Limited. As part of the conversion, our Company reduced its registered capital to RMB2,445,000,000 to reflect our then audited net asset value of RMB2,325,000,000, and the cash contribution of RMB120,000,000 from three new shareholders, Xiamen Xinshiji Group Co., Ltd., Dongguan City Lianjing Industrial Investment Co., Ltd. and Nanjing Xinding Investment Development Co., Ltd. Our Company

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

was then owned as to 48.50% by the Everbright Group, 46.59% by Everbright Limited, and 4.91% by three other shareholders.

Capital increase in 2007

On February 27, 2007, Xiamen Xinshiji Group Co., Ltd., Dongguan City Lianjing Industrial Investment Co., Ltd. and Nanjing Xinding Investment Development Co., Ltd. and eight new shareholders, each of which is an independent third party, contributed a total of RMB453,000,000 to increase our Company's registered capital increased to RMB2,898,000,000 which was approved on May 29, 2007.

IPO and listing on the Shanghai Stock Exchange in 2009

On August 18, 2009, our Company was listed on the Shanghai Stock Exchange through an initial public offering of 520,000,000 A Shares at RMB21.08 per share. As a result, our Company's registered capital was increased to RMB3,418,000,000, divided into 3,418,000,000 shares, on December 29, 2009.

Private placement of shares in 2015

On September 1, 2015, we completed the change of registration procedures for securities sold in a private placement to certain investors. In this private placement, we issued a total of 488,698,839 A Shares to seven investors for RMB16.37 per share. As a result, our registered capital increased to RMB3,906,698,839 comprising 3,906,698,839 Shares.

MILESTONES

During the past 19 years, we have rapidly expanded the scope and scale of our product and service offering. The following table sets forth major milestones in our corporate development:

<u>Date</u>	<u>Milestones</u>
April 1996	Our Company was formed by consolidating the respective securities business divisions of Everbright Bank and Everbright International Trust.
April 1999	Our Company established Dacheng Fund.
April 2004	Our Company and PGIM, Inc. ("PGIM") established Everbright Pramerica, in which our Company held a 55% shareholding.
October 2004	We were named as one of the first innovative pilot companies by the Expert Review Committee for Innovative Pilot Securities Firms in China.
March 2005	We launched the "Everbright Sunshine Collective Asset Management Scheme", the first collective financial product in the PRC, with the offer size of up to RMB910 million.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

<u>Date</u>	<u>Milestones</u>
May 2005	Our Company restructured into a joint stock company and changed our name to Everbright Securities Company Limited .
July 2005	Our Company became eligible to operate a short-term note financing business.
May 2006	Our Company acquired Kunlun Securities Co., Ltd.
March 2007	Our Company acquired the assets of Tianyi Securities Co., Ltd. ⁽¹⁾ (“Tianyi Securities”).
April 2007	Our Company became the first securities brokerage firm to launch a nationwide third-party custody business.
September 2007	Our Company acquired Shanghai Nandu Futures Co., Ltd., which was renamed into Everbright Futures.
April 2008	Our Company obtained approval to carry out a stock index and futures business.
August 2008	Our Company became the eighth pilot securities brokerage firm to engage in the direct investment business .
November 2008	Our Company established Everbright Capital, a wholly-owned subsidiary.
August 2009	Our Company listed its A Shares on the Shanghai Stock Exchange.
February 2010	Everbright Futures was one of the first companies eligible to open accounts for stock index and futures.
March 2010	Our Company was one of the first companies eligible to offer margin financing and securities lending on a pilot basis.
November 2010	Our Company established EBSHK, a wholly-owned subsidiary.
May 2011	EBSHK acquired a 51% interest in ESIL.
February 2012	Our Company established Everbright Asset Management, a wholly-owned subsidiary.
September 2012	Our Company established Everbright Fortune, a wholly-owned subsidiary.

(1) Tianyi Securities entered bankruptcy liquidation procedures in September 2007. As at the Latest Practicable Date, Tianyi Securities was still in the process of bankruptcy liquidation.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Date	Milestones
September 2014	Our Company established Everbright Leasing.
April 2015	To develop its Internet-based financial business, our Company established Everbright Cloud Pay Internet Co., Ltd. (“Everbright Cloud Pay”), a joint venture with the Everbright Group, Everbright Financial Holding Asset Management Co., Ltd. (“Everbright Financial Holding Asset Management”), Sun Life Everbright, China Everbright Investment and Assets Management Co., Ltd. (“Everbright Investment and Assets Management”) and Everbright Xinglong Trust Co., Ltd. (“Everbright Trust”).
June 2015	Our Company acquired a 70% interest in SHKFGL.
September 2015	Our Company co-founded Everbright Yichuang Network Technology Co., Ltd. with Ujia E-commerce Co., Ltd., a subsidiary of NetEase, and Hainan Tourism Group Co., Ltd.
June 2016	EBSHK acquired the remaining 49% interest in ESIL and as a result, ESIL became our wholly-owned subsidiary.

OUR MAJOR SUBSIDIARIES

Everbright Futures, formerly known as Shanghai Nandu Futures Co., Ltd., was established as a limited liability company in the PRC on April 8, 1993. In September 2007, our Company acquired the entire interest in Shanghai Nandu Futures Co., Ltd. from its then shareholders (all of which were independent third parties) for a consideration of RMB47,451,533, which was arrived at after arm’s length negotiations between the parties with reference to the net asset value of Shanghai Nandu Futures Co., Ltd. Shanghai Nandu Futures Co., Ltd. was then renamed as Everbright Futures Co., Ltd. As of the Latest Practicable Date, Everbright Futures had a registered capital of RMB1,000,000,000. It commenced business on the date of its establishment and is principally engaged in commodity and financial futures brokerage, futures investment consultation and asset management business.

Everbright Pramerica was established as a limited liability company in the PRC on April 22, 2004. It is a sino-foreign joint venture owned as to 55% by our Company and 45% by PGIM, an independent third party. As of the Latest Practicable Date, Everbright Pramerica had a registered capital of RMB160,000,000. It commenced its business operations on the date of its establishment and is principally engaged in fund raising, fund sales and asset management business.

Everbright Capital was established as a limited liability company in the PRC on November 7, 2008. It is a wholly-owned subsidiary of our Company. As of the Latest Practicable Date, Everbright Capital had a registered capital of RMB2,000,000,000. It commenced its business operations on the date of its establishment and is principally engaged in equity investment, debt investment, establishment of direct investment funds and provision of financial advisory services business.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

EBSHK was established as a limited liability company in Hong Kong on November 19, 2010. It is a wholly-owned subsidiary of our Company. As of the Latest Practicable Date, EBSHK had an issued capital of HK\$1,765,000,000. It commenced its business operations on the date of its establishment and is principally engaged in investment holding and financial services.

ESIL, formerly known as Posy Company Limited, was established as a limited liability company in the British Virgin Islands on July 14, 1992. In 2011, EBSHK acquired a 51% interest in ESIL from Action Globe Limited, a wholly-owned subsidiary of Everbright Limited and our connected person, for consideration of HK\$891,000,000. The consideration was arrived at following arm's length negotiations between the parties and taking into account the synergy that may be brought by EBSHK to ESIL. In June 2016, EBSHK acquired the remaining 49% interest in ESIL from Action Globe Limited and as a result, ESIL became our wholly-owned subsidiary. For further details of the acquisition, see “— Acquisition of the Remaining 49% Interest in ESIL” below. As of the Latest Practicable Date, ESIL had an issued share capital of HK\$1,000. It commenced its business operations on the date of its establishment and is principally engaged in investment holding and financial services.

Everbright Asset Management was established as a limited liability company in the PRC on February 21, 2012. It is a wholly-owned subsidiary of our Company. As of the Latest Practicable Date, Everbright Asset Management had a registered capital of RMB200,000,000. It commenced its business operations on May 9, 2012 and is principally engaged in securities asset management service.

Everbright Fortune was established as a limited liability company in the PRC on September 26, 2012. It is a wholly-owned subsidiary of our Company. As of the Latest Practicable Date, Everbright Fortune had a registered capital of RMB2,000,000,000. It commenced its business operations on the date of its establishment and is principally engaged in financial products investment, investment advisory services business.

SHKFGL was established as a limited liability company in the British Virgin Islands on September 14, 2010. On June 2, 2015, EBSHK, our wholly-owned Hong Kong subsidiary, acquired a 70% interest in SHKFGL from Sun Hung Kai. Sun Hung Kai owns the remaining 30% interest in SHKFGL. For further details of this acquisition, see “— Major Acquisition during the Track Record Period — Acquisition of a Majority Interest in SHKFGL” below. As of the Latest Practicable Date, SHKFGL had an issued capital of US\$301,217,140. It is an investment holding company and its subsidiaries are principally engaged in wealth management, brokerage and investment banking businesses and offers tailor-made financial solutions in wealth management and investment for retail, corporate and institutional clients.

MAJOR ACQUISITION DURING THE TRACK RECORD PERIOD

Acquisition of a Majority Interest in SHKFGL

On June 2, 2015, EBSHK, our wholly-owned Hong Kong subsidiary, acquired a 70% interest in SHKFGL from Sun Hung Kai, an independent third party, for HK\$4,095,000,000, which was arrived at following arm's length negotiations between the parties (the “SHK Acquisition”). To the best of the Directors' knowledge, information and belief having made

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

all reasonable enquiry, prior to entering into the acquisition, SHKFGL and its ultimate beneficial owners were independent third parties. The major terms of this acquisition were as follows:

- *Consideration.* The consideration was HK\$4,095,000,000 and was fully settled on June 2, 2015.
- *Board Representation.* The board of directors of SHKFGL shall consist of six directors, four of whom shall be appointed by EBSHK and two shall be appointed by Sun Hung Kai. Except for certain reserved matters that require the consent of Sun Hung Kai (including changes in capital structure, major indebtedness incurred, major acquisitions or disposals, dividend payments and liquidation), all decisions regarding the daily operation and management of SHKFGL are subject to a simple majority vote of the directors.
- *Listing Undertaking.* EBSHK has undertaken to Sun Hung Kai that it will use its best endeavours to separately list the Hong Kong operations comprising the business or substantial assets of SHKFGL and ESIL within three years following the completion of the SHK Acquisition (including seeking a waiver from Practice Note 15 to the Hong Kong Listing Rules from the Hong Kong Stock Exchange). If EBSHK has used reasonable endeavours to obtain the aforesaid waiver, it shall not be deemed to have breached the undertaking if the proposed spin-off entity fails to be listed on the Hong Kong Stock Exchange within three years following the completion of the SHK Acquisition solely because the waiver is not obtained. For further details of the proposed spin-off of our Company's Hong Kong operations in connection with this undertaking, see "Business — Our Business — Spin-off of Hong Kong Operations".
- *Put Option and Reinvestment Right.* Sun Hung Kai may exercise its put option to require EBSHK to purchase some or all of Sun Hung Kai's shares in SHKFGL during a prescribed put option period or following the occurrence of a number of prescribed put option trigger events during the period commencing from June 2, 2015 and ending June 2, 2020: (i) at a price per share equal to the initial consideration of HK\$4,095,000,000 (calculated on a per share basis) plus a guaranteed yield of 8.8% per annum (minus any dividends declared and received) (the "Original Price") within six months commencing on the third anniversary of the completion of the SHK Acquisition, or (ii) at a price per share equal to the higher of (a) the Original Price, and (b) the fair market value of the shares to be mutually agreed by Sun Hung Kai and EBSHK during the six months commencing on the fifth anniversary of the completion of the SHK Acquisition.

If Sun Hung Kai disposes of a part of or all the shares held in SHKFGL by exercising the aforementioned put option, Sun Hung Kai is entitled to exercise a reinvestment right to acquire shares of the proposed spin-off entity with the unanimous consent of Sun Hung Kai and EBSHK during the relevant period. Sun Hung Kai may subscribe for shares of the proposed spin-off entity at the exercise price of the put option plus a guaranteed yield of 8.8% per annum (minus any dividends declared and received) from the completion of the exercise till the earlier of: (1) 18 months after the date of completion, (2) the day immediately preceding the

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

28th full day following the submission of the IPO application by the proposed spin-off entity, and (3) any other deadline for completion specified in any rules or guidelines released by the stock exchanges.

Any transactions to be entered into by Sun Hung Kai on its exercise of the put option or the reinvestment right are subject to the requirements under Chapter 14A of the Hong Kong Listing Rules.

- *Exchange Right.* Sun Hung Kai is entitled to require EBSHK to exchange some or all of the shares it holds in SHKFGL for new shares in the proposed spin-off entity. The number of shares of the proposed spin-off entity obtained by Sun Hung Kai in connection with its exercise of such exchange right is determined by Sun Hung Kai and EBSHK through mutual consultation, taking into consideration factors including the consideration paid by EBSHK for its acquisition of the 70% interest in SHKFGL, the net market value of SHKFGL and the proposed spin-off entity upon exercise of the exchange right, and the value and quality of assets owned by SHKFGL and the proposed spin-off entity. Sun Hung Kai may exercise the exchange right from the time that EBSHK serves a notice to Sun Hung Kai indicating that the proposed spin-off entity intends to submit to the Hong Kong Stock Exchange a listing application (such notice to be issued at least two months before the listing application is submitted to the Hong Kong Stock Exchange).

In accordance with the terms of the acquisition and/or the Hong Kong Stock Exchange's Guidance Letter HKEx-GL43-12, the put right, the exchange right and the reinvestment right can only be exercised at least 28 clear days before the submission of the listing application of the proposed spin-off entity.

Following the proposed spin-off of our Hong Kong operations, assuming no pre-IPO investments, a minimum public float of 25% and no exercise of any over-allotment option, and taking into consideration the possible exercise of the put option and reinvestment right by Sun Hung Kai in respect of all of its shares in SHKFGL, we expect to remain as the majority shareholder of the proposed spin-off entity. By way of illustration, based on the net asset ratio of 1:2.22 between ESIL and SHKFGL as at December 31, 2015, and assuming no exercise of the put option by Sun Hung Kai, our Company will retain 59.49% interest in the proposed spin-off entity immediately following the proposed spin-off. In the event that the put option is exercised in full by Sun Hung Kai, our Company will be increased to 75% interest in the proposed spin-off entity. In the event that Sun Hung Kai exercises its reinvestment right following an exercise of the put option in full, our Company will retain 59.49% interest in the proposed spin-off entity. The actual number of shares of the proposed spin-off entity that will be allocated to Sun Hung Kai in the event that it exercises the exchange right in full will be determined based on negotiation between the relevant parties, taking into account all appropriate and relevant factors, including but not limited to the then relative net asset ratio between ESIL and SHKFGL. In the extremely unlikely case that ESIL is fully impaired, the Company's shareholding in the proposed spin-off entity is still expected to exceed 50%.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

- *Equity Pledge.* EBSHK, Sun Hung Kai and Itso Limited have also entered into an equity pledge agreement, under which EBSHK has pledged its 30% interest in SHKFGL to Sun Hung Kai and Itso Co., Ltd. as a guarantee of performing its obligations and responsibilities under the shareholder agreement.
- *Trademark License.* Sun Hung Kai has entered into a trademark license agreement with SHKFGL, pursuant to which Sun Hung Kai has licensed certain trademarks and domain name rights used by SHKFGL in its operations to SHKFGL in Hong Kong, Macau, PRC and Australia until the earlier of June 1, 2018 or Sun Hung Kai ceasing to hold 10% or more shareholding in SHKFGL. For further details of the trademark license agreement, see “Connected Transactions — Exempt Continuing Connected Transactions — 1. Trademark License Agreements — B. Sun Hung Kai”.
- *Transitional Services.* Sun Hung Kai has entered into a transitional services agreement (the “Transitional Services Agreement”) with EBSHK and SHKFGL, pursuant to which SHKFGL has agreed to procure the provision of some transitional services to Sun Hung Kai, while Sun Hung Kai has agreed to procure the provision of such services to SHKFL by its subsidiaries, for a minimum of 12 months. For further details of the Transitional Services Agreement, see “Connected Transactions — Exempt Continuing Connected Transactions — 3. Transitional Services Agreement”.

For further details about the business of SHKFGL, see “Business — Our Business — Overseas Business — Hong Kong Operations — SHKFGL”.

ACQUISITION OF THE REMAINING 49% INTEREST IN ESIL

On June 15, 2016, EBSHK, which holds 51% interest in ESIL, entered into a sale and purchase agreement with Action Globe Limited, a wholly-owned subsidiary of Everbright Limited and our connected person, pursuant to which EBSHK agreed to acquire the remaining 49% interest in ESIL from Action Globe Limited for consideration of HK\$930,000,000 (the “ESIL Acquisition”). The consideration was arrived at after arm’s length negotiations between the parties, taking into account, among others, the valuation of ESIL, and will be paid in installments on or before September 15, 2016. The ESIL Acquisition was completed on June 29, 2016.

As a result of the ESIL Acquisition, ESIL and its subsidiaries became wholly-owned subsidiaries of EBSHK and accordingly, our Company. As ESIL had been a non-wholly owned subsidiary of EBSHK throughout the Track Record Period, its financial results had already been consolidated into the Group’s financial results during the Track Record Period prior to the ESIL Acquisition, with equity and results attributable to non-controlling shareholder separately recorded. We will recognize in capital reserves the difference between the consideration for the acquisition and the carrying amount of the acquired 49% interest in ESIL as of the settlement date. The surplus over carrying amount would be deducted from capital reserves, while any deficit would be added to capital reserves.

The ESIL Acquisition is aligned with our strategy to further expand our Hong Kong operations. As further discussed in “Business — Our Business — Spin-off of Hong Kong

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Operations”, we intend to spin off our Hong Kong operations, including the businesses currently operated by ESIL and SHKFGL, as well as any other Hong Kong business that we may acquire, through a listing on the Hong Kong Stock Exchange that we expect to occur between January 1, 2017 and June 1, 2018. The ESIL Acquisition will allow us to consolidate our control in the proposed spin-off entity and to streamline its shareholding structure, which will in turn facilitate the decision making process of the proposed spin-off entity and further strengthen our Hong Kong operations.

OUR SHAREHOLDING AND GROUP STRUCTURE

As of the Latest Practicable Date, we had 99,392 Shareholders.

The following table sets out the shareholding of our top ten Shareholders as of the Latest Practicable Date, all of whom hold A Shares:

Shareholder	Number of Shares Held	Approximate Shareholding Percentage
		(%)
China Everbright Group Corporation Limited	1,159,456,183	29.68
China Everbright Limited	1,139,250,000	29.16
Pingan Dahua Fund — Pingan Bank — Ping An Bank Company Limited	152,718,387	3.91
China Securities Finance Corporation Limited	80,419,399	2.06
New China Fund — Minsheng Bank — Everbright Securities Private Placement No. 1 Asset Management Plan	61,087,354	1.56
Harvest Capital — Everbright Bank — Harvest Capital Everbright Securities Private Placement No. 2 Asset Management Plan	54,978,619	1.41
Lion Fund — ICBC — Shen Liping	54,978,619	1.41
China Great Wall Asset Management Corporation	54,978,619	1.41
Central Huijin Asset Management Ltd.	37,568,900	0.96
GF Securities Co., Ltd. Margin Clients’ Securities Collateral Accounts	25,264,913	0.65

So far as our Directors are aware, our top ten Shareholders, other than the Everbright Group, Everbright Limited and Central Huijin Asset Management Ltd., are independent third parties.

As of the Latest Practicable Date, all of our A Shares were traded on the Shanghai Stock Exchange. We have been in compliance with the applicable rules of the Shanghai Stock Exchange since the listing of our A Shares.

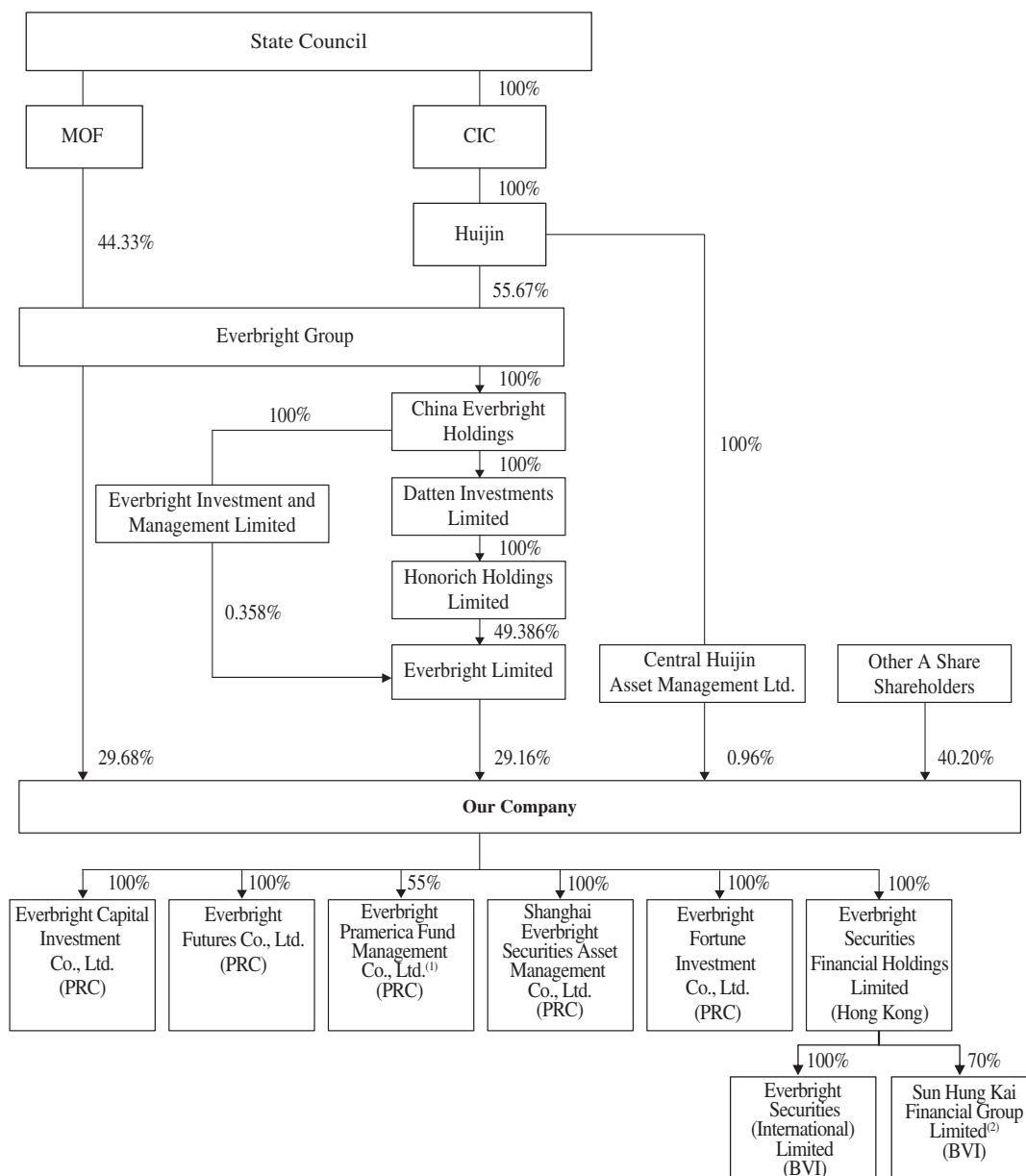
REASONS FOR THE LISTING

We intend to continue to expand the scope of our operations, as described in more detail in “Business — Business Strategies” and “Future Plans and Use of Proceeds”. We believe that the Listing will provide us with additional capital for our domestic and overseas business expansion and increase our international brand awareness.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

SHAREHOLDING AND CORPORATE STRUCTURE PRIOR TO THE GLOBAL OFFERING

The following chart sets out our simplified shareholding and corporate structure including our key subsidiaries immediately prior to the Global Offering:

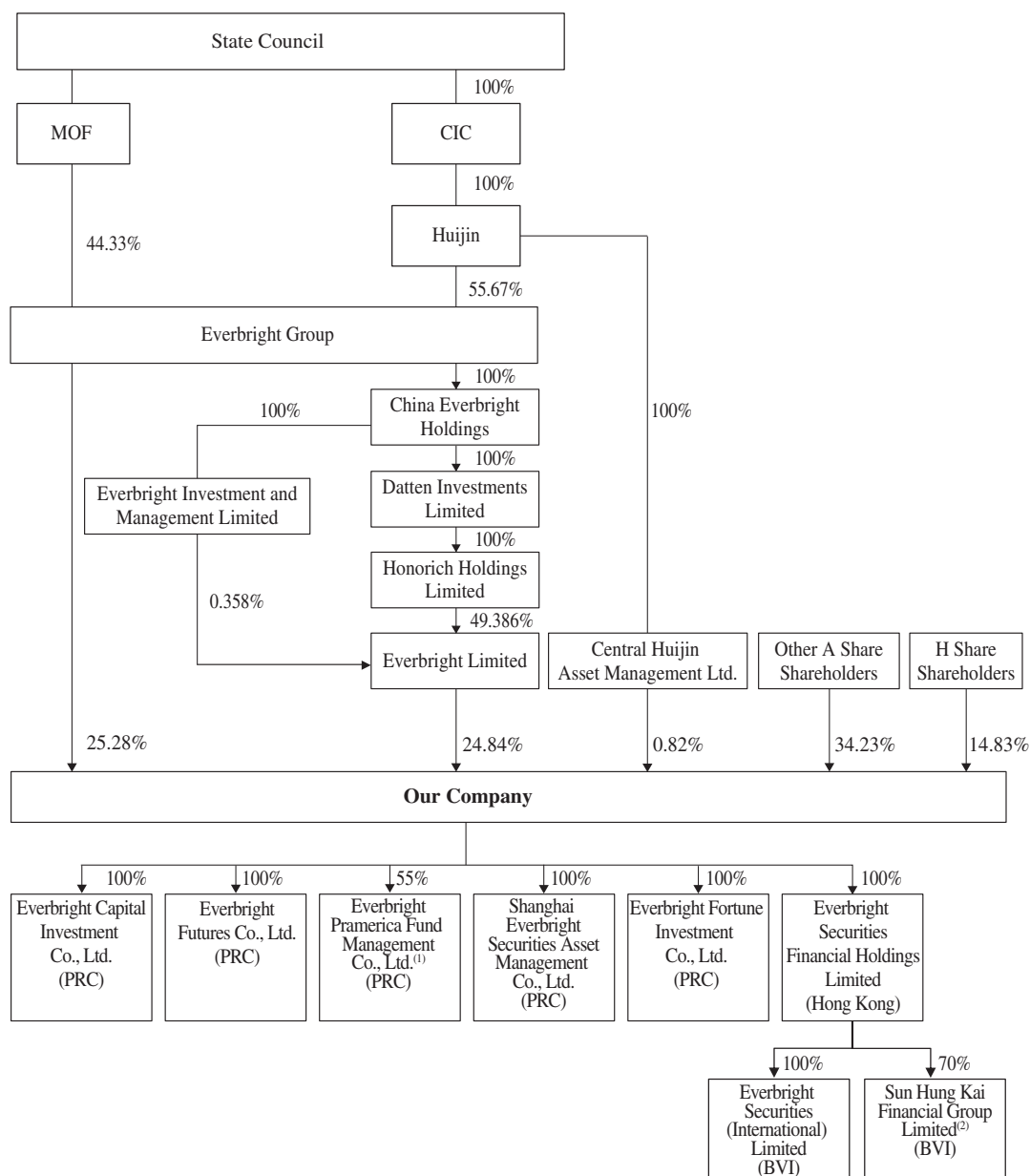


- (1) The remaining 45% of the interest in Everbright Pramerica was held by PGIM, an independent third party (other than being a shareholder of our subsidiary).
- (2) The remaining 30% of the interest in SHKFGI was held by Sun Hung Kai, an independent third party (other than being a shareholder of our subsidiary).

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

SHAREHOLDING AND CORPORATE STRUCTURE IMMEDIATELY FOLLOWING THE COMPLETION OF THE GLOBAL OFFERING

The following chart sets out our simplified shareholding and corporate structure including our key subsidiaries immediately after the completion of the Global Offering (assuming no exercise of the Over-allotment Option):



- (1) The remaining 45% of the interest in Everbright Pramerica was held by PGIM, an independent third party (other than being a shareholder of our subsidiary).
- (2) The remaining 30% of the interest in SHKFGI was held by Sun Hung Kai, an independent third party (other than being a shareholder of our subsidiary).

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OVERVIEW

We are a leading full-service securities group in China with strong innovation capabilities and an integrated onshore and offshore business platform. As a core financial services platform of the Everbright Group, we benefit from synergies within the group and from the “Everbright” brand recognition.

We offer a full range of financial products and services to a large and diversified client base that includes enterprises, financial institutions, governments and individuals. Our principal lines of business comprise the following:

<u>Brokerage and Wealth Management</u>	<u>Credit Business</u>	<u>Institutional Securities Services</u>	<u>Investment Management</u>	<u>Overseas Business</u>
<ul style="list-style-type: none">• Securities brokerage and wealth management	<ul style="list-style-type: none">• Margin financing and securities lending	<ul style="list-style-type: none">• Investment banking	<ul style="list-style-type: none">• Asset management	<ul style="list-style-type: none">• EBSHK
<ul style="list-style-type: none">• Futures brokerage	<ul style="list-style-type: none">• Repurchase transactions	<ul style="list-style-type: none">• Sales and trading	<ul style="list-style-type: none">• Fund management	
	<ul style="list-style-type: none">• Stock incentive financing for listed companies	<ul style="list-style-type: none">• Investment research	<ul style="list-style-type: none">• Private equity investment	
	<ul style="list-style-type: none">• Financial leasing	<ul style="list-style-type: none">• Prime brokerage	<ul style="list-style-type: none">• Alternative investment	

Our controlling shareholder, the Everbright Group, is owned by the MOF and Huijin. With more than 30 years of history, the Everbright Group is a *Fortune Global 500* company and one of the most recognized and influential conglomerates in China. Its broad range of businesses includes securities, banking, insurance, trust, fund management, financial leasing and industrials. We believe that the “Everbright” brand has enhanced our ability to secure clients and business opportunities.

We are one of the largest securities firms in China, and are ranked No. 9 by net capital as of December 31, 2015 according to SAC data. We are headquartered in China’s financial center, Shanghai. Since our establishment in 1996, we have successfully taken advantage of opportunities arising from the PRC securities industry’s transformation, development and regulatory reforms to achieve stable, rapid growth and leading market positions in multiple sectors. According to Wind Info, in 2015, our brokerage business ranked No. 11 by stock and fund trading volume and No. 3 by fund trading volume; our investment banking business ranked No. 2 by A share IPO proceeds, No. 1 by proceeds from follow-on offerings on the NEEQ, No. 4 by proceeds raised on the ChiNext Board and No. 8 by amount of debt underwritten. According to SAC data, in 2015, our asset management subsidiary ranked No. 7 by net revenue and No. 4 by return on net assets among all asset management subsidiaries of PRC securities firms.

Building on our success in China, we established EBSHK in November 2010 to spearhead our overseas operations. We have built a leading comprehensive and integrated offshore platform by acquiring a 51% interest in ESIL in May 2011 and a 70% interest in SHKFGL in

BUSINESS

June 2015. In June 2016, EBSHK, our wholly-owned subsidiary, acquired the remaining 49% interest in ESIL from Action Globe Limited, a wholly-owned subsidiary of Everbright Limited. We believe we are well positioned to capitalize on the growing cross-border business opportunities arising from the globalization of China's economy.

We have strong innovation capabilities. As one of China's first three securities firms licensed to engage in "innovative" businesses, we are often chosen by Chinese regulators to be one of the first securities firms to pilot new securities products and services. For example:

- We were among the first PRC securities firms licensed to provide brokerage services for trading SSE 50ETF options.
- We were one of the first six PRC securities firms licensed to engage in margin financing and securities lending on a pilot basis.
- We were among the first PRC securities firms to engage in collateralized stock repurchases and to provide financing for the exercise of employee stock options in listed stock on a pilot basis.
- We were one of the first six PRC securities firms to engage in total return swap transactions.
- We were among the first PRC securities firms to provide custodial services for asset management plans.
- We were one of the first six PRC securities firms licensed to conduct QDII business.

We have consistently launched innovative products and services ahead of other securities firms, such as the first CAM scheme launched by a PRC securities firm. We were also one of the first to introduce FOF products and multi-tranche CAM schemes in the PRC securities industry.

We have received numerous awards recognizing our results of operations and quality of service, including:

<u>Year</u>	<u>Awards</u>	<u>Events/Organizers/Media</u>
2016	ESIL — IPO Deals Excellence (光證(國際) — IPO項目卓越大獎)	Bloomberg Businessweek Chinese (彭博商業週刊中文版)
2015	Best Securities Firm (年度最佳證券公司)	Institute of Finance and Banking, China Academy of Social Sciences (中國社會科學院金融研究所), Financial News (金融時報)
	The Best Securities Firm CAM Manager for Five Consecutive Years from 2010 to 2014 (最佳券商集合理財管理人之五年優勝獎(2010–2014))	Sinolink Securities Co., Ltd. (國金證券), Tencent Finance (騰訊財經)

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Year	Awards	Events/Organizers/Media
	Top 10 Most Competitive Brands in China (Securities Industry) (中國最具競爭力品牌TOP 10 (券商行業))	China Brand Value Researcher (中國品牌價值研究所)
	Best PRC Internet Securities Firm (中國最佳互聯網証券公司)	Securities Times (證券時報)
2014	Golden Bull Securities Firms CAM Manager in 2013 (2013年度金牛券商集合資產管理人)	China Securities Journal (中國證券報)
	Best Securities Firm Brand in 2014 (2014年度最佳品牌券商獎)	China Securities Market Research and Design Center (中國證券市場研究設計中心), www.hexun.com (和訊網)
	Top 100 Shanghai Enterprises (上海企業100強) and Top 50 Shanghai Service Providers (上海服務企業50強)	Shanghai Enterprise Association (上海市企業聯合會)
2013	9th Golden Round Table “Excellent Board” (第九屆金圓桌優秀董事會)	Directors & Boards (《董事會》雜誌)
	Securities Firm with the Best Investment Consulting Services (最具投顧實力券商)	“1st Investment Consultant Competition and Securities Firm Appraisal” sponsored by Sina.com (新浪“首屆投資顧問大賽暨券商營業部評選”活動)
	Best Securities Firm Asset Manager in China (中國最佳資產管理券商)	Securities Times (證券時報)

In 2013, 2014 and 2015, our total revenue and other income was RMB5,179.4 million, RMB8,561.6 million and RMB23,292.7 million, respectively, and our net profit attributable to shareholders of our Company was RMB205.8 million, RMB2,068.3 million and RMB7,646.5 million, respectively. In the three months ended March 31, 2015 and 2016, our total revenue and other income was RMB4,390.4 million and RMB3,220.1 million, respectively, and our net profit attributable to shareholders of our Company was RMB1,520.5 million and RMB619.9 million, respectively. As of March 31, 2016, our total assets were RMB191,315.8 million and total equity attributable to shareholders of our Company was RMB37,627.4 million.

COMPETITIVE STRENGTHS

We believe the following strengths contribute to our success and differentiate us from our competitors.

Core financial services platform of the Everbright Group, benefitting from synergies within the group and the “Everbright” brand recognition

Our controlling shareholder, the Everbright Group, owned by the MOF and Huijin, is a *Fortune Global 500* firm and is one of the most recognized and influential conglomerates in China. Its wide range of businesses includes securities, banking, insurance, trust, fund management, financial leasing and industrials. The Everbright Group and its affiliates serve tens of millions customers, including governments, enterprises, institutions and individuals. As a core financial services platform of the Everbright Group, we benefit from its strong support and coordination in the cross selling of our products and services through shared customers and information and sales channels, as well as through personnel exchange with its other affiliates. We also cooperate with other affiliates of the Everbright Group in product development, marketing, and staff training. For example, we enhance our competitive edge by collaborating with Everbright Bank and Sun Life Everbright Insurance to provide customers with a full range of financial products and services. We have also sourced business opportunities, including large investment banking projects, from other affiliates of the Everbright Group, and received support from the Everbright Group in meeting our capital needs.

With over 30 years of history, the “Everbright” brand is well recognized in China and overseas. China Everbright’s brand recognition helps us win the trust of customers and the government, and has enhanced our ability to source business opportunities. We and the Everbright Group have established strategic collaboration with the local governments of over 10 provinces and many cities in China. For example, in February 2016, we entered into a strategic partnership with the People’s Government of Hangzhou and China Railway Limited for cooperation in urban development and infrastructure construction. We offer a full range of financial services tailored to the needs of local enterprises and individuals in order to expand our customer base and to exploit market opportunities arising from China’s economic transformation and industry reforms. Our access to the resources of the Everbright Group helps us stay abreast of evolving industry trends and deepen our understanding of customer needs. This has enhanced our inherent ability to expand our business and achieve sustainable growth.

Strong core business platform generating synergies across business lines

We offer a full range of financial products and services to meet the diverse needs of customers, including brokerage and wealth management, credit business, institutional securities services and investment management. We have achieved balanced growth across all our business lines and leading industry positions for our core businesses, thereby generating diversified and stable sources of revenue.

BUSINESS

Brokerage and Wealth Management

We have a leading brokerage and wealth management business with a broad and loyal customer base and rapidly growing number of high-net-worth clients.

- Our wealth management clients increased by 82.9% from approximately 58,870 as of December 31, 2013 to over 107,650 as of March 31, 2016. Our high-net-worth clients increased by 130.3% from approximately 3,800 as of December 31, 2013 to over 8,750 as of March 31, 2016.
- In 2015, the average stock and fund trading volume of our brokerage clients surpassed that of most PRC securities firms then listed on the Hong Kong Stock Exchange.
- According to Wind Info, in 2015, our brokerage business ranked No. 11 by stock and fund trading volume and No. 3 by fund trading volume.
- According to the data of the Shanghai Stock Exchange, in 2015, Everbright Futures ranked No. 3 by stock option trading volume among the PRC futures companies.

Credit Business

We were among the first batch of PRC securities firms licensed to engage in various credit businesses, including:

- *Margin financing and securities lending.* The closing balance of our margin loans and securities lent increased by 124.8% from RMB12.1 billion as of December 31, 2013 to RMB27.2 billion as of March 31, 2016.
- *Repurchase transactions.* The total outstanding principal amount of our repurchase transactions increased by 2,069.0% from RMB963.4 million as of December 31, 2013 to RMB20,896.4 million as of March 31, 2016.

Institutional Securities Services

We provide one-stop financial services to corporate and other institutional clients tailored to their individual needs at various stages of their development.

- In 2015, our investment banking business ranked No. 2 by A-share IPO proceeds, No. 1 by proceeds from follow-on offerings on the NEEQ, No. 4 by proceeds raised on the ChiNext Board and No. 8 by amount of debt underwritten.
- We were among the first securities firms in China to provide a full range of services for NEEQ quoted companies. In 2015, we underwrote 66 follow-on offerings for NEEQ quoted companies raising aggregate proceeds of approximately RMB14,701.4 million, ranking us No. 1 among all NEEQ chief agency brokers.

BUSINESS

- Our research team is well known in the industry for its strong research capabilities and deep understanding of market and industry trends. From 2013 to 2015, we received the “Best Analyst” award in six research areas from New Fortune.

Investment Management

We have a comprehensive investment management platform comprising Everbright Asset Management, Everbright Pramerica, Dacheng Fund, Everbright Capital and Everbright Fortune.

- We manage investment portfolios across a broad range of asset classes, including equity, hybrid, debt, QDII and FOF products.
- As the first asset management company owned by a listed PRC securities firm, Everbright Asset Management ranked No. 7 by net revenue and No. 4 by return on net assets among all the asset management subsidiaries of PRC securities firms in 2015, according to SAC.

Our highly integrated business platform enables us to deploy resources from various business lines to provide diversified and customized products and services. We continually adjust our incentive mechanism to promote cooperation and cross selling between business lines. For example:

- Portfolio companies of our private equity business are potential customers of our investment banking business.
- Our investment banking team cooperates closely with sales and trading teams, providing high-quality SME enterprises with a comprehensive suite of services, including NEEQ quotation sponsorship, follow-on financing and market making.
- The network and customer base of our brokerage and sales and trading businesses provide a strong distribution channel for products developed by our investment management business. At the same time, the sale of value-added products (including asset management products) has also improved the profitability of our brokerage and sales and trading businesses. Our extensive brokerage business network also helps us grow the customer base of our margin financing and securities lending business.

Leading integrated onshore and offshore financial services platform

We have been strategically expanding our overseas operations. We have established a leading comprehensive and integrated onshore and offshore platform by acquiring a 51% interest in ESIL in May 2011 and a 70% interest in SHKFGL in June 2015. In June 2016, EBSHK, our wholly-owned subsidiary, acquired the remaining 49% interest in ESIL from Action Globe Limited, a wholly-owned subsidiary of Everbright Limited.

We provide diversified financial services to our clients through our offshore business platform, including brokerage and sales, investment banking, asset management and research.

BUSINESS

We believe that our integrated onshore and offshore financial services platform enables us to take advantage of increased cross-border business opportunities arising from the globalization of the Chinese economy. For example:

- Our investment banking teams in the PRC and Hong Kong collaborate closely to meet domestic customer demand for financing and M&A advisory services in overseas markets. During the Track Record Period, ESIL lead-underwrote 22 IPOs in Hong Kong, raising aggregate proceeds of HK\$52 billion, and provided financial advisory services to 23 Hong Kong-listed companies.
- We utilize our integrated onshore and offshore platform to actively expand our RQFII and QDII businesses. For example, we launched one of the first QDII products in the PRC securities industry. We also plan to launch QDII products focused on investing in overseas bonds and hedge funds.
- We believe that the acquisition of SHKFGL has further enhanced our ability to provide customized wealth management services to domestic and overseas customers. As of March 31, 2016, our wealth management team comprised over 470 professionals in Hong Kong and approximately 1,050 investment advisors in the PRC.
- As of March 31, 2016, our research team in China and Hong Kong consists of more than 65 research analysts who cover over 310 listed companies in the PRC and approximately 100 listed companies in Hong Kong. Our strong research team helps us better provide value-added services to domestic and overseas customers.

Industry pioneer with strong innovation capabilities

Since our establishment, innovation is deeply embedded in our corporate culture. We believe that innovation is the key to our success in the ever-evolving capital markets.

We believe that our leading market position and the “Everbright” brand recognition are the principal reasons we are often chosen by regulators to pilot new securities products and services. This well positions us to take advantage of market opportunities arising from new policy initiatives of the CSRC. We were one of the first three PRC securities firms licensed to engage in “innovative” businesses, and have also been among the first securities firms to obtain licenses for many innovative businesses in China, thereby gaining a first-mover advantage over other PRC securities firms. These businesses include SSE 50ETF options brokerage, margin financing and securities lending, collateralized stock repurchases, stock incentive financing for listed companies, total return swaps, asset management custody services and QDII business.

Our strong innovation capabilities enable us to be prolific in introducing innovative products and services and to help clients structure complex transactions. For example, we launched the first CAM scheme in the PRC securities industry. We were also one of the first PRC securities firms to introduce FOF products and multi-tranche CAM schemes. We assisted Golden Bridge United Financial Leasing Co., Ltd. in launching a RMB2.1 billion lease-backed securities program. We also launched a heating fee receivables securitization

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product in August 2015. We are also one of the first PRC securities firms to form and manage public-private partnership (“PPP”) funds. For example, we currently manage one PPP fund that invests in urban renewal projects in Kunming with a total committed capital of RMB5.0 billion as of March 31, 2016.

We emphasize the use of the Internet in our business and are at the forefront of the industry’s financial innovation in relation to the Internet. We were one of the first securities firms in the PRC to establish an Internet finance platforms. In April 2015, we co-founded Everbright Cloud Pay with the Everbright Group and its affiliates. Everbright Cloud Pay is an Internet portal through which customers can access a wide range of financial products and services offered by various affiliates of the Everbright Group, including Everbright Bank, Sun Life Everbright, Everbright Trust, Everbright Pramerica and us. We believe that this will further promote the sharing of information and customers and the cross selling of financial products and services within the Everbright Group. In addition, in September 2015, we co-founded Everbright Yichuang Network Technology Co., Ltd., or Everbright Yichuang, with Ujia E-commerce Co., Ltd. and HNA Tourism Group Co., Ltd. Everbright Yichuang operates an Internet finance platform that allows companies to sell fixed-income, insurance and other wealth management products to the general public online. This platform enables us to expand our client base and increase client loyalty by offering more diversified and tailor-made products and services.

We co-founded Everbright Leasing with Joy Air Holdings Co., Ltd. and Jingmen Urban Construction Investment Co., Ltd. in September 2014, making us the first PRC securities firm to establish a financial leasing company in China. This enhances our ability to provide clients with comprehensive financial products and services, such as liquidity and asset securitization products, thereby increasing customer stickiness.

Prudent risk management and internal control

We focus on prudently operating our business and believe that effective risk management and internal control are essential to sustainable growth in an ever-changing market environment.

We have established a comprehensive risk management system to monitor, evaluate and manage various risks that we are exposed to in our business activities. We have set up a multi-level risk limit management system that allocates risk capital, measures and monitors risks, and conducts stress testing to ensure that our risk exposure matches our risk appetite. We have also established policies and procedures to prevent money laundering and terrorist financing, and have implemented Chinese walls to prevent conflicts of interest by controlling the flow of non-public information. Our experienced risk management team is led by our chief risk management officer, Mr. Wang Yong, who has more than 20 years of risk management experience in well-known overseas financial institutions and is a qualified financial risk manager (FRM). We have also implemented a comprehensive internal control system to enhance our compliance management capabilities, strengthen internal audit functions and minimize non-compliance incidents. As a result of our comprehensive risk management and internal control systems, up to the Latest Practicable Date, we had not been subject to any penalties resulting from on-site regulatory inspections of our margin financing business.

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Experienced management team and high-quality and stable workforce

Our success depends largely on the outstanding leadership of our management team. Our senior managers have an average of over 20 years of experience in the financial services industry. Approximately 90.0% of our mid-level managers are internally appointed, most of whom have experience in multiple business lines. Our middle level management team has an all-round vision and efficient coordination and execution capabilities, enabling them to identify and capture market opportunities arising from the development of China's economic and regulatory environment.

We have a high-quality and stable workforce. As of the Latest Practicable Date, approximately 71.3% of our 8,247 employees had a bachelor's or higher degree. We believe that our people are our most valuable asset. We seek to reinforce our employees' commitment to our culture through professional training, an effective performance review system and a compensation system that rewards teamwork. We believe that our corporate culture and cooperative work environment enable us to attract and retain talent and maintain the stability of our workforce despite increasingly fierce competition for talent.

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Our goal is to become an internationally competitive, full-service securities group with sustainable growth driven by the integration of domestic and overseas capital markets. We will continue to target medium- and high-value clients, focusing on meeting their needs and growing our capital intermediary businesses. We intend to distill greater synergies from our diverse operations, promote business innovation and further enhance the integration and coordination of our onshore and offshore platforms to offer a one-stop suite of innovative cross-border products and services. The specific elements of our development strategy are as follows:

Expand our client-centric capital intermediary business

We plan to further grow our capital intermediary business across all segments and provide clients with comprehensive investment and financing solutions tailored to their individual needs. We plan to take the following measures:

- Increase the client penetration and scale of our margin financing and securities lending, as well as collateralized stock repurchase businesses through customer segmentation. We also plan to increase our financing services for the exercise of employee stock options in listed stock, and provide related incentive stock option plan structuring and implementation services and market capitalization management services for listed companies.
- Grow our capital intermediary services for institutional clients, including acquisition finance, market-making, FICC and asset securitization services, thereby enhancing our ability to provide full-value-chain financial services.
- Provide capital intermediary services to bridge clients' investment and financing needs through our comprehensive investment management platform. For example,

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we plan to develop and launch asset management products to meet clients' financing needs and to invest in collateralized stock repurchase agreements. We also plan to further increase our investment in seed funds, establish additional private equity funds and increase our alternative investments.

Establish an industry-leading wealth management platform

As one of our core businesses, our wealth management business provides us with a stable source of revenue and has strong growth potential. We aim to enhance the competitive strengths of our wealth management business by improving our ability to serve customers and develop innovative products. We seek to establish a leading cross-border wealth management platform and increase the market position, brand recognition and profitability of our wealth management business by further integrating SHKFGL's wealth management platform. We plan to take the following measures:

- Expand our customer base, explore potential business opportunities and continually enhance customer experience by integrating customers' accounts through Everbright Cloud Pay.
- Strategically expand the geographic coverage of our wealth management centers to broaden our customer reach and enhance our operational efficiency and client service capabilities; transform selected brokerage branches into wealth management centers to broaden and deepen our coverage of high-net-worth individuals.
- Increase the contribution of medium-to-high value customers to the revenue of our wealth management business by further segmenting clients based on their investable assets and risk-return profiles and offering products and services tailored to their investment preferences.
- Improve our product structuring and asset allocation capabilities through the Everbright Fortune Club, which is focused on serving high-net-worth customers, and draw on SHKFGL's advanced product development and customer service experience.
- Further expand our investment consultancy team and enhance the expertise of our investment advisors through training and lateral recruitment.
- Enhance our cooperation with the Everbright Group and explore cooperation opportunities with other financial institutions to broaden our product offerings and asset allocation solutions for clients, including public funds, private equity funds, asset management plans, insurance products, wealth management products, asset securitization products, alternative and quantitative investment products and wealth succession plans.
- Further integrate SHKFGL's wealth management platform and provide clients with comprehensive wealth management services through our integrated onshore and offshore wealth management platform.

Build the most competitive institutional securities service platform in the PRC securities industry

We plan to launch an institutional securities service platform to promote cooperation among our investment banking, sales and trading, investment research and prime brokerage businesses. We believe this will enable us to better meet institutional clients' demand for a wide variety of financial services tailored to their needs at different stages of their development. We plan to take the following measures:

- Expand the industry coverage of our investment banking team and enhance their expertise and competitiveness in industries in which we specialize.
- Increase investment in our mergers and acquisition team to capture business opportunities arising from industry upgrading and consolidation in China.
- Continue to enhance the competitive strength of our NEEQ business, identify quality clients through our NEEQ quotation sponsorship business and offer them comprehensive financial services, such as listing transfer, refinancing and M&A advisory services, to meet their needs at different phases of development.
- Expand our overseas investment banking business and build an integrated onshore and offshore investment banking platform to better meet client demand for domestic and overseas investment banking services.
- Leverage the Everbright Group's brand recognition and resources, cooperate with various levels of the PRC government and offer more comprehensive financial products and services to institutional clients, to broaden our institutional client base to include more banks, insurance companies, RQFII, private equity firms and securities firms, and to build long-term strategic relationships with key customers.
- Build a world-class FICC business platform, develop OTC derivatives, such as equity swaps, options and equity-linked instruments, commit more capital to market-making activities and improve our market-making capabilities in respect of ETFs, index options, stock options and NEEQ.
- Expand our asset securitization business and provide institutional clients with products customized to their risk-return profiles.
- Further expand our research team and enhance our research capabilities in overseas markets, NEEQ, quantitative research and derivatives.

Enhance the competitiveness of our investment management business by focusing on satisfying clients' investment and financing needs through our comprehensive investment management platform

We are committed to providing high-net-worth, retail and institutional customers with products and services that meet their investment and financing needs through our comprehensive investment management platform comprising asset management, public fund

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management, private equity investment fund management and alternative investment fund management. We plan to take the following measures:

- Enhance the competitiveness of our asset management and public fund management businesses by continually innovating and diversifying our product offering based on clients' various risk and return preferences. For example, we plan to develop and launch more actively managed product portfolios for high-net-worth individuals and institutional clients. We also plan to develop wealth management products for clients to better invest their brokerage deposits, and to introduce asset management products to invest in collateralized stock repurchase agreements.
- Grow the AUM of our private equity investment and alternative investment funds and establish additional private equity investment, M&A and mezzanine funds to invest in enterprises with growth potential at different stages of development.
- Enhance our cooperation with local governments, listed companies, large enterprises and financial institutions, to increase our fund raising and distribution capabilities and brand recognition.

Enhance our cross-border business platform and expand our global operations to capitalize on business opportunities arising from the integration of domestic and overseas capital markets

Leveraging our large customer base and our onshore and offshore financial services platform, we plan to strategically expand our international operations to meet clients' growing demand for global financial services driven by the globalization of China's economy. We plan to take the following measures:

- Enhance the competitiveness and brand recognition of our offshore platform by further integrating the financial service platforms of SHKFGL and ESIL to better serve clients' needs for integrated domestic and overseas financial services.
- Enhance cooperation and communication between our business lines in China and overseas (including, in particular, our wealth management, institutional securities services and investment management businesses) to promote customer resource sharing and referral of cross-border business opportunities, as well as to enhance our ability to serve customers by drawing on the deeper experience of our overseas businesses.
- Expand our international reach through our Hong Kong platform, strategic alliance with leading global financial institutions and acquisitions that suit our international business strategy. We actively seek strategic partners in different regions to enhance our ability to meet clients' needs for cross-border financial services. We also plan to seek opportunities to acquire or invest in foreign financial institutions. As of the Latest Practicable Date, we had not identified any targets for acquisition or investment.

Increase the adoption of big data technologies and promote innovation through our comprehensive Internet financial service platform

We intend to increase our investment in big data technologies and Internet financial services, enhance their application in our operations and further strengthen our cooperation with Internet companies. We plan to take the following measures:

- Leveraging Everbright Cloud Pay, we intend to enhance client resource sharing with the Everbright Group and its affiliates to expand our client base and promote cross-selling of our products and services.
- Increase the use of big data to analyze client investment behavior and risk preferences to promote precision marketing of our wealth management and investment management products and to enhance our ability to provide customers with financial products and services that suit their individual needs.
- Provide cost-effective and efficient one-stop Internet financial services and enhance client experience through our Internet financial service platform.
- Establish third-party payment and collateralized stock P2P platforms and increase the use of Internet technologies to promote business innovation.
- Further develop our Internet finance platform to expand our client base.
- Enhance cooperation with well-known Internet companies and use their platforms for customer development and the marketing of products and services.

Further exploit the resources and brand recognition of the Everbright Group to distill greater synergies across our businesses

We plan to further exploit the resources and brand recognition of the Everbright Group by exploring potential opportunities for cooperation with other affiliates of the Everbright Group and with the PRC government to further grow our businesses. We aim to capture the growing business opportunities driven by the rising profile and influence of the Everbright Group in China and worldwide. Leveraging the brand recognition of the Everbright Group, we plan to enhance strategic cooperation with the government in respect of business opportunities and client referrals, and to provide clients with financial services tailored to their individual needs. We also plan to establish systems and procedures to promote greater cooperation among other affiliates of the Everbright Group and our subsidiaries and business lines. We believe that this will enable us to provide clients with comprehensive financial services on a coordinated basis. For example, to better meet corporate clients' needs for comprehensive financing services, we intend to promote synergies between Everbright Fortune International Leasing and our investment banking business by encouraging the sharing of customer resources and joint development of lease-backed securitization products. We will also encourage cooperation between our investment banking, wealth management and investment management businesses to explore investment opportunities and share customers, information and distribution channels. We have established eight branch companies, and in the process of establishing another five branch companies for which we have obtained the relevant

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regulatory approval. Through this strategic initiative, we plan to enhance the synergies across business lines and the efficiency of branch network management by promoting the coordinated development of our businesses, enhancing our capability of providing differentiated financial services to clients, and centralizing the operation, risk management and brand promotion efforts in specific regions

Enhance risk management, internal control and information system development

We believe that effective risk management, internal control and IT support are fundamental to our success. We plan to take the following measures to enhance our risk management, internal control and information systems:

- Establish a comprehensive proactive risk management system encompassing business, market, credit, liquidity, compliance and operational risks.
- Enhance our risk management structure, models and information systems to more effectively and timely monitor, evaluate and manage our risk exposure. For example, we will further improve our internal credit rating system, concentration management, portfolio credit risk quantification and mitigation systems to maintain our asset quality and limit our losses to an acceptable range.
- Further improve our dynamic monitoring model for various types of risk and enhance our liquidity risk management.
- Hire professional personnel with extensive risk management experience and skills, increase our staff's awareness of risk management and improve our risk-adjusted performance assessment system to ensure effective implementation of our risk management system.
- Further enhance internal control by drawing on international best practices, strengthening our compliance and audit functions and enhancing the firewalls between our businesses.
- Continue to enhance our information systems to better support our business operations; fully apply our information systems in our decision-making, financial management and risk management processes.

Attract, motivate and retain high-quality talent

We believe that our employees are our most important asset, and our continued ability to compete effectively in our existing businesses and expand into new business areas depends on our ability to attract, motivate and retain talent. We intend to adopt the following measures to attract, motivate and retain high-quality talent:

- Recruit experienced professional personnel with exceptional execution and leadership skills and global vision to expand our talent pool and optimize our employee composition.

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- Provide employees with professional training opportunities, clear career paths and diversified career development opportunities. We seek to enhance the professional skills of our employees and reinforce their commitment to our culture. We promote cohesiveness through cross-division, cross-region and cross-company employee exchange programs, leveraging our onshore and offshore financial services platforms and our cooperation with other affiliates of the Everbright Group.
- Improve our performance evaluation and market-based compensation systems. We plan to implement a long-term incentive scheme to enhance employee motivation and loyalty by aligning the interests of our employees with those of our shareholders.

OUR BUSINESS

Our principal business lines comprise brokerage and wealth management, credit business, institutional securities services, investment management and overseas business. The table below sets forth revenue and other income from each of our principal lines of business and their respective contribution to our total revenue and other income for the periods indicated. For additional information concerning operating segments, see “Financial Information — Segment Operating Results”.

	Year ended December 31,						Three months ended March 31,				
	2013		2014		2015		2015		2016		
	(Unaudited)										
	(RMB in millions, except percentages)										
Brokerage and Wealth											
Management	2,875.8	55.5%	3,928.8	45.9%	9,607.3	41.2%	1,845.5	42.0%	1,072.9	33.3%	
Credit Business	802.8	15.5%	1,772.6	20.7%	4,658.1	20.0%	1,008.4	23.0%	790.3	24.5%	
Institutional Securities											
Services	455.5	8.8%	1,291.2	15.1%	4,520.6	19.4%	902.8	20.6%	389.9	12.1%	
Investment Management .	663.4	12.8%	955.0	11.2%	2,390.7	10.3%	372.2	8.5%	501.8	15.6%	
Overseas Business	302.7	5.8%	282.9	3.3%	872.0	3.7%	75.1	1.7%	231.0	7.2%	

Brokerage and Wealth Management

Our brokerage and wealth management business consists primarily of:

- *Securities brokerage and wealth management:* we provide brokerage services to retail clients for trading stocks, funds, bonds, ETFs, stock option and other securities. We also provide customized wealth management services and sell financial products developed by us or third parties.
- *Futures brokerage:* we provide brokerage services to retail clients for futures trading.

In 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, revenue and other income from our brokerage and wealth management business was RMB2,875.8 million, RMB3,928.8 million, RMB9,607.3 million, RMB1,845.5 million and RMB1,072.9 million, respectively, accounting for 55.5%, 45.9%, 41.2%, 42.0% and 33.3% of our total revenue and other income, respectively.

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Securities Brokerage and Wealth Management

Overview

We provide clients with brokerage services for a variety of securities, including:

- Stocks listed on the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange. In 2013, 2014 and 2015 and the three months ended March 31, 2016, the stock trading volume of our brokerage accounts in China was RMB2,886.6 billion, RMB4,395.3 billion, RMB13,750.4 billion and RMB1,656.0 billion, respectively, representing a market share of 3.1%, 3.0%, 2.7% and 2.6%, respectively.
- Open-ended funds, close-ended funds and ETFs. In 2013, 2014 and 2015 and the three months ended March 31, 2016, the fund trading volume of our brokerage accounts in China was RMB76.7 billion, RMB231.9 billion, RMB1,428.3 billion and RMB76.4 billion, respectively, representing a market share of 2.7%, 2.5%, 4.7% and 1.4%, respectively.
- Bonds listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange. In 2013, 2014 and 2015 and the three months ended March 31, 2016, the bond trading volume of our brokerage accounts in China was RMB2,365.2 billion, RMB3,115.0 billion, RMB4,295.1 billion and RMB1,272.9 billion, respectively, representing a market share of 1.9%, 1.8%, 1.7% and 1.4%, respectively.

In addition, in October 2014, we became one of the first securities firms in China licensed to conduct trading through the Shanghai-Hong Kong Stock Connect. In January 2015, we also became one of the first PRC securities firms licensed to operate a stock options business. We were also licensed to trade in precious metals, including gold, on behalf of clients on a pilot basis in April 2015.

In 2013, 2014 and 2015 and the three months ended March 31, 2016, the average stock and fund trading volume of our active brokerage clients was approximately RMB1.8 million, RMB2.5 million, RMB5.8 million and RMB0.7 million, respectively. During the same periods, the net average commission rate we charged for stock and fund brokerage services in the PRC were 0.689‰, 0.617‰, 0.449‰ and 0.376‰, respectively.

In 2010, we were licensed to provide investment advisory services to our brokerage clients, presenting an opportunity to increase commission rates and expand our brokerage revenue. We classify our wealth management clients based on their net worth and provide them with differentiated financial products and services.

We closely collaborate with the Everbright Group and its affiliates (including Everbright Bank and Sun Life Everbright) to provide comprehensive financial services to our brokerage clients, such as asset custodial services and banking and insurance product investment advisory services. We believe this enhances our competitive edge in securing new clients and mandates.

Clients

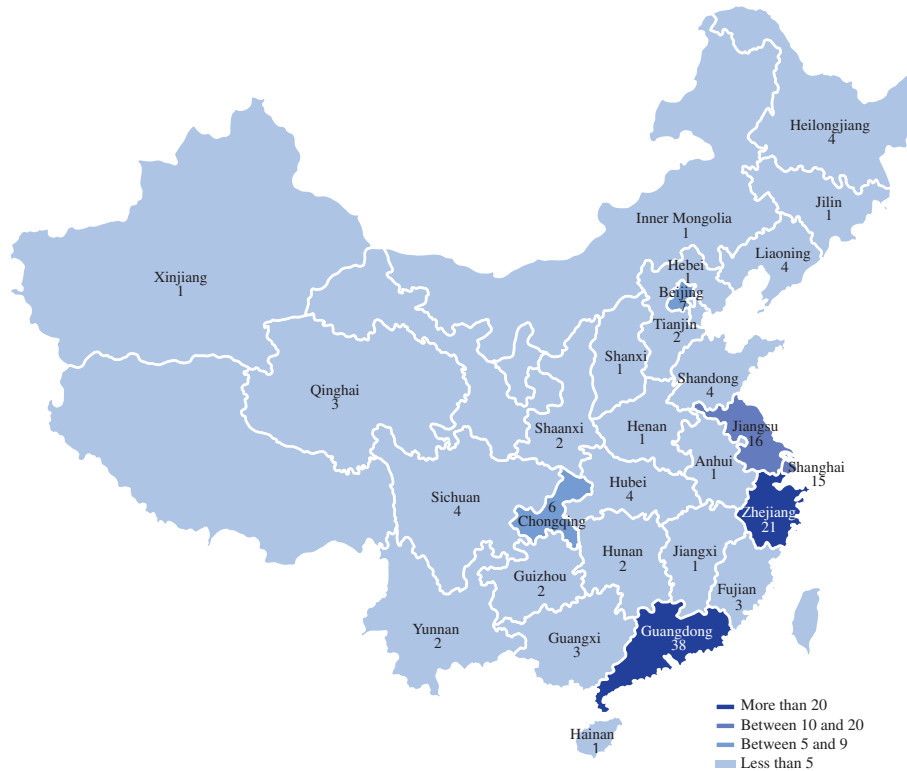
We have a large and loyal brokerage client base. As of March 31, 2016, we had over 3,470,000 brokerage clients, among which approximately 46.2% were active clients. As of March 31, 2016, approximately 62.8% of our active brokerage clients had maintained accounts with us for over three years, and approximately 19.7% of our active brokerage clients had maintained accounts with us for over ten years.

Based on their net worth, we segment our active brokerage clients into mass market clients, wealth management clients (with assets of at least RMB500,000 but less than RMB5.0 million in their accounts with us) and high-net-worth clients (with assets of at least RMB5.0 million in their accounts with us). From December 31, 2013 to March 31, 2016, our wealth management clients increased by 82.9% from approximately 58,870 to over 107,650; our high-net-worth clients increased by 130.3% from approximately 3,800 to over 8,750. We provide differentiated financial products and services to our brokerage clients based on in depth data analysis of their trading behavior.

Branch Network and Trading Platform

As of March 31, 2016, we had 151 securities brokerage branches across 28 provinces in China. Approximately 69.5% of these branches are located in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim, which are China’s most economically developed regions and have the largest populations of affluent and high-net-worth individuals and SMEs.

The following map sets forth the provinces and municipalities in the PRC covered by our securities brokerage branch network as of March 31, 2016:



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In addition, we have obtained the CSRC approval to set up another 52 securities brokerage branches.

In March 2013, the CSRC relaxed its requirements on the scale, location and on-site trading facilities of new securities brokerage branches. We began to establish C-type brokerage branches that do not offer on-site trading services in 2013. As of March 31, 2016, we had 51 C-type brokerage branches in the PRC, representing approximately 33.8% of our securities brokerage network. As compared to conventional securities brokerage branches, C-type brokerage branches occupy less space, employ less staff and are equipped with more flexible facilities, thereby requiring lower capital expenditures and operating expenses. We believe that C-type brokerage branches enable us to more quickly expand the geographic coverage of our brokerage network and to better serve client needs for off-site trading and wealth management services.

We have also launched online self-service account opening and online trading services to reach clients beyond the network of traditional securities brokerage branches and to enhance operating efficiency. We launched online self-service account opening services in August 2014. In the three months ended March 31, 2016, the number of accounts opened online accounted for approximately 92% of all accounts opened. From December 31, 2013 to March 31, 2016, the number of mobile customers increased by approximately 223.1% from approximately 650,000 to over 2.1 million. In November 2014, we launched our one-stop comprehensive financial service system “Fu Chun” (富尊), which enables clients to open and manage brokerage accounts, place trades, purchase and sell wealth management products, and access investment analytical tools and advisory services through the Internet, handheld devices and WeChat. In the three months ended March 31, 2016, approximately 96% of the transactions by our retail brokerage clients were executed through online trading platforms. We also collaborate with many leading Internet companies in China, such as Xueqiu, Royal Flush and Wind Info, to expand our client base.

Wealth Management Services

As of March 31, 2016, we had built a team of approximately 1,050 investment advisors in China. We have been selected as the “Securities Firm with the Strongest Investment Advisory Capabilities” by Sina Finance for two consecutive years in recognition of our strong research capabilities and high-quality investment advisory services.

We began to provide customers with information regarding investment decision-making via SMS, MMS and email under the “Golden Sunshine” brand in June 2007. As of March 31, 2016, our Golden Sunshine Information Services had approximately 2,370,000 subscribers.

In February 2015, we established the “Everbright Fortune Club” (富尊會俱樂部) to serve high-net-worth clients. We assign dedicated advisors to each member of the “Everbright Fortune Club” and provide them with differentiated financial products and value-added services by coordinating our internal resources and collaborating with other affiliates of the Everbright Group and other financial institutions.

We recommend and sell financial products, such as fund products, asset management schemes and trust schemes developed by us or third parties, to clients based on their financial

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sophistication and risk-return profile. In January 2013, we became one of the first PRC securities firms licensed to sell financial products developed by third parties in China. We currently sell financial products developed by over 100 institutions, including banks, trust companies, insurance companies and fund management companies. The top five issuers of the financial products that we distributed in terms of sales amount were all PRC fund management companies in 2013 and 2014, and four PRC fund management companies and one asset management company in 2015. The top five issuers in the three months ended March 31, 2016 include four PRC fund management companies, each of which is controlled by state-owned A-share listed securities firms, and an asset management company controlled by a fund management subsidiary of a PRC-listed securities firm. Each of these issuers is licensed to conduct fund management business or asset management business for qualified clients, as the case may be, and are subject to the supervision of the CSRC and other PRC regulators.

We seek to establish an industry-leading, globally integrated wealth management platform by combining our onshore wealth management platform with the mature and advanced wealth management platform of SHKFGL to capture business opportunities generated by our clients' growing demand for overseas wealth management services. See “—Overseas Business — Hong Kong Operations — SHKFGL” for details of SHKFGL's wealth management platform.

Marketing and Client Services

As of March 31, 2016, we had a sales and marketing team consisting of approximately 1,050 investment advisors and more than 2,780 securities brokers. We acquire new brokerage clients primarily through online and mobile platforms, phone calls, in-person visits and referrals from the Everbright Group and its affiliates. We strive to ensure client satisfaction through high-quality client service. We respond to client inquiries and collect client feedback on a real-time basis through our client hotlines and online client service platforms.

Futures Brokerage

We provide clients with futures brokerage services through our wholly-owned subsidiary, Everbright Futures. Everbright Futures is a full clearing member of the China Financial Futures Exchange, and a member of the Shanghai Futures Exchange, the Dalian Commodity Exchange and the Zhengzhou Commodity Exchange. It provides services for all types of futures approved by the CSRC (including 46 commodity futures and 5 financial futures). In August 2015, the CSRC rated Everbright Futures “Class A Grade AA”, the highest rating awarded to PRC futures companies. Everbright Futures was also chosen as a “Golden Member of Excellence” by the China Financial Futures Exchange in 2014.

As of March 31, 2016, Everbright Futures had established 24 futures branches across 18 provinces in the PRC. As of the same date, 63 of our securities brokerage branches were licensed to refer clients to Everbright Futures, and approximately 13% of the futures brokerage clients of Everbright Futures were referred by our securities brokerage branches.

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The following table sets forth the trading volumes of our futures brokerage accounts and our market share in the PRC by major futures product type for the periods indicated:

	Year ended December 31,						Three months ended March 31,	
	2013		2014		2015		2016	
	Trading volume	Market share	Trading volume	Market share	Trading volume	Market share	Trading volume	Market share
	(RMB in millions, except percentages)							
Commodity Futures	3,593,191.1	1.4%	4,549,631.3	1.8%	6,373,650.5	2.3%	1,773,926.2	2.2%
CSI 300 Index Futures	14,218,468.5	5.1%	13,516,103.9	4.1%	28,320,405.2	3.4%	261,217.1	5.0%
Treasury Bond Futures ⁽¹⁾	17,934.3	2.9%	21,759.5	1.2%	616,978.2	5.1%	271,499.9	5.4%
Total	17,829,593.9	3.3%	18,087,494.7	3.1%	35,311,033.9	3.2%	2,306,643.2	2.5%

(1) The treasury bond futures market reopened in September 2013.

In January 2015, Everbright Futures became one of the first ten futures companies licensed to provide brokerage services for trading SSE 50 ETF options. According to the data of the Shanghai Stock Exchange, in 2015, the aggregate stock option trading volume of Everbright Futures brokerage clients ranked No. 3 among all PRC futures companies.

We anticipate that PRC regulators will approve the listing and trading of new types of derivatives, such as foreign exchange futures, commodity options and stock index options, in China in the near future. We believe this development will drive growth in China's futures markets and increase the scale and profitability of our futures brokerage business.

Everbright Futures was licensed by the CSRC to provide asset management services in November 2012. As of December 31, 2013, 2014 and 2015 and March 31, 2016, the CAM and TAM schemes managed by Everbright Futures had a total AUM of RMB5.0 million, RMB24.1 million, RMB323.7 million and RMB4,413.1 million, respectively.

Credit Business

Our credit business includes margin financing and securities lending, repurchase transactions (including collateralized stock repurchase transactions and repurchase transactions), stock option financing for listed companies and financial leasing. In 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, revenue and other income from our credit business was RMB802.8 million, RMB1,772.6 million, RMB4,658.1 million, RMB1,008.4 million and RMB790.3 million, respectively, representing 15.5%, 20.7%, 20.0%, 23.0% and 24.5% of our total revenue and other income, respectively.

Margin Financing and Securities Lending

We began offering margin financing and securities lending services in March 2010 as one of the first six securities firms licensed to do so. Our margin financing services include providing margin loans to our clients to finance their purchases of publicly traded stocks, which are collateralized by securities or cash. We also offer securities lending services that involve lending securities held in our own accounts or borrowed from China Securities Finance Corporation Limited to our clients.

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Our margin financing and securities lending business has grown significantly, benefiting from our strong capital resources and broad brokerage network. As of March 31, 2016, all of our securities brokerage branches in China were licensed to provide margin financing and securities lending services. As of the same date, over 116,400 of our clients were eligible for margin financing and securities lending services. Of these clients, approximately 34.9% have opened accounts and approximately 19.0% have executed at least one margin financing or securities lending transaction.

New margin financing and securities lending clients must satisfy certain minimum balance requirements as set forth in the table below.

<u>Period</u>	<u>Minimum account balance</u>
March 2010 to May 2013	RMB500,000
May 2013 to January 2015	RMB100,000
January 2015 to July 2015	RMB500,000
July 2015 to present	RMB500,000 ⁽¹⁾

(1) Refers to the average value of a client's securities assets over the 20 trading days immediately prior to the date of application for opening a margin financing and securities lending account.

As of March 31, 2016, 887 stocks and 22 ETFs were eligible for margin financing and securities lending in China. As of the same date, we offered margin financing for 873 stocks and 8 ETFs and securities lending for 886 stocks and 8 ETFs. We anticipate that the PRC regulators will increase the type and number of securities eligible for margin financing and securities lending. We determine the interest rates for margin financing and securities lending based on our capital cost, market risk exposure and market demand. The interest rates for our margin loans are generally not lower than the benchmark financial institutions lending rates of similar maturities set by the PBOC. As of March 31, 2016, the annualized nominal interest rates we charged clients for our margin financing and securities lending services were 8.35% and 8.35%, respectively. We have the right to adjust the interest rates for our margin loans when the PBOC changes its benchmark financial institutions lending rate.

We require clients to collateralize margin financing and securities lending with securities traded on the Shanghai Stock Exchange or the Shenzhen Stock Exchange. We apply different discount rates to determine the value of the securities used as collateral. We monitor the discount rate applied to each security on a real-time basis and make appropriate adjustments based on a number of factors, including market fluctuation, securities concentration and liquidity. As of December 31, 2013, 2014 and 2015 and March 31, 2016, the total value of collateral from our margin financing and securities lending clients was RMB23,744.7 million, RMB88,900.8 million, RMB120,812.2 million and RMB89,621.0 million, respectively, representing maintenance margin ratio of 211.9%, 217.8%, 277.9% and 313.6%, respectively.

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The following table sets forth the applicable maximum discount rates as required by the Shanghai Stock Exchange and the Shenzhen Stock Exchange for various types of collateral used in our margin financing and securities lending business as of March 31, 2016:

Type of securities	Maximum discount rate
MOF bonds, cash management products issued by securities firms and money market funds	95.0%
ETFs	90.0%
Other listed securities investment funds and non-MOF bonds	80.0%
Shanghai Stock Exchange 180 Index and Shenzhen Stock Exchange 100 Index constituent stocks	70.0%
Other stocks (excluding Shanghai Stock Exchange 180 Index and Shenzhen Stock Exchange 100 Index constituent stocks, stocks imposed risk warnings, stocks temporarily suspended from trading and stocks pending delisting)	65.0%
Stocks imposed risk warnings, stocks temporarily suspended from trading, stocks pending delisting and warrants	0%

The table below sets forth the total value of the collateral from our margin financing and securities lending clients as of the dates indicate:

	As of December 31,			As of March 31,
	2013	2014	2015	2016
	(RMB in millions)			
Cash	765.3	3,537.5	7,764.2	6,940.8
Securities	22,979.4	85,363.3	113,048.0	82,680.2
Equity securities	22,882.7	84,880.9	112,754.5	82,357.4
– Shanghai Stock Exchange	12,799.2	49,314.8	51,669.8	36,622.1
– Shenzhen Stock Exchange	10,083.4	35,566.1	61,084.8	45,735.3
Other securities	96.7	482.4	293.5	322.8
– Shanghai Stock Exchange	53.3	68.8	229.6	273.6
– Shenzhen Stock Exchange	43.4	413.6	63.9	49.2

The following table sets forth the closing balance, trading volume and market share of our margin financing and securities lending business for the periods indicated:

	As of or for the year ended December 31,						As of or for the three months ended March 31,	
	2013		2014		2015		2016	
	Amount	Market share	Amount	Market share	Amount	Market share	Amount	Market share
	(RMB in millions, except percentages)							
Closing balance	12,074.8	3.7%	37,481.0	3.7%	38,764.5	3.3%	27,208.2	3.1%
Trading volume ⁽¹⁾	128,078.7	4.2%	380,088.0	4.0%	1,091,078.1	3.4%	36,937.0	3.1%

(1) Trading volume of margin financing and securities lending represents clients' aggregate financed purchases.

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In August 2012, we became one of the first PRC securities firms licensed to lend funds and securities owned by third parties to our margin financing and securities lending clients. We borrow funds from China Securities Finance Corporation Limited to fund margin loans to clients. China Securities Finance Corporation Limited determines the daily refinancing interest rates based on the demand and supply for capital and with reference to the benchmark six month financial institutions lending rate set by the PBOC. As of March 31, 2016, there was no outstanding loan balance from China Securities Finance Corporation Limited.

We have implemented comprehensive risk management measures to mitigate the market and credit risks that we are exposed to in our margin financing and securities lending business. See “— Risk Management — Credit Businesses” for details.

Repurchase Transactions

We began to engage in repurchase transactions in September 2012. In repurchase transactions, we purchase securities from clients and agree to resell the same securities to the same client in the future at the initial price of the underlying securities plus interest. The interest rates we charged counterparties of repurchase transactions ranged from 7.0% to 10.0% during the Track Record Period. As of March 31, 2016, no amount was outstanding under our repurchase agreements.

We began to enter into collateralized stock repurchase transactions in June 2013 as one of the first nine PRC securities firms licensed to do so. In collateralized stock repurchase transactions, our clients pledge stock as collateral for loans obtained from us. The interest rates we charged counterparties of collateralized stock repurchase transactions ranged from 5.9% to 10.5% during the Track Record Period. As of March 31, 2016, the outstanding principal amount under our collateralized stock repurchase agreements was RMB20,896.4 million.

We require counterparties of repurchase transactions and collateralized stock repurchase transactions to provide us with sufficient collateral. We also monitor clients' collateral coverage ratio on a real-time basis. As there was no amount outstanding under our repurchase agreements as of March 31, 2016, we had returned all collateral provided by counterparties of repurchase transactions as of the same date. As of March 31, 2016, the collateral coverage ratio for our collateralized stock repurchase transactions was 296%.

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The table below sets forth the total value of collateral from our repurchase transactions and collateralized stock repurchase transactions as of the dates indicated:

	As of December 31,			As of March 31,
	2013	2014	2015	2016
	(RMB in millions)			
Tradable				
Equity securities	1,899.7	4,048.7	28,775.2	28,960.2
Shanghai Stock Exchange . . .	556.9	1,528.7	10,542.8	5,699.9
Shenzhen Stock Exchange . .	1,342.8	2,520.0	18,232.4	23,260.3
Non-tradable				
Equity securities	1,164.8	7,267.3	27,942.0	30,951.5
Shanghai Stock Exchange . . .	–	1,794.7	2,087.0	1,938.8
Shenzhen Stock Exchange . .	1,164.8	5,472.6	25,855.1	29,012.7

Stock Incentive Financing for Listed Companies

In December 2014, we became one of the first securities firms licensed on a pilot basis by the Shenzhen Stock Exchange to lend funds to clients to finance their exercise of incentive stock options granted by listed companies. Our clients pledge securities they own or securities underlying the incentive options as collateral for the loan. We determine the interest rates based on a number of factors, such as our capital costs and market risk exposure. We intend to develop a full range of services in relation to the stock incentive plans of listed companies, including designing and implementing stock incentive plans, providing stock option financing for listed companies and managing the market capitalization of listed companies.

Financial Leasing

In September 2014, we jointly established Everbright Leasing with Joy Air Holdings Co., Ltd. and Jingmen Urban Construction Investment Co., Ltd. in the Shanghai Free Trade Zone. Everbright Leasing provides clients with financial leasing, advisory, guarantee and factoring services to public utility companies and SMEs. As of March 31, 2016, Everbright Leasing had entered into financial leasing agreements with 15 clients, with a total financing amount of RMB4,560.0 million.

Institutional Securities Services

We have a large and diverse institutional client base. These institutional clients include NSSF, SMEs with strong growth potential, medium-to-large enterprises, fund managers, trust companies, securities firms, private equity firms, insurance companies, commercial banks, QFIIs and RQFIIs.

We offer one-stop financial services covering the entire lifecycle of our corporate and other institutional clients, which primarily include:

- *Investment banking:* We provide one-stop investment banking solutions to our enterprise clients, including equity and debt finance, financial advisory and NEEQ sponsorship services.

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- *Sales and trading:* We sell equity and fixed-income securities to institutional clients, and engage in market-making and proprietary trading of equity and equity-linked financial products, fixed-income products and equity and interest rate derivatives. We also structure and distribute a wide range of OTC products.
- *Investment research:* We provide investment research services in respect of macro-economy, industries and companies, national and local policies, financial products and investment strategies to our institutional clients.
- *Prime brokerage:* We offer a variety of prime brokerage services to private funds, including trading seat leasing, asset custody and outsourcing services, product distribution and seed funding.

In 2013, 2014 and 2015 and three months ended March 31, 2015 and 2016, revenue and other income from our institutional securities services was RMB455.5 million, RMB1,291.2 million, RMB4,520.6 million, RMB902.8 million and RMB389.9 million, respectively, representing 8.8%, 15.1%, 19.4%, 20.6% and 12.1% of our total revenue and other income, respectively.

Investment Banking

Our investment banking business consists of:

- *Equity finance:* We assist enterprise clients in raising equity in China's multi-layered capital markets.
- *Debt finance:* We underwrite a variety of fixed-income offerings.
- *Financial advisory:* We provide transactional advisory services to enterprise clients to help them achieve exogenous growth.
- *NEEQ sponsorship service:* We recommend SMEs for quotations on the NEEQ to address their financing needs.

Our investment banking business focuses on SMEs with strong growth potential and renowned medium-to-large enterprises. We are familiar with our clients' business strategies and we tailor our financial solutions to meet their needs at different stages of development. For example, in May 2012, we advised Shanghai Zhuofan Information Technology Co., Ltd. in its transformation into a joint-stock company. We also sponsored its quotation on the NEEQ in July 2013, advised its follow-on offering in April 2015 and began to provide it with market-making services in May 2015. In addition, we sponsored the A-share IPO of Luoyang Longhua Heat Transfer & Energy Conservation Co., Ltd. in 2011 and advised its follow-on offering in 2015.

We have strong equity sales capabilities as a result of our brand recognition, our large and diverse institutional client base and our ability to coordinate between our various business lines. We also closely monitor the needs of our investment banking clients to create

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business opportunities for our other business lines, including referring high-net-worth and institutional clients for our wealth management and asset management businesses.

In 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, revenue and other income from our investment banking business was RMB268.6 million, RMB274.0 million, RMB1,592.2 million, RMB439.1 million and RMB333.7 million, respectively, representing 59.0%, 21.2%, 35.2%, 48.6% and 85.6% of total revenue and other income from our institutional securities services, respectively.

Equity Finance

We underwrite IPOs, follow-on offerings, private placements, and rights issues and offerings of equity-linked products for various types of enterprise clients, including SMEs with strong growth potential and large state-owned enterprises. As of March 31, 2016, our investment banking team had 69 sponsor representatives.

Our domestic equity underwriting team is organized into five industry groups: TMT, biopharmaceutical, financial institutions, energy and environment conservation and military. Our investment banking professionals' extensive industry knowledge and experience enables them to efficiently analyze and serve clients' varying needs for financial services.

From 1990 to March 31, 2016, we acted as lead underwriter for 196 equity and equity-linked offerings in China with an aggregate issued amount of approximately RMB128 billion. Since the launch of the SME Board in 2004 and the ChiNext Board in 2009 and up to March 31, 2016, we assisted 28 SMEs in their listings on the SME Board with an aggregate underwritten amount of approximately RMB17 billion, and 15 SMEs in their listings on the ChiNext Board with an aggregate underwritten amount of approximately RMB8 billion.

We underwrote IPOs with an aggregate underwritten amount of RMB13.0 billion in 2015, representing an 8.2% market share and ranking us No. 2 among PRC securities firms, according to Wind Info. During the same period, our income from IPO underwriting was over RMB418.9 million, representing a 6.7% market share and ranking us No. 7 among all PRC securities firms, according to Wind Info.

The following table sets forth certain information regarding the equity and equity-linked offerings in China in which we acted as a lead underwriter for the periods indicated:

	Year ended December 31,			Three months ended
	2013	2014	2015	March 31, 2016
As a sponsor (lead underwriter)				
IPOs				
Number of transactions	–	3	7	1
Amount underwritten <i>(RMB in millions)</i>	–	923.8	12,786.9	358.3
Underwriting fees <i>(RMB in millions)⁽¹⁾</i>	–	73.5	418.6	22.7
Average commission rate	–	8.0%	3.3%	6.3%

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		Year ended December 31,			Three months ended March 31,
		2013	2014	2015	2016
Follow-on Offerings	Number of transactions	4	–	4	1
	Amount underwritten <i>(RMB in millions)</i>	3,011.1	–	1,403.6	3,500.0
	Underwriting fees <i>(RMB in millions)⁽¹⁾</i>	91.6	–	46.2	30.0
	Average commission rate	3.0%	–	3.3%	0.9%
Rights Issue	Number of transactions	–	–	–	1
	Amount underwritten <i>(RMB in millions)</i>	–	–	–	396.4
	Underwriting fees <i>(RMB in millions)⁽¹⁾</i>	–	–	–	6.0
	Average commission rate	–	–	–	1.5%

(1) Includes underwriting fees and sponsor fees.

Our deep industry-specific expertise, ability to coordinate among business lines and strong equity sales capabilities enable us to participate in numerous large and complex equity offerings. The following table sets forth some of the high-profile equity offerings we have participated in as sponsor and lead underwriter during the Track Record Period:

Issuer	Offering Type	Amount Underwritten <i>(RMB in millions)</i>	Year
Huadong Medicine Co., Ltd.	Non-public offering	3,500.0	2016
Everbright Bank	Preferred shares issuance	20,000.0	2015
Orient Securities Co., Ltd.	IPO	10,030.0	2015
Luoyang Longhua Heat Transfer & Energy Conservation Co., Ltd.	Follow-on offering	711.1	2015
Apple Flavor & Fragrance Group Co., Ltd.	IPO	818.8	2015
Ningbo Medical System Biotechnology Co., Ltd.	IPO	780.0	2015
Shenzhen Absen Optoelectronics Co., Ltd.	IPO	362.3	2014
Shanxi Coking Group Company Limited	Follow-on offering	1,560.0	2013

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Leveraging our in-depth knowledge of capital markets, our corporate clients and the industries in which they operate, we are adept at identifying value propositions, and have sponsored the IPOs of many enterprises that are the leaders of their respective industries:

Issuer	Offering Type	Description	Year
Shenzhen Absen Optoelectronics Co., Ltd.	IPO	Leader in the LED monitor industry	2014
Sinoma Energy Conservation Ltd.	IPO	Leader in the cement waste heat power generation industry	2014
Zhejiang Sunflower Light Energy Science & Technology LLC	IPO	The first listed crystalline silicon solar cell and components manufacturer in China	2010

We have maintained strong relationships with our clients and have partnered with them in their growth, participating in their most important corporate transactions as illustrated in the table below:

Issuer	Offering Type	Description
Shenzhen Jinxinnong Feed Co., Ltd.	IPO (2011), asset acquisition financed by share issuance (2015)	Leading manufacturer of swine feed in China
Jiangsu Yawei Machine Tool Co., Ltd.	IPO (2011), asset acquisition financed by share issuance (2015)	Well-known machine tool product developer and manufacturer
Henan Huaying Agriculture Development Co., Ltd.	IPO (2009), follow-on offering (2013)	Leading poultry exporter in China
Luoyang Longhua Heat Transfer & Energy Conservation Co., Ltd.	IPO (2011), follow-on offering (2015)	Leading heat transfer and energy conservation equipment developer and manufacturer
Shanxi Coking Group Company Limited	Follow-on offerings (2007 and 2013)	Leader in the petrol processing and coking industry in China
Xinjiang Beixin Road & Bridge Group Co., Ltd.	IPO (2009), follow-on offering (2011)	Well-known road and bridge constructor in China
Zhejiang Yinlun Co., Ltd.	IPO (2007), follow-on offering (2011)	Well-known heat exchanger manufacturer in China

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Issuer	Offering Type	Description
Sunwave Communications Co., Ltd.	IPO (2007), follow-on offering (2011)	Well-known wireless product manufacturer and network coverage solution provider in China
Changjiang & Jingong Steel Building (Group) Co., Ltd.	Follow-on offerings (2006 and 2009)	Leader in the steel structure construction industry in China

Debt Finance

As one of the first PRC securities firms licensed to underwrite fixed-income products in China, we underwrite a range of fixed-income products, primarily including corporate bonds, enterprise bonds, financial bonds, medium-term notes, short-term financing bills and private placement debt instruments. The following table sets forth certain information on bond issuances in China in which we acted as lead underwriter for the periods indicated:

		Year ended December 31,			Three months ended March 31,
		2013	2014	2015 ⁽¹⁾	2016 ⁽¹⁾
Enterprise Bonds	Number of transactions	5	4	3	–
	Amount underwritten (RMB in millions)	9,452.0	2,980.0	3,100.0	–
	Underwriting fees (RMB in millions)	41.7	24.4	11.8	–
	Average commission rate	0.4%	0.8%	0.4%	–
Corporate Bonds	Number of transactions	4	1	32	24
	Amount underwritten (RMB in millions)	6,900.0	500.0	37,993.6	25,891.0
	Underwriting fees (RMB in millions)	20.6	2.0	345.2	235.3
	Average commission rate	0.3%	0.4%	0.9%	0.9%
Medium-Term Notes and Short-Term Financing Bills	Number of transactions	1	2	10	5
	Amount underwritten (RMB in millions)	100.0	240.0	4,860.0	2,396.0
	Underwriting fees (RMB in millions)	0.5	7.0	35.2	15.6
	Average commission rate	0.5%	2.9%	0.7%	0.7%
Private Placement Debt Instrument	Number of transactions	–	–	7	1
	Amount underwritten (RMB in millions)	–	–	4,800.0	300.0
	Underwriting fees (RMB in millions)	–	–	51.9	1.5
	Average commission rate	–	–	1.1%	0.5%

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		Year ended December 31,			Three months ended March 31,
		2013	2014	2015 ⁽¹⁾	2016 ⁽¹⁾
Financial Institution Bonds	Number of transactions	–	2	10	–
	Amount underwritten <i>(RMB in millions)</i>	–	4,847.0	33,400.0	–
	Underwriting fees <i>(RMB in millions)</i>	–	5.5	47.2	–
	Average commission rate	–	0.1%	0.1%	–
Asset Securitization	Number of transactions	–	1	5	1
	Amount underwritten <i>(RMB in millions)</i>	–	431.0	8,970.2	175
	Underwriting fees <i>(RMB in millions)</i>	–	0.8	12.7	0.7
	Average commission rate	–	0.2%	0.1%	0.4%
SME private placement bonds	Number of transactions	9	5	–	–
	Amount underwritten <i>(RMB in millions)</i>	1,050.0	1,040.0	–	–
	Underwriting fees <i>(RMB in millions)</i>	26.4	22.7	–	–
	Average commission rate	2.5%	2.2%	–	–

(1) SME private placement bonds ceased to exist as a separate bond category since January 2015 when the CSRC issued regulations to enlarge the scope of corporate bonds to include private placement bonds.

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Drawing upon our in-depth knowledge of China's regulatory environment, our strong fixed-income sales capabilities and extensive experience, we have participated in numerous high-profile debt offerings in China, some of which are illustrated in the table below during the Track Record Period:

Issuer	Offering Type	Amount Issued (RMB in millions)	Year
Bank of Dongguan Co., Ltd. . .	Financial institution bonds	5,000.0	2016
Changchun City Construction Investment Co., Ltd.	Corporate bonds	5,000.0	2016
Dalian Puwan Engineering Project Management Co., Ltd.	Corporate bonds	2,000.0	2015
Xining City Investment & Management Co., Ltd.	Medium-term notes	1,500.0	2014
Everbright Bank	Financial institution bonds	16,200.0	2014
China Aerospace Science and Technology Corporation	Enterprise bonds	5,000.0	2013
China Eastern Airlines	Corporate bonds	4,800.0	2013

We believe innovation is the primary driver of the continual growth of our debt underwriting business. For example, we assisted Golden Bridge United Financial Leasing Co., Ltd. in launching a RMB2.1 billion lease-backed securities program.

We have developed strong client-loyalty and have underwritten multiple debt issuances by many high-quality issuers. For example, in 2014 and 2015, we underwrote the issuances by Xining City Investment & Management Co., Ltd. of medium-term notes of RMB2.5 billion and short-term financing bills of RMB1.0 billion, respectively; in August and September of 2015 and April 2016, we underwrote the issuances by Zhongrong Xinda Group Co., Ltd. of short-term financing bills with the principal amount of RMB2.0 billion and RMB0.5 billion, respectively.

Financial Advisory

We provide financial advisory services for various types of transactions, including M&A, strategic alliances, corporate restructurings, joint ventures and acquisition and disposal of corporate assets. We charge financial advisory fees based on the type and scale of transactions and the scope of our services.

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We have advised on numerous transactions where our clients sought to achieve growth and industry consolidation, drawing upon synergies among our various business lines and affiliates of the Everbright Group, as well as our strong capabilities in innovating and in handling complex transactions. The following table sets forth some representative transactions in which we acted as financial advisor during the Track Record Period:

<u>Client</u>	<u>Type of Transaction</u>	<u>Transaction Value</u> (RMB in millions)	<u>Year</u>
Shenzhen Jinxinnong Feed Co., Ltd.	Asset acquisition financed by share issuance	340.0	2015
Everbright Group	Joint stock reform	–	2014
INESA Electron Co., Ltd.	Asset acquisition and follow-on offering by a listed company	55.2	2014
Shanghai Zhixin Electric Co., Ltd.	Asset acquisition financed by share issuance	799.7	2013
Jiangsu Lianhuan Pharmaceutical Co., Ltd. ...	Asset acquisition financed by share issuance	48.7	2013

NEEQ Quotation Sponsorship Services

Since we began to act as a chief agency broker for quotations on NEEQ in May 2003. In the three months ended March 31, 2016, we sponsored the quotation of 21 companies on the NEEQ. Our sponsorship of these companies helps us build a pipeline of potential clients for our financing, market-making and M&A advisory services and provides investment opportunities for our private equity and asset management businesses. In 2015, we underwrote 66 follow-on offerings by NEEQ quoted companies, with an aggregate issued amount of approximately RMB14,701.4 million. We have been licensed to provide market-making services for companies quoted on the NEEQ since July 2014.

Sales and Trading

Sales

We provide trading advisory and execution services to our institutional clients and sell the equity and fixed-income securities that we underwrite. Our institutional clients primarily include NSSF, fund managers, private equity firms, trust companies, finance companies, commercial banks, QFIIs and RQFIIs.

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Proprietary Trading

We engage in market-making and proprietary trading of equity and equity-linked securities, fixed-income products and spot gold. We select investment targets based on expected returns, estimated investment risks, industry and market cycles analysis, market tracking and the behavior of market participants.

Equity Trading

We engage in proprietary trading of equity securities and equity derivatives, including stocks, stock index futures, stock options, total return swap transactions, ETFs, LOFs, over-the-counter options and entering into block trades.

We began entering into total return swap transactions involving stocks, stock indices and asset management schemes in October 2014. The tenor of our return swap transactions generally range between one month and one year. As of December 31, 2014 and 2015 and March 31, 2016, the total notional amount of our total return swap transactions was RMB1,404.5 million, RMB2,435.6 million and RMB2,623.2 million, respectively. We set the return rates on our swap transactions primarily based on a number of factors, including our cost of capital, risk-return profile of the assets underlying these transactions, tenor of the transactions, creditworthiness of the counterparties and prevailing market rates of similar transactions.

We have adopted multi-pronged investment strategies with respect to our equity trading activities, including arbitrage trading and quantitative strategies, which have allowed us to achieve stable returns while limiting exposure to market risks. We also use stock index futures to hedge our equity portfolio exposure.

Fixed Income Trading

We engage in proprietary trading of and market-making in a wide range of fixed income products on China's interbank bond market and securities exchanges, such as treasury bonds, financial institution bonds, central bank bills, medium-term notes, short-term financing bills, corporate bonds and enterprises bonds. In June 2014, we became one of the first PRC securities firms licensed on a probationary basis to provide market-making services on China's interbank bond market. We also use derivative instruments, such as treasury bond futures and interest rate swaps, to hedge interest rate exposure that arises from our trading and market-making activities.

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The following table sets forth our trading of futures by asset type in terms of trading volume for the periods indicated:

	Year ended December 31,			Three months ended March 31,
	2013	2014	2015	2016
	(transaction number)			
Treasury bond futures	– ⁽¹⁾	1,216	8,803	4,103
Stock index futures	139,877	677	29,843	2,780

(1) The treasury bond futures market reopened in September 2013.

We have adopted active management, buy and hold, and market neutral strategies with respect to our fixed-income trading activities to achieve greater long-term returns while ensuring the associated risks are measurable, manageable and within our risk tolerance levels. We adjust our fixed-income product portfolio from time to time in light of changes in macro-economics and monetary policies.

We have established comprehensive risk management processes to monitor, evaluate and manage the risks that we are exposed to in our proprietary trading activities. See “Business — Risk Management — Institutional Securities Services — Proprietary Trading”. We believe these measures are effective in ensuring that our risk exposure matches our risk appetite. Despite the recent market volatility, our proprietary trading business recorded average return of negative 5.5% in the six months ended June 30, 2016, while the CSI 300 index plummeted by 15.5% during the same period.

Investment Research

We provide research reports to NSSF, insurance companies, securities firms, fund managers, private equity firms, finance companies and other professional institutional investors. As of March 31, 2016, our equity research covered 23 industries and over 380 listed companies. As of the same date, we had 53 research analysts based in China, approximately 94.3% of whom possessed at least a master’s degree.

Our research team is renowned for its research capabilities and deep understanding of market and industry trends. From 2013 to 2015, we were selected as the “Best Analyst” by New Fortune in six research areas.

Prime Brokerage

We offer a variety of prime brokerage services to private funds, including trading seat leasing, custodial and outsourcing services, and product distribution. We leased out 282, 331, 405 and 402 seats to fund managers in 2013, 2014 and 2015 and the three months ended March 31, 2016, respectively, which generated commissions of RMB180.5 million, RMB221.1 million, RMB486.2 million and RMB71.5 million, respectively. As of March 31, 2016, we had total assets under custody or outsourced of RMB29,582.7 million.

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Investment Management

Our investment management business primarily includes:

- *Asset management*: we provide asset management services to clients through Everbright Asset Management and Everbright Futures.
- *Fund management*: we raise and manage funds and specific client asset management schemes through Everbright Pramerica and Dacheng Fund.
- *Private equity investment*: we conduct private equity investments as a principal and manage private equity investment funds through Everbright Capital.
- *Alternative investment*: we conduct quantitative hedging, commodity futures arbitrage, alcoholic beverage underwriting and private equity investments through Everbright Fortune.

In 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, revenue and other income from our investment management business was RMB663.4 million, RMB955.0 million, RMB2,390.7 million, RMB372.2 million and RMB501.8 million, respectively, representing 12.8%, 11.2%, 10.3%, 8.5% and 15.6% of our total revenue and other income, respectively.

Asset Management

Everbright Asset Management

We conduct our asset management business through our wholly-owned subsidiary, Everbright Asset Management. Established in 2012, Everbright Asset Management was the first asset management subsidiary owned by a PRC listed securities firm. As of March 31, 2016, the total AUM of Everbright Asset Management was approximately RMB256.7 billion. According to SAC data, in 2015, Everbright Asset Management ranked No. 7 by net revenue and No. 4 by return on net assets among all the asset management subsidiaries of PRC securities firms.

We believe in “Growing with Clients” and we manage client assets across a broad range of asset classes and investment strategies, including equity, fixed-income and quantitative investments. We also seek to match clients, investment and funding needs through our asset management platform.

Our asset management products and services primarily include:

- *CAM*: we manage a broad range of investment schemes with varying risk and return profiles to suit the investment needs of different types of clients.
- *TAM*: we manage tailored investment portfolios for institutional investors and high-net-worth individuals through separately managed accounts.

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- *SAM*: we offer investment schemes to meet specific investment needs of clients.

We sell asset management products through our nationwide branch network and third party agency banks. We also design investment schemes for other affiliates of the Everbright Group, and collaborate with them to design and provide custody services for asset management products. For example:

- In December 2012, we designed a TAM scheme for Everbright Limited with its interest in Everbright Bank and us as the underlying assets of the scheme. As of March 31, 2016, the TAM scheme had a total AUM of approximately RMB27.7 billion.
- In September 2012, we designed a TAM scheme for Everbright Bank using funds it owned and managed under wealth management plans. As of March 31, 2016, the TAM scheme had a total AUM of approximately RMB121.5 billion.
- Everbright Bank provides custodial services for 37 of our CAM schemes with a total AUM of approximately RMB22.0 billion and 32 of our TAM schemes with a total AUM of approximately RMB165.0 billion as of March 31, 2016.
- In May 2013, we and Everbright Financial Holding (Shanghai) Investment Management Co., Ltd. jointly designed and launched a CAM scheme with a total AUM of approximately RMB129.8 million as of March 31, 2016.

CAM

As of March 31, 2016, we managed 79 CAM schemes, including equity schemes, FOF schemes, fixed-income investment schemes, money market schemes, and hybrid and quantitative investment schemes. The management fees for our CAM schemes range between 0% and 1.5% of AUM.

We have been a market pioneer in asset management product structuring and innovation, as demonstrated by the following CAM products we have developed.

- *Everbright Sunshine No. 1*: the first CAM scheme launched by an asset management subsidiary of a PRC securities firm. The net value of Everbright Sunshine No. 1 achieved a cumulative growth rate of approximately 717.7% as of March 31, 2016. It was selected as “The Best Asset Management Product of Securities Firms from 2010 to 2014” by Sinolink Securities and Tencent Finance.
- *Everbright Sunshine No. 2*: one of the first FOF products in the PRC securities industry.
- *Everbright Sunshine No. 5*: our first fixed-income CAM product. It was selected as “Best Fixed-income Asset Management Product in China” by the Securities Times and “Best Fixed-income CAM Scheme of Securities Firms” by the Shanghai Securities News in 2013.

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- *Quantitative Wealth Management Products*: we began to offer quantitative asset management products in August 2014. As of March 31, 2016, we managed 27 quantitative asset management products. Our “Jiayao Quantitative Series” had a total AUM of approximately RMB3,575.0 million and B tranche annualized return of approximately 6.3% as of March 31, 2016.
- *Everbright Sunshine Xian Jin Bao*: a wealth management product to increase brokerage deposits. As of March 31, 2016, Everbright Sunshine Xian Jin Bao had a total AUM of approximately RMB7.5 billion.
- *Everbright Sunshine Gu Li Duo*: a collateralized stock repurchase product that helps clients lower financing costs by accessing low cost bank funds. As of March 31, 2016, Everbright Sunshine Gu Li Duo had a total AUM of approximately RMB375.9 million.

Our CAM schemes had a total AUM of RMB15,002.2 million, RMB22,807.7 million, RMB46,527.6 million and RMB52,454.0 million as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively, and generated management and incentive fees of RMB159.2 million, RMB252.0 million, RMB744.5 million and RMB91.2 million in 2013, 2014 and 2015 and the three months ended March 31, 2016, respectively.

The table below sets forth certain information on our major outstanding CAM schemes as of March 31, 2016:

Product name	Year of establishment	AUM (RMB in millions)	Annual management fees (percentage of AUM)	Performance fees
<i>Equity-linked schemes⁽¹⁾</i>				
Everbright Sunshine (光大陽光)	2005	2,036.6	1.50%	–
Everbright Sunshine Selected Mixed (Sunshine No. 6) (光大陽光混合優選 (陽光6號))	2009	313.9	1.20%	18% of the returns in excess of an annualized rate of 5%
Everbright Sunshine Domestic Demand Dynamic (光大陽光內需動力)	2010	265.8	1.20%	18% of the returns in excess of an annualized rate of 5%
Everbright Asset Management — Pudong Development Bank — Qun Xing No. 1 (光證資管 — 浦發銀行 — 群興1號)	2015	219.1	0.30%	–

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Product name	Year of establishment	AUM (RMB in millions)	Annual management fees (percentage of AUM)	Performance fees
Everbright Sunshine Emerging Industries (光大陽光新興產業)	2011	140.3	1.20%	18% of the returns in excess of an annualized rate of 5%
<i>Fixed-income-linked schemes⁽²⁾</i>				
Everbright Sunshine Big Dipper No. 2 (光大陽光北斗星2號)	2013	13,528.0	0.35%	–
Everbright Sunshine Wen Zhai Returns (光大陽光穩債收益)	2012	3,854.0	0.00%	progressive percentages of returns in excess of annualized benchmark rates
Everbright Sunshine Big Dipper (光大陽光北斗星) ⁽⁵⁾	2013	3,852.5	0.00%	90% of the returns in excess of an annualized rate of 6%
Everbright Sunshine Shuang Ji Ying (光大陽光雙季贏) ⁽⁵⁾	2013	3,234.0	0.00%	100% of the returns in excess of an annualized rate of 6%
Everbright Sunshine Zhai Xiang Bond-linked Returns II (光大陽光債享收益2期)	2015	2,154.7	1.00%	50% of the returns in excess of an annualized rate of 6%
<i>Hybrid schemes⁽³⁾</i>				
Everbright Sunshine No. 5 (光大陽光5號)	2009	1,008.0	1.00%	–
Everbright Sunshine Risk Aversion and Value Adding (光大陽光避險增值)	2011	924.0	1.20%	–
Everbright Jiayao Yongxin No. 1 (光大嘉耀湧鑫1號)	2015	553.6	1.00%	20% of the returns in excess of an annualized rate of 8%
Everbright Jiayao Rongmin No. 1 (光大嘉耀融閩1號)	2015	506.4	1.00%	20% of the returns in excess of an annualized rate of 10%

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Product name	Year of establishment	AUM (RMB in millions)	Annual management fees (percentage of AUM)	Performance fees
Everbright Jiayao Quantitative No. 11 (光大嘉耀量化11號) . . .	2015	480.6	0.80%	20% of the returns in excess of an annualized rate of 8 %
<i>QDII-linked schemes⁽⁴⁾</i>				
Everbright Huili USD Bond Class No. 1 (光大 匯利美元債分級1號) ⁽⁵⁾ . .	2015	373.4	1.50%	90% of the returns in excess of an annualized rate of 5.55%
Everbright Huili USD Bond (光大滙利美元債)	2016	189.7	1.50%	90% of the returns in excess of an annualized rate of 5.4%
Everbright Global Flexibly Allocation (光大全球靈活配置型)	2011	38.9	1.85%	–
<i>Cash management scheme⁽⁴⁾</i>				
Everbright Sunshine Xian Jin Bao (光大陽光現金寶)	2012	7,509.0	0.70%	–
<i>Fund-linked Product⁽⁴⁾</i>				
Everbright Sunshine Ji Zhong Bao (Sunshine No. 2 II) (光大陽光基中寶(陽光2號二期))	2009	1,384.8	1.50%	–

- (1) As of March 31, 2016, we managed eight equity-linked CAM schemes. This table lists the top five in terms of AUM.
- (2) As of March 31, 2016, we managed ten fixed-income-linked CAM schemes. This table lists the top five in terms of AUM.
- (3) As of March 31, 2016, we managed 56 hybrid CAM schemes. This table lists the top five in terms of AUM.
- (4) As of March 31, 2016, we managed three QDII-linked CAM schemes, one currency-linked CAM scheme and one fund-linked CAM scheme.
- (5) A CAM scheme with multiple tranches for which we charge performance fees only for certain tranche(s).

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TAM

As of March 31, 2016, we managed 128 TAM schemes that invest in a broad range of asset classes, including equity and fixed-income products, money market instruments, trust schemes, short-term financing bills, asset-backed securities and derivatives. Our clients primarily include high-net-worth individuals, commercial banks, trust companies and other institutional investors. The management fees for our TAM schemes range between 0.01% and 0.3% of AUM.

In 2014, we launched “Zhi Ya Bao”, a TAM scheme that primarily invests in collateralized stock repurchase agreements. As of March 31, 2016, “Zhi Ya Bao” had a total AUM of approximately RMB12,828.0 million.

Our TAM schemes had a total AUM of RMB135,017.7 million, RMB154,135.3 million, RMB188,149.1 million and RMB203,452.2 million as of December 31, 2013, 2014 and 2015 and March 31, 2016, respectively, and generated management and incentive fees of RMB79.2 million, RMB160.8 million, RMB207.9 million and RMB19.6 million in 2013, 2014 and 2015 and the three months ended March 31, 2016, respectively.

SAM

We offer securitization products through SAM schemes. In 2014, the CSRC replaced the pre-launch approval system for SAM schemes with a post-launch filing scheme.

In August 2015, we structured, issued and distributed a securitization product with a credit rating of AA⁺ and a total AUM of approximately RMB560.0 million that invests in the receivables from heat supply services of a well-known heat supply company in northeast China. This securitization product comprises five tranches and has a duration of five years with one tranche maturing each year from 2015 to 2019. We charged management fees of 0.8% of its AUM for this securitization product.

In April 2016, we structured, issued and distributed a finance leasing asset-backed securitization product with a credit rating of AAA and a total AUM of approximately RMB190.0 million. This securitization product has a duration of one year. We charged management fees of 0.1% of the AUM of this securitization product.

Fund Management

Everbright Pramerica

In April 2004, we and PGIM jointly established Everbright Pramerica, which was one of the first Sino-foreign joint venture fund management companies in China. As of March 31, 2016, we held a 55% interest in Everbright Pramerica. Everbright Pramerica manages mutual funds and provides asset management services to high-net-worth individuals, commercial banks and other institutional investors. In 2013, 2014 and 2015 and the three months ended March 31, 2016, management fees generated by Everbright Pramerica were RMB364.4 million, RMB352.6 million, RMB409.2 million and RMB93.2 million, respectively.

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As of March 31, 2016, Everbright Pramerica managed 24 mutual funds with a total AUM of approximately RMB35 billion. Everbright Pramerica launched “Everbright Pramerica Quantitative Core Equity Fund” in 2004, which was the first quantitative investment fund in China. Everbright Pramerica has won numerous accolades and awards recognizing the outstanding performance of its fund products, including the following:

Product	Awards	Organizers/Media	Year
Everbright Pramerica Dynamically and Flexibly Selected Hybrid Securities Investment Fund (光大保德信動態優選靈活配置混合型證券投資基金)	Five-year Open-ended Hybrid Fund Golden Bull Award for Consistent Excellent Performance (五年期開放式混合型持續優勝金牛基金)	China Securities Journal (中國證券報)	March 2015
	Actively Managed Hybrid Star Fund With Five-year Consistent Returns (五年期持續回報積極混合型明星基金獎)	Securities Times (證券時報)	April 2015
	Golden Award for Five-Year Flexibly Allocated Funds (五年期靈活配置型金基金獎)	Shanghai Securities News (上海證券報)	April 2015
Everbright Pramerica Return Accretion Fixed-Income Investment Fund (光大保德信增利收益債券型投資基金)	Three-year Fixed-Income Golden Bull Fund Golden Fund (三年期債券型金牛基金)	China Securities Journal (中國證券報)	April 2013
	Golden Fund: Three-year Fixed-Income Fund Award (金基金：債券基金三年期獎)	Shanghai Securities News (上海證券報)	April 2013
Everbright Pramerica Hongli Equity Fund (光大保德信紅利股票型證券投資基金)	Star Equity Fund Award in 2012 (2012年股票型明星基金獎)	Securities Times (證券時報)	April 2013

In recognition of its excellent fund management capabilities, Everbright Pramerica was selected as the “Most Reliable Fund Company” (最值得信賴基金公司) by CNFOL.com (中金在線) in 2013 and “Top Ten Fund Companies in 2014” (2014年十佳基金公司) by the Chinese Securities Journal (中國證券報) in 2015.

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The table below sets forth certain information on the major outstanding mutual funds managed by Everbright Pramerica as of March 31, 2016:

Product name	Year of establishment	AUM (RMB in millions)	Annual management fees (percentage of AUM)	Risk profile
<i>Money market funds⁽¹⁾</i>				
Everbright Pramerica Xian Jin Bao (光大保德信現金寶)	2013	8,265.6	0.33%	Low
Everbright Pramerica Money Market Fund (光大保德信貨幣市場基金)	2005	6,141.5	0.33%	Low
Everbright Pramerica Yao Wallet (光大保德信耀錢包)	2015	426.6	0.27%	Low
<i>Equity-linked funds⁽²⁾</i>				
Everbright Pramerica Quantity Core Fund (光大保德信量化核心)	2004	3,273.0	1.5%	High
Everbright Pramerica SOE Reform Theme Fund (光大保德信國企改革主題)	2015	1,660.2	1.5%	High
<i>Hybrid funds⁽³⁾</i>				
Everbright Pramerica Advantage Allocation (光大保德信優勢配置)	2007	3,107.2	1.5%	Medium
Everbright Pramerica Dingxin Flexible Allocation (光大保德信鼎鑫靈活配置)	2015	3,066.9	0.8%	Medium
Everbright Pramerica Dividend (光大保德信紅利)	2006	2,010.1	1.5%	Medium
Everbright Pramerica Ruixin Flexible Allocation (光大保德信睿鑫靈活配置)	2015	1,056.9	0.6%	Medium

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Product name	Year of establishment	AUM (RMB in millions)	Annual management fees (percentage of AUM)	Risk profile
Everbright Pramerica Dynamic Selected Dynamic Asset Allocation (光大保德信動態優選靈活配置) . .	2009	956.4	1.5%	Medium
<i>Fixed-income funds⁽⁴⁾</i>				
Everbright Pramerica Year-end Dividend Pure Bond (光大保德信歲末紅利純債)	2014	1,089.4	0.6%	Low
Everbright Pramerica Enhanced Yield (光大保德信增利收益)	2008	420.3	0.6%	Low
Everbright Pramerica Zun Shang One Year Open-ended (光大保德信尊尚一年定期開放) . .	2015	281.2	0.5%	Low
Everbright Pramerica Credit Tianyi (光大保德信信用添益)	2011	224.7	0.7%	Low
<i>Short-term wealth management fund⁽⁵⁾</i>				
Everbright Pramerica Tian Tian Ying Monthly Wealth Management Fixed-income-linked (光大保德信添天盈月度理財 債券型).	2012	531.4	0.25%	Low

(1) As of March 31, 2016, Everbright Pramerica managed three money market mutual funds.

(2) As of March 31, 2016, Everbright Pramerica managed two equity-linked mutual funds.

(3) As of March 31, 2016, Everbright Pramerica managed 14 hybrid mutual funds. This table lists the top five in terms of AUM.

(4) As of March 31, 2016, Everbright Pramerica managed four fixed-income mutual funds.

(5) As of March 31, 2016, Everbright Pramerica managed one short-term wealth management mutual fund.

As of March 31, 2016, Everbright Pramerica managed 42 asset management schemes with a total AUM of approximately RMB11 billion. Drawing upon its extensive experience in quantitative investment, Everbright Pramerica has also launched several asset management schemes focused on quantitative hedge investments to meet the investment needs of high-net-worth clients. In 2008, Everbright Pramerica obtained QDII qualification to invest funds raised in China in overseas capital markets.

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Everbright Pramerica sells its fund products and asset management products primarily through our securities brokerage network, banks and third party fund distributors. Everbright Pramerica also closely collaborates with Internet companies to expand its distribution channels. For example, in October 2013, Everbright Pramerica and China UnionPay Merchant Services, a wholly-owned subsidiary of China UnionPay, jointly launched Tian Tian Fu, an online asset management platform through which merchants with UnionPay accounts in China can invest in money market funds managed by Everbright Pramerica.

Dacheng Fund

Established in April 1999, Dacheng Fund was one of the first ten CSRC-approved fund companies in the PRC. As of March 31, 2016, we held a 25% interest in Dacheng Fund. As of March 31, 2016, Dacheng Fund managed 66 mutual funds with a total AUM of over RMB72.3 billion. Dacheng Fund provides asset management services primarily to high-net-worth individuals, insurance companies, finance companies and the China Securities Investors Protection Fund. It is also the domestic investment manager for the NSSF. Dacheng Fund invests funds raised in China in overseas capital markets through QDII schemes and funds raised in Hong Kong in PRC capital market, through QFII and RQFII schemes. In 2013, 2014 and 2015 and the three months ended March 31, 2016, management fees generated by Dacheng Fund were RMB855.0 million, RMB780.0 million, RMB1,008.0 million and RMB180.7 million, respectively.

Private Equity Investment

Everbright Capital

We engage in private equity investments as a principal in China primarily through our wholly-owned subsidiary, Everbright Capital. Everbright Capital invests in companies with proven business models, attractive valuations and growth potential. As of March 31, 2016, Everbright Capital had made 37 private equity investments as a principal and had successfully exited from 13 investments, including six exit through IPOs and seven exits through repurchases or equity interest transfers. For example, in 2013, Everbright Capital exited its investment in Guangdong Huasheng Electrical Appliances Co., Ltd through an IPO and achieved a return on investment of approximately 164.6%. It also achieved a return on investment of approximately 1,294.0% by selling its interest in Jiangxi Holitech Technology Co., which was backdoor listed in 2014.

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The following table sets forth the number of companies invested by Everbright Capital as a principal and its total investment amount for the periods indicated:

	Year ended December 31,			Three months ended March 31,
	2013	2014	2015	2016
Investment Amount (RMB in millions) ⁽¹⁾	3.5	542.5	388.5	200.0
Number of Newly-invested Portfolio Companies as a principal	1	3	9 ⁽³⁾	1 ⁽⁴⁾
Number of Exited Investments	1	2	7	–
Income from Investment (RMB in millions) ⁽²⁾	12.6	17.1	384.6	8.5

- (1) Represents investments made during the relevant year/period.
(2) Represents return on investments exited during the relevant year/period.
(3) Includes a subscription of RMB2.5 million in new shares issued by a portfolio company .
(4) Includes a subscription of new shares issued by a listed company in a follow-on offering.

We also manage private equity funds through Everbright Capital. For example, Everbright Ivy (Shanghai) Investment Center (Limited Partnership) invests in companies listed or to be listed on the NEEQ and had a total committed capital of RMB185.0 million as of March 31, 2016; Shanghai Everbright Sports and Culture Investment LLP invests in state-owned or leading sports and culture companies and had a total committed capital of RMB201.9 million as of March 31, 2016. Everbright Capital has also formed other private equity funds to invest in companies in the software, Internet, logistics, and culture and entertainment industries. In March 2016, Everbright Capital formed an M&A fund with a total committed capital of RMB5.2 billion with Baofeng Group Co., Ltd. Everbright Capital contributed RMB60 million to the fund as a limited partner. Everbright Jinhui Investment Management (Shanghai) Co., Ltd. a wholly-owned subsidiary of Everbright Capital, acts as the general partner of the fund. In May 2016, the fund acquired a 65% stake in MP & Silva Holding SA, an Italy-based sports media rights firm.

We also form and manage public-private partnership (“PPP”) funds through EBS Fund Management Co., Ltd., a subsidiary of Everbright Capital. EBS Fund Management Co., Ltd. formed and is currently managing a PPP fund that invests in urban renewal projects in Kunming with a total committed capital of RMB5.0 billion as of March 31, 2016. It is also in the process of forming another PPP fund with a total committed capital of RMB10.0 billion to invest in reform of supply of transitional shelters.

Alternative Investment

Everbright Fortune

In September 2012, we established our alternative investment platform, Everbright Fortune. Everbright Fortune primarily engages in quantitative hedging, commodity futures arbitrage, alcoholic beverage underwriting and private equity investments.

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The senior management team of Everbright Fortune has on average over 10 years of experience in securities investment. The general manager of Everbright Fortune was named “Best Financial Engineering Analyst” by New Fortune. Investment and trading team employees of Everbright Fortune have on average over seven years of experience in securities investment.

Overseas Business

Building on our success in China, we established EBSHK in November 2010 to spearhead our overseas operations.

EBSHK operates various business lines in Hong Kong through ESIL and SHKFGL. See “— Hong Kong Operations”.

EBSHK also serves as our overseas financing and investing platform. Through EBSHK, we may make strategic overseas investments and raise debt in the international markets to finance our business operations and acquisitions. For example, on August 27, 2015, Double Charm Limited, a wholly-owned special purpose subsidiary of EBSHK, issued US\$450 million of 2.88% bonds due 2018. EBSHK also holds 50% interest in Everbright Leasing, which operates in the Shanghai Free Trade Zone.

Hong Kong Operations

Through EBSHK, we acquired a 51% interest in ESIL in May 2011 and the remaining 49% interest in ESIL in June 2016. As a result of the acquisition, ESIL became a wholly-owned subsidiary of EBSHK. In June 2015, through EBSHK, we acquired a 70% interest in SHKFGL and appointed four out of the six directors of SHKFGL. We believe the EBSHK-nominated directors’ extensive experience in the PRC securities market and familiarity with the needs of PRC clients enhances the ability of SHKFGL to serve increasing client needs for cross-border financial services, and promote the synergies between our business lines in China and Hong Kong in respect of customer resource sharing and referral of cross-border business opportunities. See “History, Development and Corporate Structure — Major Acquisition during the Track Record Period — Acquisition of a Majority Interest in SHKFGL” for details regarding our acquisition of SHKFGL.

ESIL

We provide a broad range of services through ESIL, including brokerage and sales, investment banking, asset management and research services to clients in Hong Kong.

- *Brokerage and sales:* ESIL provides brokerage and sales services for a variety of securities and financial products on the global capital markets, including stocks, bonds, futures, options, foreign currency and ETFs. It also offers margin financing and securities lending services in Hong Kong. ESIL had over 37,900 brokerage clients as of March 31, 2016, as compared with over 20,900 as of December 2013. In the three months ended March 31, 2016, the stock trading volume of ESIL’s brokerage clients was HK\$9,313.0 million. As of March 31, 2016, the balance of deposits of ESIL’s futures brokerage clients was HK\$1,672.0 million.

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- *Investment banking:* ESIL offers corporate clients a variety of corporate finance and financial advisory services through its wholly-owned subsidiaries China Everbright Capital Limited and China Everbright Securities (HK) Limited, primarily including equity underwriting, pre-IPO financing services, financial advisory services and post-listing compliance advisory services. China Everbright Capital Limited acted as the sole sponsor for the Hong Kong IPO of China Aircraft Leasing Group Holdings Limited in 2014, which was the first aircraft leasing company to be listed in Hong Kong. It also acted as sole sponsor for the Hong Kong IPO of IGG INC, which was one of the largest listings on the Hong Kong GEM Board in 2013. It also sponsored the Hong Kong IPO of Everbright Bank in 2013, raising aggregate proceeds of approximately HK\$26.3 billion. During the Track Record Period, ESIL lead-underwrote 22 IPOs in Hong Kong, raising aggregate proceeds of approximately HK\$52 billion, and provided financial advisory services to 23 Hong Kong-listed companies during the Track Record Period.
- *Asset management:* Through its wholly-owned subsidiaries China Everbright Securities (HK) Limited and China Everbright Securities Asset Management Limited, ESIL manages investment portfolios and funds for retail clients, high-net-worth individuals and institutional clients. As of March 31, 2016, ESIL had a total AUM of HK\$4,286.0 million. In 2011, EBSHK obtained RQFII qualification to invest offshore RMB funds in the PRC securities market.
- *Research:* ESIL provides research reports on macro-economy, industry trends, stock and bond markets and specific companies to institutional clients, and also provides research support to our other business lines. As of March 31, 2016, ESIL provided research coverage of 33 Hong Kong-listed companies.

In 2013, 2014, 2015 and the three months ended March 31, 2016, ESIL generated revenue and other income of HK\$372.7 million, HK\$362.0 million, HK\$483.2 million and HK\$69.4 million, respectively, and net profit of HK\$70.7 million, HK\$45.4 million and HK\$75.2 million in 2013, 2014 and 2015, respectively, and net loss of HK\$4.0 million in the three months ended March 31, 2016. The revenue and other income and net profit/(loss) of ESIL were extracted from the consolidated unaudited management accounts of ESIL prepared under Hong Kong Financial Reporting Standards.

Our reporting accountants have performed certain agreed-upon procedures for the above consolidated unaudited financial data based on the Hong Kong Standard on Related Services 4400 — Engagements to Perform Agreed-upon Procedures Regarding Financial Information. These agreed-upon procedures include:

- Agreeing the consolidated unaudited revenue and other income, and net profit of ESIL for the years ended December 31, 2013, 2014 and 2015 to the respective consolidated unaudited management accounts;
- Agreeing the consolidated unaudited revenue and other income, and net loss of ESIL for the three months ended March 31, 2016 to the consolidated unaudited management accounts;

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- Agreeing each line item in the consolidated unaudited management accounts for the years ended December 31, 2013, 2014, 2015 and for the three months ended March 31, 2016 to their respective accounting books and records;
- Checking the mathematical accuracy of the consolidated unaudited management accounts for the years ended December 31, 2013, 2014, 2015 and for the three months ended March 31, 2016; and
- Obtaining schedules from management setting forth interest income from margin financing by clients, securities brokerage commission by departments, corporate finance advisory fee income by clients, asset management fee income by each asset management scheme for the years ended December 31, 2013, 2014, 2015 and for the three months ended March 31, 2016; agreeing the total amounts on these schedules to the respective consolidated unaudited management accounts.

SHKFGL

Founded in 1969, SHKFGL is one of the most well-known brokerage and wealth management service providers in Hong Kong. SHKFGL provides diversified and customized financial services to retail, corporate and institutional clients through its subsidiaries. In recognition of its outstanding performance, SHKFL, a subsidiary of SHKFGL, was selected as the “Best Broker in Hong Kong” by Finance Asia for several consecutive years.

Wealth Management & Brokerage

SHKFGL provides securities brokerage services, margin financing services and portfolio and mutual fund management services through its subsidiaries. In 2013, 2014 and 2015 and the three months ended March 31, 2016, the average stock and fund trading volume of SHKFGL’s brokerage clients was HK\$5.0 million, HK\$5.7 million, HK\$8.1 million and HK\$2.1 million, respectively. As of March 31, 2016, the closing balance of SHKFGL’s margin loan was approximately HK\$4 billion, and its total assets under management was approximately HK\$82 billion.

SHKFGL has a large client base and a broad branch network in Hong Kong and Macau. As of March 31, 2016, SHKFGL had over 82,000 brokerage clients and 4 branches.

As of March 31, 2016, SHKFGL had over 310 professional investment advisors who provide customized investment advice to help clients optimize asset allocation.

SHK Online (Securities) Limited was incorporated in 2000, making it one of the securities brokers in Hong Kong to provide one-stop online transaction execution and information services. SHKFGL also operates SHK Direct, an online platform through which clients can trade securities, futures and options and access real-time financial information and investment advice.

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Capital Market Services

SHKFGL offers a broad range of capital market services through its subsidiaries to corporate and institutional clients, primarily including equity and debt underwriting, financial advisory services, M&As and corporate restructurings services, private equity investments, equity research and sales.

During the Track Record Period, SHKFGL participated in 18 HK IPOs, seven stock placements and one bond placements through its subsidiary, raising aggregate proceeds of approximately HK\$75 billion.

Insurance Advisory Business

Through its subsidiary Sun Hung Kai Insurance Consultants Limited, SHKFGL provides professional insurance advisory services to individual and corporate clients, including general liability insurance, property insurance, employee welfare benefits, personal insurance, engineering insurance and professional liability insurance.

SHKFGL had revenue and other income of HK\$606.3 million and net profit of HK\$77.3 million during the period between June 2, 2015 (when we began to consolidate SHKFGL's financial results) and December 31, 2015, and revenue and other income of HK\$207.5 million and net profit of HK\$27.0 million in the three months ended March 31, 2016. The revenue and other income and net profit of SHKFGL were extracted from the consolidated unaudited management accounts of SHKFGL prepared under Hong Kong Financial Reporting Standards.

Our reporting accountants have performed certain agreed-upon procedures for the above consolidated unaudited financial data based on the Hong Kong Standard on Related Services 4400 — Engagements to Perform Agreed-upon Procedures Regarding Financial Information. These agreed-upon procedures include:

- Agreeing the consolidated unaudited revenue and other income, and net profit of SHKFGL for the period from June 2, 2015 to December 31, 2015 and for the three months ended March 31, 2016 to the respective consolidated management accounts;
- Agreeing each line item in the consolidated unaudited management accounts for the period from June 2, 2015 to December 31, 2015 and for the three months ended March 31, 2016 to their respective accounting books and records;
- Checking the mathematical accuracy of the consolidated unaudited management accounts for the period from June 2, 2015 to December 31, 2015 and for the three months ended March 31, 2016; and
- Obtaining schedules from management setting forth securities brokerage commission by departments for the period from June 2, 2015 to December 31, 2015 and for the three months ended March 31, 2016; agreeing the total amounts on these schedule to the respective consolidated unaudited management accounts.

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Spin-off of Hong Kong Operations

We intend to spin off our Hong Kong operations, including the businesses currently operated by ESIL and SHKFGL as well as any other Hong Kong business that we may acquire, through a listing on the Hong Kong Stock Exchange that we expect to occur between January 1, 2017 and June 1, 2018. We believe the proposed spin-off will enable us to raise capital to fund the expansion of our Hong Kong business, and enhance the profile of our Hong Kong platform among overseas investors, business partners and clients.

The proposed spin-off will be subject to compliance with all applicable requirements of the Hong Kong Listing Rules including, without limitation, PN 15, unless otherwise waived by the Hong Kong Stock Exchange. We have applied for, and the Hong Kong Stock Exchange has granted us, a waiver from the strict compliance with certain requirements set out in PN 15. For details of the waiver, see “Consents and Waivers from Strict Compliance with the Hong Kong Listing Rules — Waiver in Relation to the Three-year Restriction for Spin-off under Practice Note 15 of the Hong Kong Listing Rules”.

The following tables set forth our unaudited adjusted combined income statements for the three months ended March 31, 2016 and unaudited adjusted combined balance sheet as of March 31, 2016 which are prepared on the basis that ESIL and SHKFGL were accounted for as associates under the equity method. They have been derived from our audited consolidated income statements for the three months ended March 31, 2016 and audited consolidated balance sheet as of March 31, 2016, with adjustments (1) to back out all income statements items and balance sheet items in the unaudited management accounts of ESIL and SHKFGL and certain consolidation adjustments made in preparing our audited consolidated financial statements; (2) to record our respective share of profit of ESIL and SHKFGL for the three months ended March 31, 2016 under the equity method as share of profit of associates in the unaudited adjusted combined income statements, and (3) to record our respective net assets in the unaudited management accounts of ESIL and SHKFGL as of March 31, 2016 as interests in associates under the equity method. The unaudited adjusted combined income statements and unaudited adjusted combined balance sheet below are not prepared in accordance with IFRS.

	Three months ended March 31, 2016		
	Actual	Adjustments	As Adjusted
	(RMB in millions)		
Revenue			
Fee and commission income	1,706.6	(138.3)	1,568.3
Interest income	1,324.1	(78.1)	1,246.0
Net investment gains	149.7	5.4	155.1
Total revenue	3,180.4	(211.0)	2,969.4
Other income and gains	39.7	(14.9)	24.8
Total revenue and other income	3,220.1	(225.9)	2,994.2

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Three months ended March 31, 2016

	Actual	Adjustments	As Adjusted
	(RMB in millions)		
Fee and commission expenses	(282.4)	40.9	(241.5)
Interest expenses	(1,090.6)	13.5	(1,077.1)
Staff costs	(571.2)	79.1	(492.1)
Depreciation and amortisation expenses	(97.7)	50.8	(46.9)
Business tax and surcharges	(123.0)	–	(123.0)
Other operating expenses	(259.3)	63.1	(196.2)
Provision for impairment losses	(28.8)	0.3	(28.5)
Total expenses	(2,453.0)	247.7	(2,205.3)
Operating profit	767.1	21.8	788.9
Share of profit of associates	7.8	(9.8)	(2.0)
Profit before income tax	774.9	12.0	786.9
Income tax expense	(151.2)	(5.8)	(157.0)
Profit for the period	623.7	6.2	629.9
Attributable to:			
Shareholders of the Company	619.9	–	619.9
Non-controlling interests	3.8	6.2	10.0
Total	623.7	6.2	629.9

As of March 31, 2016

	Actual	Adjustments	As Adjusted
	(RMB in millions)		
Non-current assets			
Property and equipment	874.8	(26.5)	848.3
Goodwill	1,404.2	(1,394.8)	9.4
Other intangible assets	835.0	(771.1)	63.9
Interest in associates and JV	887.2	4,963.4	5,850.6
Available-for-sale financial assets	7,724.2	(4.1)	7,720.1
Held-to-maturity investment	128.9	(128.9)	–
Financial assets held under resale agreements	1,315.1	–	1,315.1
Refundable deposits	5,402.1	(21.8)	5,380.3
Deferred tax assets	253.1	–	253.1
Other non-current assets	3,179.1	(10.8)	3,168.3
Total non-current assets	22,003.7	2,605.4	24,609.1

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	As of March 31, 2016		
	Actual	Adjustments	As Adjusted
	(RMB in millions)		
Current assets			
Accounts receivable	3,370.4	(1,852.5)	1,517.9
Other receivables and prepayments . .	4,031.3	297.1	4,328.4
Margin accounts receivable	31,645.1	(4,440.0)	27,205.1
Available-for-sale financial assets . . .	7,773.9	–	7,773.9
Financial assets held under resale agreements	5,383.5	–	5,383.5
Financial assets at fair value through profit or loss	32,865.2	(299.0)	32,566.2
Derivative financial assets	152.7	–	152.7
Clearing settlement funds	81.8	–	81.8
Cash held on behalf of brokerage clients	64,048.7	(8,476.0)	55,572.7
Cash and bank balances	19,959.5	(846.5)	19,113.0
Total current assets	169,312.1	(15,616.9)	153,695.2
Total assets	191,315.8	(13,011.5)	178,304.3
Current liabilities			
Loans and borrowings	3,400.7	(928.2)	2,472.5
Short-term debt instruments issued .	797.5	–	797.5
Placements from other financial institutions	500.0	–	500.0
Financial liabilities at fair value through profit or loss	235.5	–	235.5
Accounts payable to brokerage clients	67,840.5	(10,005.0)	57,835.5
Employee benefits payable	1,945.5	(63.0)	1,882.5
Other payables and accruals	20,766.4	(500.0)	20,266.4
Current tax liabilities	1,388.1	(20.6)	1,367.5
Financial assets sold under repurchase agreements	18,328.7	–	18,328.7
Derivative financial liabilities	402.9	–	402.9
Long-term bonds	12,995.5	–	12,995.5
Total current liabilities	128,601.3	(11,516.8)	117,084.5
Net current assets	40,710.8	(4,100.1)	36,610.7
Total assets less current liabilities . . .	62,714.5	(1,494.7)	61,219.8

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	As of March 31, 2016		
	Actual	Adjustments	As Adjusted
	(RMB in millions)		
Non-current liabilities			
Loans and borrowings	2,026.9	(908.3)	1,118.6
Long-term bonds	18,846.6	–	18,846.6
Deferred tax liabilities	352.1	(98.0)	254.1
Financial assets sold under repurchase agreements	–	–	–
Financial liabilities at fair value through profit or loss	–	979.1	979.1
Other non-current liabilities	1,923.1	(1,690.1)	233.0
Total non-current liabilities	23,148.7	(1,717.3)	21,431.4
Net assets	39,565.8	222.6	39,788.4
Equity			
Share capital	3,906.7	–	3,906.7
Reserves	24,635.1	1,680.2	26,315.3
Retained profits	9,085.6	–	9,085.6
Total equity attributable to shareholders of the Company	37,627.4	1,680.2	39,307.6
Non-controlling interests	1,938.4	(1,457.6)	480.8
Total equity	39,565.8	222.6	39,788.4

The adjusted profit in the unaudited adjusted combined income statements was higher than the profit in the audited consolidated income statements, mainly due to the offsetting of amortization charges of the intangible assets, which arise from the fair value adjustments of ESIL and SHKFGL's identifiable assets and liabilities at the acquisition by the Company, against the net losses of HK\$4.0 million of ESIL and net profits of HK\$27.0 million of SHKFGL from their respective consolidated unaudited management accounts for the three months ended March 31, 2016. These adjustments were accounted for from the Company's perspective in both the unaudited adjusted combined income statements and audited consolidated income statements. The profit attributable to shareholders of the Company was the same under both unaudited adjusted combined income statements and the audited consolidated income statements.

Accounting for ESIL and SHKFGL using the equity method would not materially affect our financial results during the Track Record Period.

Following the proposed spin-off, assuming no pre-IPO investments, a minimum public float of 25% and no exercise of any over-allotment option, and taking into consideration the possible exercise of the put option and reinvestment right by Sun Hung Kai in respect of all of its shares in SHKFGL, we expect to remain as the majority shareholder of the proposed spin-off entity. To further ensure this, we will undertake not to permit any pre-IPO investments prior to the proposed spin-off if it is completed on or before June 1, 2018. For further details of the put option and reinvestment right, see "History, Development and Corporate Structure — Major Acquisition during the Track Record Period — Acquisition of a Majority Interest in SHKFGL".

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By way of illustration, based on the net asset ratio of 1:2.22 between ESIL and SHKFGL as at December 31, 2015, and assuming no exercise of the put option by Sun Hung Kai, our Company will retain 59.49% interest in the proposed spin-off entity immediately following the proposed spin-off. In the event that the put option is exercised in full by Sun Hung Kai, our Company's interest in the proposed spin-off entity will increase to 75%. In the event that Sun Hung Kai exercises its reinvestment right following an exercise of the put option in full, our Company will retain 59.49% interest in the proposed spin-off entity.

We believe the proposed spin-off will not materially prejudice the interest of our shareholders because:

- the proposed spin-off will not materially impact our financial results because the contribution of ESIL and SHKFGL to our financial results during the Track Record Period was immaterial and we expect to continue to consolidate the proposed spin-off entity's financial results after the proposed spin-off. See "Appendix I — Accountants' Report — Segment Reporting" for the financial results of our overseas business during the Track Record Period.
- although the proposed spin-off entity will operate independently from us after the proposed spin-off, as we expect to remain the majority shareholder of the proposed spin-off entity, we will continue to control the development of our Hong Kong business after the proposed spin-off.
- our Shareholders at the time of the proposed spin-off will have the option to subscribe for shares in the proposed spin-off entity in accordance with paragraph 3(f) of PN15 of the Hong Kong Listing Rules.

We plan to continue to develop our Hong Kong business to capitalize opportunities arising from the increasing globalization of China's economy, businesses and capital markets and to expand our footprint in the global market.

Since our acquisition of SHKFGL, we have continued to integrate the financial service platforms of SHKFGL and ESIL to better serve our clients' needs for integrated domestic and overseas financial services:

- to streamline the ownership of our Hong Kong business so as to facilitate the consolidation of our Hong Kong business into the proposed spin-off entity, we have embarked on the restructuring of the shareholding of ESIL and SHKFGL. Our intention is that the proposed spin-off entity, which will hold ESIL and SHKFGL, will be owned by the existing respective shareholders of ESIL and SHKFGL. As part of this shareholding restructuring, we, through EBSHK, acquired the remaining 49% interest in ESIL from Action Globe Limited in June 2016. We plan to continue the remaining shareholding restructuring in the second half of 2016; and
- the board of directors of SHKFGL consists of six directors and our Company, through EBSHK, is entitled to nominate four of those directors. We believe that the EBSHK-nominated directors' extensive experience in the PRC securities markets and familiarity with the needs of PRC clients enhance the ability of SHKFGL to

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serve increasing client needs for cross-border financial services and the integration of our offshore and onshore businesses.

We plan to further integrate SHKFGL and ESIL through the following ways:

- to further integrate SHKFGL's wealth management platform and provide clients with comprehensive wealth management services through our integrated onshore and offshore wealth management platform;
- to expand our overseas investment banking business and build an integrated onshore and offshore investment banking platform to better meet client demand for domestic and overseas investment banking services;
- to integrate the IT systems of ESIL and SHKFGL, including stock trading and settlement, account management, data centers and disaster recovery; and
- to streamline and integrate the respective rules and procedures on compliance and risk management of ESIL and SHKFGL. For example, we plan to review the rules and procedures on compliance and risk management of the overlapping businesses of ESIL and SHKFGL and harmonize these policies to the extent possible while remain in compliance with the regulatory requirement. In addition, we also plan to merge the departments responsible for compliance and risk management of ESIL and SHKFGL into a centralized department in future.

MAJOR CLIENTS

We serve diverse clients across a broad range of sectors. Our major clients include individuals (especially affluent individuals), corporations, institutional investors and financial institutions. Our clients are primarily located in China, but we expect to serve more overseas clients as we expand our overseas operations.

In 2013, 2014 and 2015 and the three months ended March 31, 2016, income generated from our top five clients accounted for less than 30% of our total revenue and other income.

We have no major suppliers due to the nature of our businesses.

COMPETITION

Competition in the financial services industry in China has been and is likely to remain intense. As of December 31, 2015, there were 125 registered securities firms in China. Our major competitors are other securities firms. We also compete with other financial institutions, including fund managers, commercial banks, insurance companies and trust companies. We compete on many fronts, including market penetration, range of products and services, price, innovation, marketing and sales channels, transaction execution capacity, reputation and employee compensation.

We have experienced intense price competition in some of our businesses in recent years. For example, our commission rates have declined in recent years due to the increasing

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popularity of online platforms and new policies allowing individuals to open multiple trading accounts with multiple securities firms. We believe that we will continue to experience downward pricing pressure in the future as some of our competitors seek to win market share through competitive pricing.

We also face competition in attracting and retaining talent. The competition among large securities firms for sponsor representatives, financial advisors, investment managers, researcher analysts and IT experts is intense. Our ability to continue to compete effectively will depend on our ability to retain and motivate our existing talent and attract new talent.

EMPLOYEES

As of the Latest Practicable Date, we had a total of 8,247 employees. The table below sets forth a breakdown of our employees by function as of the same date:

	<u>Number of Employees</u>	<u>Percentage (%)</u>
Principal Businesses	7,167	86.9
Finance	152	1.8
Risk Management	39	0.4
Legal and Compliance	54	0.7
Information Technology	203	2.5
Others	632	7.7
Total	<u>8,247</u>	<u>100.0</u>

As of the Latest Practicable Date, 8,245 employees were based in the PRC (including 891 in Hong Kong and 19 in Macau) and the other 2 were based in Australia. As of the same date, approximately 71.3% of our employees held a bachelor's or higher degree.

Our full-time employees participate in various employee benefit plans including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance, maternity insurance and housing provident funds. Our employment agreements generally specify employees' responsibilities, remuneration and grounds for termination.

We have established a labor union in accordance with PRC laws and regulations. We believe that we have a good relationship with our employees. As of the Latest Practicable Date, we had not experienced any labor strikes or other labor disturbances that materially impaired our business, operation or reputation.

INFORMATION TECHNOLOGY

Information technology has changed and will continue to change the ways that securities and other financial products are marketed, traded, distributed and settled. This creates both opportunities and challenges for our business. We are committed to the ongoing development, maintenance and use of information technology in our business activities. We expect technology developments to greatly improve client service quality through increased connectivity and the provision of customized value-added products and services. We also expect technology developments to improve our trading, execution and clearing capabilities, effectively manage our risks and improve our overall efficiency and productivity.

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We are committed to staying at the forefront of technology innovation in the PRC securities industry. We have developed state-of-the-art IT systems encompassing finance, trading, synergy, internal control, risk management, human resources and client service. In addition, we also plan to integrate the IT systems of ESIL and SHKFGL, including stock trading and settlement, account management, data centers and disaster recovery.

We place a high priority on business continuity and information security. We have adopted a series of measures to manage the risks associated with using information technology in our business and operations, including:

- formulating contingency plans to provide reasonable assurance of business continuity and information security in the event of disruptions at critical facilities.
- conducting semi-annual security drills and fire-tuning contingency plans based on deficiencies identify.
- establishing a multi-tiered disaster recovery system at three data centers in Shanghai and Shenzhen allowing for high-speed switching between principal and backup systems for our core businesses during emergencies.
- applying safeguards to maintain confidentiality, integrity and availability of information resources, including firewalls, anti-virus measures, data encryption, user identify verification and authorization, SSL certificates, IP and MAC address tracking and intrusion prevention and detection.
- regularly examining system vulnerabilities, fortifying and repairing host operating system and strengthening the security of the operation system to prevent intrusion.
- utilizing security control, authorization and access log to ensure the completeness, reliability and confidentiality of operational and financial data.

INSURANCE

We currently maintain property insurance coverage for our headquarters and branches. All of our policies are underwritten with reputable insurance providers and we review our insurance policies annually. Our Shareholders have approved and we are in the process of negotiating liability insurance for our directors, supervisors and senior management. We believe that our insurance coverage is adequate and standard compared to securities firms based in the PRC.

PROPERTIES

Our corporate headquarters are located at No. 1508 Xinzha Road, Jing'an District, Shanghai, the PRC. As of March 31, 2016, we owned 46 properties with an aggregate gross floor area of approximately 69,492.8 square meters and leased 220 properties with an aggregate gross floor area of approximately 151,510.1 square meters in the PRC. As of the same date, we had leased 18 properties with a total lettable area of approximately 167,773 square feet in Hong Kong, one property with a total lettable area of approximately 2,969 square feet in Macau, and one property as office space with a lettable area of approximately 247 square feet in Australia.

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As of March 31, 2016, no single property accounted for 15% or more of our total assets by book value. Our Directors believe this prospectus to be exempt from compliance with the provisions of Chapter 5 of the Hong Kong Listing Rules and Section 342(1)(b) of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance requiring all interests in land or buildings to be included in a valuation report as described in paragraph 34(2) in the Third Schedule to the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Owned Properties

As of March 31, 2016, we owned 46 properties in the PRC with an aggregate gross floor area of approximately 69,492.8 square meters:

- We have obtained valid building ownership certificates for 35 properties with a total gross floor area of approximately 67,581.9 square meters. We have been advised by King & Wood Mallesons, our PRC legal advisors, that we have legal ownership of these properties and land use rights for the land we occupy, and that none of these properties were subject to mortgage, seizure or other third party interests. Therefore, we have the right to occupy, use, transfer, lease, mortgage or otherwise dispose of these properties.
- We have been allocated title to two properties with a total gross floor area of approximately 1,241.9 square meters, or approximately 1.8% of the aggregate gross floor area of our properties, for which we have not completed the procedures for transfer or lease of land use rights. We use these two properties as office space. Our Directors are of the view that, because of the limited size of these two properties relative to the total size of all our properties, and because we would be able to find substitute premises in similar locations if we cannot continue to use these properties due to these defects, failure to complete the procedures for the transfer or lease of land use rights will not materially and adversely impact our operations. King & Wood Mallesons, our PRC legal advisors, have advised us that we will not be subject to any material sanctions as a result of these defects.
- Due to historical issues, we have not obtained building ownership certificates and land use permits for nine of our occupied properties with a total gross floor area of 669.1 square meters, or approximately 1.0% of the aggregate gross floor area of all our properties. We use these nine properties as staff quarters. Our Directors are of the view that, because of the limited size of these nine properties relative to the total size of all our properties, and we would be able to find substitute premises in similar locations if we cannot continue to use these properties due to these defects, failure to obtain building ownership certificates and land use permits for these properties will not materially and adversely impact our operations. King & Wood Mallesons, our PRC legal advisors, have advised us that we will not be subject to any material sanctions as a result of these defects.

We have not been required by any government authority or other person to discontinue the use of, or pay fines or other damages with respect to, properties with title defects upon which we conduct business operations. Our Directors believe that these properties with

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defective title are not crucial to, and will not have any material impact on, our operations because (1) we have obtained valid building ownership certificates and land use permits for the majority of our owned properties, (2) we have been advised by King & Wood Mallesons, our PRC legal advisors, that we can continue to lawfully occupy and use such owned properties, (3) the majority of our securities and future brokerage branches are located on leased properties, and (4) if necessary, we would be able to replace these properties.

Leased Properties

As of March 31, 2016, we had leased a total of 220 properties in the PRC with an aggregate lettable area of approximately 151,510.1 square meters, which are primarily used for business and office purposes. These leased properties include:

- 185 properties with a total gross floor area of 125,817.6 square meters, the lessors of which were able to provide valid building ownership certificates or other title certificates. Our Directors confirm that we are using these leased properties for the purposes permitted under the lease agreements. We have been advised by King & Wood Mallesons, our PRC legal advisors, that these leases are legal and valid.
- 35 properties with a total gross floor area of 25,692.5 square meters, or approximately 17.0% of the aggregate gross floor area of all the properties we lease, the lessors of which are unable to provide title certificates. King & Wood Mallesons, our PRC legal advisors, have advised us that we will not be subject to any material sanctions as a result of these defects.

Among these 220 leased properties, we have filed the lease agreements in accordance with PRC law for four properties, with a total gross floor area of 1,061.3 square meters, but have yet to file the lease agreements for the remaining 216 properties, with a total gross floor area of 150,448.8 square meters. King & Wood Mallesons, our PRC legal advisors, believe that failure to file these lease agreements will not affect the validity of the lease agreements and that we are still entitled to use these leased properties in accordance with the lease agreements. King & Wood Mallesons have advised us that the failure to file the lease agreements will not subject us to any material sanctions.

Our Directors are of the view that the irregularities described above will not have a material adverse impact on our operations, because (1) the affected properties are leased and, therefore, we do not bear any potential legal liability in respect of the defective titles, (2) the size of the affected properties is limited relative to the total size of all our leased properties, and we believe we or our branches would be able to relocate to new business premises as necessary without a material adverse impact on our operations and financial position, and (3) King & Wood Mallesons, our PRC legal advisors, have confirmed that we have the right to bring actions against lessors of these properties with defective title under the leases to recover losses we suffer as a result of such defective title.

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Overseas Properties

As of March 31, 2016, ESIL leased eight properties in Hong Kong with a total lettable area of 53,022 square feet. Among these, ESIL uses six leased properties with a lettable area of 52,252 square feet as office space and two leased properties with a lettable area of 770 square feet as staff quarters.

As of the same date, SHKFGL leased 10 properties in Hong Kong with a total lettable area of approximately 114,841 square feet. All ten leased properties are used as office space. SHKFGL also leased one property in Macau as office space with a lettable area of approximately 2,969 square feet and one property in Australia as office space with a lettable area of approximately 247 square feet.

MANAGEMENT OF LIQUIDITY AND LEVERAGE RATIO

Management of our liquidity and leverage ratio is a key component of our risk management and critical to the success of our business. We have established a comprehensive liquidity risk management system to identify, measure, monitor and control potential liquidity risk and to maintain our liquidity in accordance with applicable laws and regulations.

We have established a multi-tiered authorization mechanism and internal policies for the management and approval of the use and allocation of capital. We have set up an Assets and Liabilities Committee to review and approve investment and finance decisions.

We take into consideration multiple factors to forecast cash flows and estimate our funding requirements for normal business operations and contingencies. We meet our funding requirements primarily through inter-bank borrowing and repurchase transactions. We have also adopted stringent liquidity management measures to ensure we satisfy net capital requirements. We stress test our overall liquidity and other financial indicators regularly and before engaging in any major business activities. These policies have enhanced the effectiveness of our liquidity management and improved the efficiency of our capital allocation.

In addition to liquidity management, we also actively manage our capital structure and financing channels. Our leverage ratio management is focused on controlling liquidity risk and increasing the rate of return on net assets by reducing our financing costs. We have expanded and will continue to expand our debt finance channels and optimize our capital structure through refinancings, issuances of subordinated bonds, structured notes and other debt financing instruments. In addition, we have entered into strategic partnerships with many medium-sized and large-sized commercial banks to consolidate our funding channels.

RISK MANAGEMENT

We firmly believe that effective risk management and internal control are critical to our success. We have established comprehensive risk management and internal control processes to monitor, evaluate and manage our exposure to the risks associated with our various businesses.

Risk Management Structure

We have established a four-level risk management system comprised of our Board and risk management committee, management and subordinate professional committees, internal risk management departments and risk management personnel in revenue-generating business departments.

Board and Risk Management Committee

Our Board is at the top of our risk management and internal control governance structure and is responsible for supervising, inspecting and evaluating risk management.

Under our Board, we have established a risk management committee that carries out risk management tasks as authorized by our Board. Our Risk Management Committee consists of two non-executive Directors and three independent non-executive Directors, all of whom have economics, management or finance-related education background. Among these five members, two of them have over ten years of work experience in financial or assets appraisal industries, two of them are finance or accounting professors of well-known universities in China, and one of them serves as a director of a number of PRC-listed companies, and the chairman of the audit committee and a member of the risk management committee of a well-known PRC fund management company. See “Directors, Supervisors and Senior Management” for details of the Risk Management Committee.

The main responsibilities of the risk management committee include:

- reviewing and making recommendations on the objectives of and policies for compliance and risk management;
- reviewing and making recommendations on the organizational structure and responsibilities of internal divisions responsible for compliance and risk management;
- reviewing and making recommendations on the risks of major Board decisions and management of these risks;
- reviewing and making recommendations on compliance and risk assessment reports which require Board approval; and
- reviewing risk management and internal control duties and internal approval functions.

Management and Subordinate Professional Committees

Our management is responsible for implementing risk management and risk tolerance as approved by our Board, and for formulating an evaluation system for risk management performance.

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Professional Committees

Under our management, we have established professional committees, including a risk management committee, assets and liabilities committee and compliance committee.

Risk Management Committee

Our risk management committee is comprised of senior management responsible for risk management and the heads of our legal and compliance, risk management, internal audit, planning and finance, capital markets and credit business departments. The primary responsibilities of our risk management committee include:

- assisting management in reviewing various risk management systems;
- formulating risk management preferences and risk limit control systems, and reviewing contingency plans for if we materially exceed risk limits;
- identifying and assessing the risks of innovative business;
- reviewing material risk management and financial valuation models; and
- reviewing stress test plans, test reports and corresponding measures.

Our risk management committee meets periodically at least twice a year to review matters subject to its approval and convenes ad hoc meetings to review specific matters at the request of committee members. We have also established a stress test working group and options risk working group under the risk management committee to carry out stress tests and review risk limits for options.

Assets and Liabilities Committee

Our assets and liabilities committee is comprised of our president, senior management of investment and finance, chief risk officer and chief compliance officer. Our assets and liabilities committee is responsible for setting the limits as approved by the Board for our investments, credit business and asset management business. It is also responsible for allocating funds and making proposals for major investment and financing projects. The assets and liabilities committee meets quarterly and on an ad hoc basis at the request of committee members in the event of sudden changes in market conditions and temporary working capital needs.

Compliance Committee

Our compliance committee is comprised of our chief compliance officer and staff from our legal and compliance, planning and finance and risk management departments. Under the leadership of the chief compliance officer, the compliance committee is responsible for reviewing and advising on internal management systems, major decisions and new products and businesses.

Chief Risk Officer

Our chief risk officer is responsible for promoting the establishment of a comprehensive risk management system and risk management procedures, formulating risk management policies, overseeing the effectiveness of daily risk management and reporting on risk management performance to the chairman of the Board and the president.

Our chief risk officer is nominated by the president and appointed by the Board. Mr. Wang Yong, the current chief risk officer, has over 20 years of experience in the finance industry.

Chief Compliance Officer

Our chief compliance officer formulates compliance policies, oversees compliance in our day-to-day operations and reports to our chairman and president on internal compliance. Ms. Chen Lan, our current chief compliance officer, has over 17 years of experience in the securities industry.

Internal Departments Assuming Risk Management Functions

We have established the following departments, which are independent from revenue-generating business departments, to perform internal control and risk management functions in our day-to-day operations and report to our Board and senior management on the implementation of risk management procedures and internal control policies:

- *Risk management department:* our risk management department is responsible for identifying, monitoring, evaluating and reporting on the risks associated with our daily business and operations. It also formulates detailed work procedures relating to managing different types of risks. Under the leadership of the risk management department, we have established specific groups to monitor and manage market risk, credit risk, operational risk and liquidity risk. Our risk management department adopts measures to conduct real-time monitoring and evaluation of day-to-day risks, including formulating risk exposure limits, establishing a quantitative risk evaluation model, conducting quantitative assessment and on-site examination and reporting on the implementation of our risk management policies to senior management. The department prepares risk management reports on a daily, quarterly and annual basis and issues our annual risk assessment report.
- *Legal and compliance department:* our legal and compliance department is responsible for developing rules and systems for and supervising and evaluating compliance. Additionally, the department organizes and implements anti-money laundering and Chinese walls, and handles complaints and reports on compliance violations by us and our staff.
- *Internal audit department:* our internal audit department performs independent audits of business operations, financial performance, corporate governance and internal control procedures of our departments, branches and subsidiaries. As

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authorized by management, our internal audit department also organizes and implements internal control evaluations, reports major issues to management and supervises remedial actions.

- *Planning and finance department:* our planning and finance department implements financing plans and manages proprietary funds to ensure that we timely satisfy liquidity requirements and meet external payment obligations.
- *IT department:* our IT department is responsible for ensuring the proper function of IT systems as well as the security, completeness and accuracy of IT data.
- *General office:* our general office is responsible for managing reputational risks by monitoring media coverage and formulating emergency procedures.

Revenue-generating Business Departments

Our business departments and branches have independent risk control personnel that supervise risk management and submit risk incident reports to the internal departments responsible for risk management. As of the Latest Practicable Date, we had 116 risk management officers at our branches and nine risk management managers at our headquarters. Each branch's operations director concurrently serves as its compliance officer, and designated staff members carry out compliance functions at branches without an operations director. The head of each internal department at our headquarters appoints a mid-level or senior manager to fulfill compliance duties. Employees responsible for compliance duties supervise compliance in our day-to-day operations and submit compliance reports to the legal and compliance department periodically or on an ad hoc basis.

Monitoring and Management of Major Risks

We focus on monitoring and managing our credit, market, liquidity, operational, compliance and legal risks.

Credit Risk

Credit risk refers to potential losses resulting from the failure of an issuer or counterparty to perform its obligations under a contract, or arising from variations in the market value of debts due to changes in credit ratings. We manage our credit risks primarily through the following measures:

- We have established a credit risk authorization management system to ensure that all departments and branches perform their operations as authorized. The assets and liabilities committee reviews and approves the scale of our businesses, the authorization procedures for each business and major investments authorized by the Board.
- We have implemented "Know Your Client" due diligence and client screening procedures that focus on client creditworthiness and credit enhancement measures.

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- We have developed and continuously optimize internal ratings models to measure the default risk of various counterparties.
- We have set credit risk limits for our credit businesses and counterparties, and review and adjust credit limits on a regular basis. We also closely monitor maintenance margin ratios and collateral coverage ratios for credit businesses and promptly report extraordinary trading activities by clients to relevant departments for further action.
- Our risk management department submits periodic credit risk management reports and special reports to management and the chief risk officer.
- We perform stress tests to assess potential losses in extreme circumstances and adjust our asset portfolios when necessary to ensure the security of our capital. We continually fine-tune our stress test model as needed.
- When offering Internet-financial services, we carefully select third-party payment platforms and only cooperate with those with strong capabilities, good reputation and solid internal control systems. We require these third-party payment platforms to deposit client funds into an account independently monitored by an approved bank. We also monitor the account management and anti-money laundering efforts of the banks.
- Everbright Yichuang is required to conduct a comprehensive due diligence on the issuers of the wealth management products sold on its Internet finance platform to better understand their background, management teams, businesses, operations and financial performance. It categorizes clients based on an assessment of their return and risk tolerance preferences, and only recommends and sells wealth management products to suitable clients based on their financial sophistication and risk profile.

Market Risk

Market risk refers to potential loss in value of our trading and investing positions resulting from changes in market or regulatory conditions, including equity price risk, interest rate risk and exchange rate risk.

We seek to maintain our market risk exposure within Board-determined risk tolerance levels. We have adopted the following measures to minimize market risk exposure:

- We evaluate market risk exposure in our trading portfolio, taking measures such as VaR and stress tests.
- Our risk management department monitors risk indicators in real-time, alerts business departments of irregular fluctuations and, when necessary, requires them to take immediate corrective action. The risk management department reports to management on core market risk limit indices on a daily basis, quantitative assessments of market risk on a quarterly basis and specific assessments of market risk and stress test results on an ad hoc basis.

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- We implement market risk limits at all operational levels, including trading limits, single security investment limit, long and short exposures, Greeks and basis point value. We also periodically review and adjust market risk limits to reflect changes in our business performance, risk tolerance levels, stress and scenario test results and changes in market conditions.
- We adopt mark-to-market measures, establish take-profit and stop-loss mechanisms and formulate standards and procedures for take-profit and stop-loss in connection with our investment portfolio. When the unrealized profit or loss approaches the predetermined level, an alert will be issued to the relevant business departments requiring reduction of the risk exposure level.
- We use various financial instruments such as stock index futures to hedge our exposure to the market risks associated with our investments.
- Our risk management department is responsible for selecting, adjusting, testing and re-testing our market risk measurement model.
- In situations that could result in extreme market risks, our business departments and departments responsible for risk management immediately report to the chief risk officer, chief compliance officer and management. Our assets and liabilities committee is responsible for formulating contingency plans to address extreme market risks.

Liquidity Risk

Liquidity risk refers to the potential failure to obtain sufficient funds at a reasonable cost to pay debts as they come due and satisfy our capital requirements. We have taken measures to manage liquidity risk and ensure that we are able to satisfy our liquidity requirements. These measures primarily include:

- We have specified liquidity risk preferences and normal liquidity levels, and set liquidity risk limits for all business departments based on our financial condition and access to financing.
- Our planning and finance department coordinates the sourcing of capital, collects information regarding business departments' capital requirements, formulates and implements financing strategies, analyzes our cash flow, matches assets to liabilities and oversees liquidity risk contingency plans.
- We continuously monitor liquidity risk using risk indicators such as our funding gap, liquidity coverage ratio and net stable funding ratio.
- Our risk management department and planning and finance department jointly set and adjust liquidity risk monitoring indicators and limits in accordance with liquidity management policies. The risk management department also assesses the conversion of other risks into liquidity risk.

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- We regularly run liquidity risk stress tests and use the results to set liquidity risk preferences and risk limits, and develop business development and contingency plans.
- We maintain a liquidity risk contingency plan and detailed emergency procedures to ensure that we can meet our liquidity needs under emergency circumstances.

Operational Risk

Operational risk refers to potential losses resulting from improper operation or operational errors in executing transactions. Operational risk mainly includes procedure risk, system risk, human source risk and external risk. We manage our operational risks primarily through the following measures:

- We analyze and monitor key risk indicators and alert management as needed to enable them to take prompt action to prevent or minimize losses resulting from operational risk.
- We have an operational risk management system that assists in controlling and evaluating operational risk. Risk management personnel at our business departments work with our risk management department to monitor operational risk on a daily basis.
- Our business departments use operational risk indicators in our system to monitor exposure to operational risk in real-time and identify irregularities.
- We provide regular training to our employees to enhance their compliance awareness and operational risk management capabilities.

Compliance Risk

Compliance risk refers to potential losses resulting from legal sanctions, regulatory measures and loss of property or reputational damage due to violations of laws, regulations and our internal rules and procedures. We manage, control and prevent compliance risks primarily through the following measures:

- We have established an internal compliance audit system to identify and evaluate compliance risks in our internal management systems, major decisions and proposals for new products and businesses, make recommendations on compliance matters and issue compliance audit reports.
- We have a compliance review mechanism to monitor the activities and practices of departments, branches, subsidiaries and employees to identify compliance risks, make recommendations on compliance matters and monitor the adoption of remedial measures.

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- We regularly assess each department, branch and employee to evaluate daily compliance management and use the results to refine our compliance rules and regulations.
- We establish Chinese walls to control dissemination of sensitive information, prevent insider trading and manage conflicts of interests.
- We provide training to our employees to enhance their compliance awareness and develop a culture of compliance.
- We have an employee accountability system that helps ensure effective compliance management by imposing punishments for violations of laws, regulations and internal policies.
- We monitor regulatory changes and industry practices to ensure the consistency of our internal rules and policies with applicable laws and regulations.
- We maintain an anti-money laundering management mechanism to ensure significant and suspicious transactions are identified and reported on a timely basis.

Legal Risk

Legal risk refers to potential economic loss or damage to our reputation resulting from breaches of contracts, infringements of third party rights and violations of applicable laws and regulations. We manage and minimize legal risk primarily through the following measures:

- We maintain standard forms for business contracts and, to the extent possible, require our business departments to use these forms.
- We monitor changes to laws and regulations and continually update our internal rules and policies to ensure that our operations satisfy legal and regulatory requirements.
- When we are involved in disputes and litigation, we take active steps to mitigate legal risks and, as needed, engage experienced outside counsel.
- We provide regular legal training to our employees to increase awareness of legal requirements and the current regulatory landscape.

Risk Management and Internal Control Measures for Our Principal Businesses

Brokerage and Wealth Management

Securities Brokerage and Wealth Management

The primary risks faced by our securities brokerage and wealth management business include credit risk, operational risk and compliance risk. We manage these risks primarily through the following measures:

*Know Your Client,
client screening and
evaluation of client
risk tolerance*

We have established comprehensive “Know Your Client” and client screening procedures to verify client identities to prevent money laundering and terrorist financing and evaluate client risk tolerance to recommend and sell suitable financial products to them.

Our principal measures to verify client identities include:

- imposing strict rules regarding client identify verification, preservation of information and examination of client accounts both before and after account opening.
- making efforts to gather information on clients and their actual controlling shareholders and beneficiaries to better understand their background, operations, activities and source of assets, and adopting stricter identification measures to profile clients with a higher likelihood of engaging in money laundering and terrorist financing.
- engaging banks and third-party payment platforms with strong anti-money laundering systems to assist us with client identity verification.
- tailoring client account management and screening procedures to facilitate the use of online channels for clients of our Internet brokerage services. For example, we implement multi-layer client screening procedures in our online brokerage business pursuant to which (1) we require clients to upload their identity documents before opening an online account; (2) our account managers interview clients via video-conference to verify their identity and intention to open an account with us; and (3) our securities brokerage branches review and verify clients’ identification documents and interview records.

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Our principal measures to manage client suitability include:

- assessing clients' risk tolerance and evaluating risk profiles based on a combination of factors, such as financial condition, investment experience and investment preferences.
- using a risk tolerance assessment system and risk tolerance questionnaire to assess the risk tolerance of clients and recommend suitable financial products.
- interviewing clients in person or in the case of online clients, via video conference, to better understand their risk profiles.
- requiring clients to meet the relevant suitability requirements for different types of online trading activities. For example, we require clients to pass a test on investment knowledge before allow them to trade securities online under the Shanghai-Hong Kong Stock Connect.

*Risk Ratings of
Financial Products*

Before launching new financial products, we assign risk ratings to these products based on a combination of factors, such as the nature of the underlying assets, creditworthiness of the issuer and likelihood of losses. We recommend financial products of different risk ratings to clients with appropriate risk tolerance and risk profiles.

*Third party
background
investigation*

We perform background investigations on third party financial institutions (including on their management, quality and historical performance) and comprehensive analyzes of their financial products.

*Centralized
management*

We have established a centralized client transaction and clearing service platform at our headquarters to settle and clear client funds.

*Third-party custody of
client trading
settlement funds*

We deposit client trading settlement funds in a special central deposit account with a bank approved by the regulator strictly in accordance with regulatory requirements and client instructions. Clients may deposit or withdraw funds via bank-security transfer as we and our operations department no longer provide cash deposit and withdrawal services to clients. We report data on client funds to regulators on a daily basis. To prevent improper trading, we also prohibit sales and marketing personnel and back-office employees from managing client accounts or handling client deposits.

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<i>Segregation of front and back offices</i>	We separately supervise and manage our front and back offices. We have a dedicated internal control team to oversee the compliance of our brokerage activities. The internal audit, settlement and risk management employees in our back office are prohibited from participating in sales and marketing activities.
<i>Real-time monitoring system</i>	Our IT systems enable us to monitor client transactions on a real-time basis and detect unusual or unlawful trading activities. We have dedicated employees who monitor account opening, security of funds and client trading activities.
<i>Segregation of business departments with conflict of interests</i>	Our securities brokerage business department is segregated from other business departments with conflicts of interests, such as research and proprietary trading departments. The IT system for our securities brokerage business is independent of and physically segregated from those of departments with conflicts of interest. We also maintain the confidentiality of sensitive information within our securities brokerage business.
<i>Investor education</i>	We provide regular investor education at our securities brokerage branches and on our website.
<i>Client services</i>	Our dedicated client service team responds promptly to client complaints received through channels such as hotlines, emails and representatives at securities brokerage branches.
<i>Internal audits</i>	Our internal audit department, risk management department and legal and compliance department conduct internal audits of the operations, internal controls, financial management, risk management and regulatory compliance of our brokerage branches.
<i>Staff training</i>	We provide regular training to employees on the suitability of products and require them to sell clients appropriate financial products with sufficient disclosure.

Futures Brokerage

We operate our futures brokerage through our wholly-owned subsidiary, Everbright Futures, which has established a comprehensive corporate governance and risk management system. The risk control committee of Everbright Futures is the highest decision-making authority for compliance and risk management matters and reports to the board of directors of Everbright Futures. The risk control committee is comprised of the general manager, chief risk officer, deputy general managers and heads of internal departments of our futures subsidiaries. The risk control committee is responsible for Everbright Futures' risk management system, with responsibilities that include:

- establishing the risk management system for Everbright Futures, including formulating the goals, policies and organizational structure for risk and compliance management;

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- reviewing the organizational structure and responsibilities of professional committees in charge of risk and compliance management;
- setting risk control index thresholds and standards;
- evaluating and dealing with material risk events;
- reviewing the risks associated with innovative business; and
- developing a corporate culture of compliance and risk management.

Everbright Futures also has a chief risk officer who reports to the board of directors of Everbright Futures. The chief risk officer is responsible for overseeing and reviewing day-to-day compliance with laws and regulations and for implementing risk management policies. Led by the chief risk officer, the internal audit department of Everbright Futures performs internal compliance audits and reviews daily operations and management. Each internal department and branch has a compliance officer who assists the internal audit department in carrying on compliance reviews and audits.

Everbright Futures manages the risks associated with its daily operations primarily by the following methods:

<i>Management of account opening</i>	We carefully evaluate client risk profiles to determine eligibility before accepting applications for account opening. We also require employees to fully inform clients of the risks associated with futures trading.
<i>Management of client margin deposit</i>	We require our clients to place margin deposits as collateral for their settlement obligations. We segregate client margin deposits from our own funds and manage them separately in order to avoid misappropriation of client funds. We closely monitor client margin deposit ratios and adjust such ratios based on ongoing evaluation of client creditworthiness and market conditions. Clients are required to provide additional margin deposits or close out some or all open contracts if they cannot maintain the required margin deposit ratio.
<i>Trading management</i>	Our policies regulating futures trading prohibit employees from entering into non-compliant entrustment arrangements, engaging in futures trading, and guaranteeing or exaggerating trading profits.
<i>Real-time monitoring</i>	We monitor client trading activities in real-time, focusing on high-risk accounts and irregular or suspicious trading activities.

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Credit Businesses

Margin Financing and Securities Lending

Our margin financing and securities lending business is exposed to credit risks when the value of collateral provided by clients may be insufficient to fully cover their borrowings. We have established a real-time monitoring system to manage net capital and control the scale of our margin financing and securities lending business based on pre-determined parameters. Our key pre-determined parameters include:

- business from any single margin financing client may not exceed 5.0% of our net capital, with a warning threshold of 4.0%;
- business from any single securities lending client may not exceed 5.0% of our net capital, with a warning threshold of 4.0%; and
- the market value of any single stock received as collateral from our clients may not exceed 20.0% of such stock's total market capitalization, with a warning threshold of 16.0%.

We have adopted the following measures to manage the risks associated with our margin financing and securities lending business:

<i>Client screening</i>	We only provide margin financing and securities lending services to clients who meet minimum eligibility requirements, including (1) at least six months of continuous trading experience with us, and (2) average daily securities assets during the recent 20 trading days of at least RMB500,000. We have also established a uniform credit system to evaluate each client based on credit profiles, risk awareness, risk tolerance and risk management capabilities.
<i>Risk disclosure</i>	Before accepting applications to open credit accounts, we fully inform clients of the risks associated with margin financing and securities lending.
<i>Ongoing evaluation of client's creditworthiness</i>	We monitor the creditworthiness of margin financing and securities lending clients on an ongoing basis and re-evaluate their eligibility as circumstances require.
<i>Managing maintenance margin ratio</i>	We give top-up reminders to margin financing and securities lending clients when their maintenance margin ratio falls below 150.0% but remains above 130.0% upon day-end clearing. We require closure of open positions when a client's maintenance margin ratio falls below 130.0% and the client does not add sufficient collateral on the next trading day.
<i>Risk limit standard</i>	On an annual basis, our risk control committee formulates risk limit approval standards for our margin financing and securities lending activities.

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We have also established a multi-tiered internal control and risk management system for our margin financing and securities lending business, which primarily comprises the following:

The board of directors Our board of directors establishes or authorizes management to establish the management framework for our margin financing and securities lending business. The board of directors also determines the organizational structure and responsibilities of internal departments relating to our margin financing and securities lending business. The board of directors authorizes management to determine the scale of our margin financing and securities lending business.

Management committee of credit businesses The management committee of our credit businesses, is responsible for determining development policies, business scale and related risk control indexes (such as client margin deposit ratios and maintenance margin ratios) within the framework set by the board of directors.

Risk management department Our risk management department is responsible for formulating risk management policies and procedures, conducting real-time monitoring, setting and monitoring risk indexes, compiling risk reports and proposing corresponding control measures for our margin financing and securities lending business.

Internal audit department Our internal audit department conducts internal audits on the implementation of risk management policies and measures associated with our margin financing and securities lending business and issues periodic internal audit reports.

Legal and compliance department Our legal and compliance department is responsible for compliance review and supervision of the margin financing and securities lending business, as well as the implementation of Chinese walls.

Credit business department Our credit businesses is responsible for form contracts for margin financing and securities lending, approving account opening, credit management and marking to market.

Financial Leasing

The risk management committee, established under the general manager of Everbright Leasing, is responsible for formulating risk management policies and supervising and guiding the implementation of these policies at Everbright Leasing. Under the risk management committee is the credit approval committee. The chief risk officer of Everbright Leasing is primarily responsible for supervising and monitoring compliance with laws and regulations, the implementation of risk management policies and reporting relevant matters to the general manager. Led by the chief risk officer, the risk management department of Everbright Leasing is in charge of implementing risk management policies, credit review, compliance and asset management.

Institutional Securities Service

Investment Banking

We manage the market, credit, operational and compliance risks associated with our investment banking business primarily through the following measures:

- Project initialization* Our project teams conduct preliminary due diligence reviews in connection with each project and prepare preliminary due diligence reports. The quality control department of the investment banking department is responsible for reviewing and commenting on project initialization materials. The project team modifies or supplements project initialization materials in response to the review. A project must be approved by a two-thirds vote of attendees at a meeting convened to review the proposal.
- Project implementation* Project teams are responsible for project execution, including ongoing due diligence, training and preparation of materials to be submitted to regulators. Project teams record each completed task and properly file all working papers. The project manager is responsible for ensuring the accuracy and completeness of application materials.
- Preliminary review* The quality control department conducts a preliminary review of application materials, attends on-site due diligence and reviews working papers prepared by the project team. The quality control department identifies potential material risks or issues and issues written review opinions. The relevant project teams are required to timely respond to inquiries raised in review opinions.
- Internal review* After project teams have responded to written review opinions, the quality control department organizes internal meetings to further review and discuss various aspects of a project and decide whether such project can pass internal review. Members of the internal review committee appointed by the legal and compliance department and risk management committee have veto rights. The project teams are required to timely resolve all issues identified during the discussions and implement suggested measures.
- Regulatory review* After application materials are submitted to the regulators, the sponsor representatives in charge of the project carry out ongoing due diligence and promptly report any newly identified material issues to internal departments for further action. Project teams are responsible for responding to enquiries from regulators on application materials.

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Ongoing supervision and guidance

In respect of equity offering projects, project teams are responsible for providing ongoing supervision and guidance to issuers, including providing regular training, on-site inspection and submitting working papers on ongoing supervision to regulators from time to time. Project teams are required to promptly report material issues identified to relevant internal departments for further action.

Proprietary Trading

We engage in market-making and proprietary trading of a wide range of equities and fixed-income products, including stocks, bonds, funds, trust products, asset management products, options and futures. We are exposed to operational, market, credit, liquidity and compliance risks associated with our trading activities. We carefully select eligible equities for our proprietary trading based on research and also rely on independent third party ratings of debt securities before making investment decisions.

Our Board reviews and approves our overall risk preference and loss tolerance levels on an annual basis. We have established various risk limits to manage our market risk exposure within the board-authorized risk preference and loss tolerance limits. These risk limits include:

- *Trading limits:* we use trading limits to control the net capital used in our proprietary trading business and to manage the risk exposure of our directional investment. In 2016, in compliance with the relevant regulatory requirements, our Board has set the respective trading limits for fixed-income and equity (including derivatives) trading at 150% and 80% of our total net capital. In determining these trading limits, we take into account various factors, including regulatory requirements, historical trading limits, the macro-economic environment, the expected performance of capital markets and our specific business strategies;
- *Single security investment limit:* we set limits on the ratio of our investment in a single security to our total risk exposure to manage the risk exposure of our investment in a single security;
- *Long and short exposures:* we set limits on the net exposure of our arbitrage trading to manage the market risk exposure of our arbitrage activities;
- *Greeks:* we set limits on the Greeks, such as Delta, of our option trading to keep the market risk exposure of options and hedged investment portfolio within a reasonable range; and
- *Basis point value:* in order to manage our interest risk exposure, we set limit on the maximum change in the value of our bond and fixed-income derivatives investment portfolio per basis point change in interest rate.

In addition, we conduct periodic and ad hoc stress tests to manage our risk exposure.

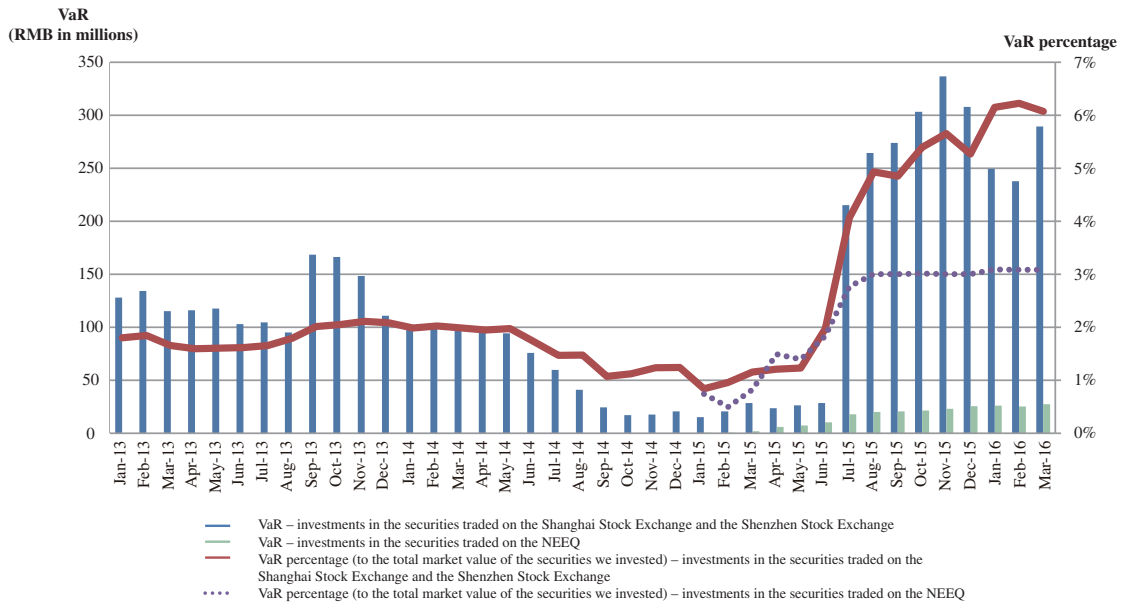
- We measure the changes in our profitability and risk indicators (including net capital) under different stress scenarios, and report the test results to the risk management committee for review.

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- We also conduct stress tests for potential losses from the market risk of our proprietary trading portfolio when the stock market plummets rapidly. We report the test results to the management on a daily basis through daily risk information reports.

We do not set VaR limits for our investment portfolio but instead manage the risk exposure by closely monitoring the daily VaR fluctuations. The chart below sets forth our VaRs and VaR percentages by risk categories as of the end of each month during the Track Record Period:

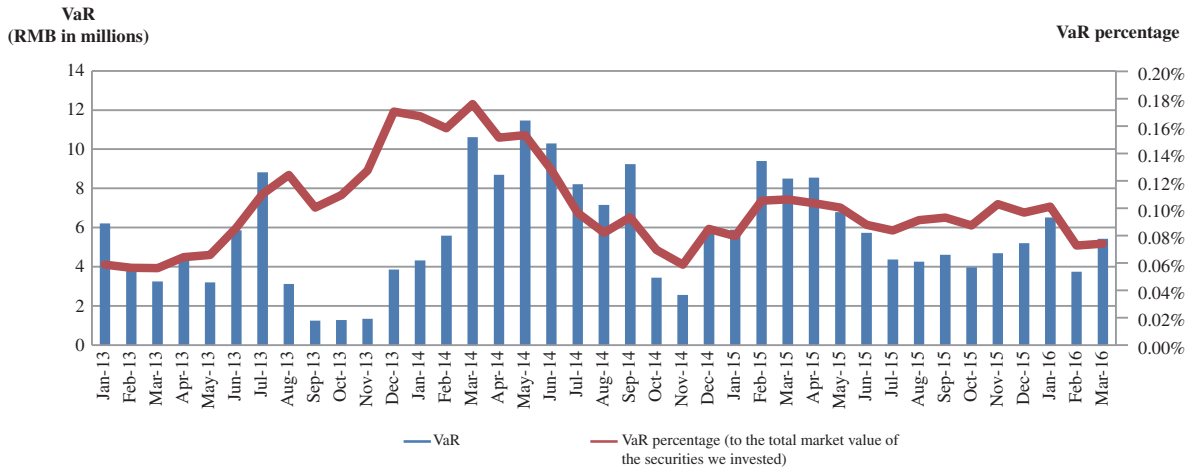
**Monthly VaR Chart
(price-sensitive)**



- (1) The increase in the VaR and VaR percentage for our investments in securities traded on the Shanghai and Shenzhen Stock Exchanges in July 2015 primarily reflected our increased equity investments and the market volatility.

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Monthly VaR Chart (interest-rate-sensitive)



We have established a four-level risk management system and classified limit system to manage the risks associated with our proprietary trading activities.

The board of directors The board of directors, the highest decision-making body, determines the size of our proprietary trading business and risk preference based on a variety of factors.

Senior management Our senior management determines the limits on each business department so that our overall proprietary trading and risk preference profile comply with the parameters prescribed by our board of directors.

Assets and liabilities committee The assets and liabilities committee reviews asset allocation policies and investment categories and determines the limits on the size and risk exposure of proprietary trading by each business department so that our overall investment portfolio complies with the policies authorized by the board of directors.

Risk management committee The risk management committee reviews the trading limits for specific transactions, including limits on bond ratings and sensitivity-based and concentration-based trading limits. It also authorizes our chief risk officer to approve excess over these trading limits. The chief risk officer reviews applications for adjusting the trading limit for a specific transaction based on a combination of factors, including the impact on our overall risk preference and tolerance, prevailing market conditions and the nature of the underlying assets. If any trading limit is inadvertently exceeded by a business department, the department is required to take immediate remediation measures as soon as practicable and to report the inadvertent breach and remedial measures to the chief risk officer.

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*Risk management
department*

The risk management department is responsible for formulating proposals relating to risk indicators and their limits based on the types of investment and business strategies, which become effective upon our internal approval. The business departments are required to control the risks associated with daily operations within the approved limits, and the risk management department dynamically monitors the implementation of risk tolerance by the business departments. When a specific limit approaches the pre-determined level, the risk management department will issue an alert to the business departments, report the alert to management and require the business departments to report the remedial actions they intend to take. The risk management department also closely monitors the remedial actions taken by the business departments and report the results to management.

In addition, the risk management department assesses and manages market risk by monitoring the daily VaR fluctuations for our investment portfolio. Based on the model it determines, the risk management department calculates the VaR for our investment portfolio and reports the results to the management. When an abnormal fluctuation in VaR occurs, the risk management department will promptly liaise with the business departments to address the fluctuation and report the event to management.

*Departments
responsible for
proprietary trading*

The departments responsible for proprietary trading (1) execute trading within authorized limits, (2) maintain our trading portfolio, (3) manage and adjust our risk exposure within authorized limits and conduct real-time supervision of compliance, dynamic changes to risks and utilization of risk limits, and (4) adopt mark-to-market measures, establish take-profit and stop-loss mechanisms, and formulate standards and procedures for take-profit and stop-loss.

*Planning and finance
department*

The planning and finance department reviews applications for and allocates funding within the investment amount limits set by the assets and liabilities committee while managing our liquidity risk.

We adopt different measures to minimize the risks associated with our investment in different types of securities:

For equity securities:

- We carefully select eligible equity securities and maintain a list of securities that we may exclusively invest in.

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- We establish various risk control indicators and apply scenario analyzes, stress tests and sensitivity analyzes to determine and manage our risk exposure in equity securities investment.
- We set the limit for our equity trading at a certain percentage of our total net capital and renew the limit on a yearly basis.
- We adopt mark-to-market measures and establish stop-loss mechanism in connection with our investment in equity securities. We set the maximum loss tolerance for our equity trading. When the actual loss approaches 80% of the maximum loss tolerance, our risk management department will alert the business departments to the risk. When the actual loss approaches 90% of the maximum loss tolerance, our risk management department will re-alert the business departments and require them to take prompt actions to reduce risk exposure and report the measures adopted to the risk management department.

For fixed-income securities:

- We carefully select eligible fixed-income securities for our proprietary trading based on a combination of factors, such as the industry, business model, financial performance and credit rating of the issuers, and the credit enhancement and support mechanisms.
- We set the limit for our trading of fixed-income securities at a certain percentage of our total net capital and renew the limit on a yearly basis.
- We set the limit on the basis point value of our fixed-income securities investments to manage our interest rate risk.
- We set the limit on the credit rating of the fixed-income securities eligible for investment. We principally invest in fixed-income securities rated no less than AA grade.
- We have established stop-loss mechanism in connection with our investment in fixed-income securities. We set the maximum loss tolerance for our trading in fixed-income securities. When the actual loss approaches 80% of the maximum loss tolerance, our risk management department will alert the business departments to the risk. When the actual loss approaches 90% of the maximum loss tolerance, our risk management department will re-alert the business departments and require them to take prompt actions to reduce risk exposure and report the measures adopted to the risk management department.

For derivatives:

- We set trading limits on the aggregate investments in each type of derivatives and on each type of derivative contracts.

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- We use a variety of financial instruments to hedge our exposure to the market risks associated with our investments in derivatives, including stocks, stock index futures, treasury bond futures, stock options and ETFs.
- We set the limits on the net value and sensitivity for our arbitrage trading. Our risk management department evaluates arbitrage strategies adopted by the business departments and requires them to explain abnormal investments and take appropriate measures to address them.

In addition, we manage the risks associated with gold trading by setting limits on investment position, amount of funds invested and the daily and annual maximum loss tolerance.

Investment Management

Asset Management

We conduct our asset management business through our wholly-owned subsidiary Everbright Asset Management, which has its own corporate governance structure and risk management system. Everbright Asset Management supervises, manages and evaluates its exposure to loss of capital, credit risk and legal risk primarily through the following measures:

<i>Investment decision making process</i>	The asset management decision committee formulates investment policies and guidelines for our investment management business, including investment strategies and restrictions. Leveraging our sophisticated research capabilities, we have also identified an approved pool of securities that investment managers may exclusively invest in.
<i>Client suitability and risk disclosure</i>	Everbright Asset Management evaluates our clients' assets and incomes, risk profiles, investment experience and investment preferences in order to offer them suitable and tailored asset management products. Marketing personnel must fully inform clients of the scope and restrictions on investments, risk-return characteristics, and the risks associated with asset management products prior to entering into asset management agreements.
<i>Management of trading activities</i>	Everbright Asset Management designates different personnel to place and execute trade orders. Compliance and risk management personnel set thresholds for risk indicators in the trading systems and monitor risk exposure on a real-time basis using our IT system. Investment managers place orders through the trading system, which automatically blocks orders above authorized limits.
<i>Management of clients assets</i>	Client assets are deposited with qualified commercial banks or other custodian institutions recognized by regulators in accordance with applicable laws and regulations.

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<i>Segregation of businesses</i>	Duties that may generate conflicts of interest, such as investment decision making, trade execution, accounting and settlement and clearing, are segregated.
<i>Real-time risk monitoring</i>	Our real-time risk monitoring system supervises, monitors, identifies and reports irregularities and non-compliance incidents in trade execution.
<i>Launch of new products</i>	Before launching and marketing new asset management products, compliance personnel and the risk and performance management department review product structure, promotional brochures, offering circulars and sales agreements to ensure compliance with applicable laws and regulations.

Private Equity Investment

We engage in private equity investment and management of private equity funds through our wholly-owned subsidiary Everbright Capital, which has its own investment committee responsible for reviewing and approving investment projects and ensuring investments are within authorized limits.

Everbright Capital has adopted a series of rules and policies concerning the selection of investment projects, due diligence review, investment and exit strategies, investment decisions and execution, post-investment management and exit. It has also set up Chinese walls to prevent insider trading and conflicts of interest. Everbright Capital has established a multi-layered internal controls and risk management system, including:

<i>The board of directors</i>	Any investment above the authorized limit of the investment committee must be reviewed and approved by the board of directors of Everbright Capital.
<i>Investment committee</i>	The investment committee is responsible for formulating investment and exit policies, and making investment decisions within the authorized limits set by the board of directors. The aggregate amount invested by Everbright Capital in a single project cannot exceed 20% of Everbright Capital's registered capital.
<i>Risk management committee</i>	The risk management committee is responsible for identifying, assessing and managing various risks associated with private equity investment.
<i>Quality management department</i>	The quality management department formulates detailed risk management rules and policies and analyzes, monitors and assesses the implementation of risk management policies.

Alternative Investment

We engage in alternative investment through our wholly-owned subsidiary, Everbright Fortune, which has a dedicated committee to evaluate and approve potential investments and ensure that investments are within authorized limits.

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Everbright Fortune has adopted a series of rules and policies concerning the selection of investment targets, due diligence review, investment and exit strategies, investment decision and execution and exit. It has also established a multi-tier system to manage the risks associated with alternative investments, including:

<i>The board of directors</i>	The board of directors of Everbright Fortune, as the highest decision-making body, assumes ultimate responsibility for risk control, formulates overall risk management objectives, reviews and approves risk management rules and policies, determines the composition of the risk management committee and the organizational structure and responsibilities of the internal departments responsible for risk management and debriefs the risk management committee.
<i>Risk management committee</i>	The risk management committee researches and evaluates risk management, establishes basic risk management rules, monitors and assesses implementation of the rules and proposes changes to optimize risk management and internal controls.
<i>Investment committee</i>	The investment committee assists management in asset allocation, setting investment strategy allocation ratios, authorizing funds for alternative projects and other significant investments. It also reviews our fundamental investment management policies and risk control policies, and evaluates proposed investments.
<i>Chief investment officer</i>	The chief investment officer reviews and approves investment proposals, sets investment limits in accordance with prevailing market conditions, supervises implementation of investment strategies and reports to the investment committee and the asset allocation committee.
<i>Investment manager</i>	Investment managers formulate detailed investment plans and managing daily investments. They are authorized to make investment decisions within limits set by the investment committee.
<i>Risk control officer</i>	The risk control officer implements risk management rules, identifies and evaluates risks, prepares risk evaluation reports and reports on risk management performance to the risk management committee and management.

Overseas Business

Our overseas businesses are mainly exposed to credit, liquidity, operational, market and legal and compliance risks. ESIL and SHKFGL have developed operational manuals for various departments to standardize procedures for internal control and management. ESIL and SHKFGL have also established internal control mechanisms such as segregation of business lines, employees, funds and accounts to prevent insider trading. ESIL and SHKFGL

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have established clearly structured procedures on operation, management and control and an internal reporting and implementation monitoring framework with segregation of duties and checks and balances. We plan to streamline and integrate the respective rules and procedures on compliance and risk management of ESIL and SHKFGL. For example, we plan to review the rules and procedures on compliance and risk management of the overlapping businesses of ESIL and SHKFGL and harmonize these policies to the extent possible and ensure compliance with the regulatory requirement. In addition, we also plan to merge the departments responsible for compliance and risk management of ESIL and SHKFGL into a centralized department in future.

Innovative Business

We have established an innovation work committee to review project initialization. The committee's office is responsible for detailed project initialization review. Our risk management department and legal and compliance department participate fully in the research and development, analysis and approval of innovative businesses, comprehensive risk assessment of new products and businesses, identification of potential risks, formulation of risk management measures and supervision of the implementation of these measures by the relevant business departments. New products and businesses can only be launched after review by our legal and compliance department and the chief compliance officer.

Chinese Walls

As a full-service securities firm, we regularly face situations where two or more legitimate interests are conflicting in nature. We recognize the importance of managing these conflicts of interests to both protect client interests and preserve our reputation. Accordingly, we have established Chinese walls in various business lines to prevent insider trading and avoid conflicts of interests by controlling the flow of sensitive information.

A Chinese wall is a barrier to ensure that material non-public information regarding listed companies obtained by one department is not released to another department. It is intended to separate personnel who make investment decisions from those in possession of material non-public information. We have developed and implemented the following policies and procedures to safeguard material non-public information and prevent improper trading:

- We have physically segregated different divisions with conflicts of interests and established a strict access management system by controlling access to key places, such as trading rooms, branches and other departments, which may have sensitive insider information.
- We maintain segregated amounts to hold our clients' funds and our own funds and manage and settle these funds separately.
- We maintain segregated accounts for client funds and our own funds and subject them to separate accounting.
- We maintain a list of restrictions. When we obtain sensitive information related to certain securities or a business relationship with an issuer, we implement restrictions on business activities involving conflicts of interests. For example, we include such

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securities and relevant information on a list of restrictions and impose restrictions on business activities (such as proprietary trading and release of research reports) as required by relevant laws and regulations.

- We prohibit senior managers from concurrently managing two or more business departments involving conflicts of interest. For example, our senior managers in charge of proprietary trading are not permitted to concurrently head asset management subsidiaries, and senior managers of investment banking are not permitted to concurrently manage direct investment subsidiaries.
- We have adopted security measures, including Chinese walls and encryption technologies, to protect client data, and have established physical segregation and password-protected access among departments to enforce Chinese wall policies.

Our authorization process allows certain employees to conduct temporary “wall-crossing” activities, which can only be conducted with the permission and under the close supervision of the employees’ department, the department requiring the “wall-crossing” and the legal and compliance department. We strictly enforce our Chinese walls and prohibit employees that have crossed the wall from disclosing or using any sensitive information they have obtained during the wall-crossing period.

Segregation of Duties

To minimize the risk of collusion and improper trading activities, we assign duties and functions to different departments and no employee may work concurrently for two or more departments with conflicts of interests. We have adopted the following measures to segregate duties among different departments:

- Our business departments, including brokerage, investment banking, sales and trading, operate independently. Employees are not allowed to concurrently work for two or more business departments that may have conflicts of interests.
- Our back office employees, such as employees in the finance, legal and compliance, risk management, internal audit and IT departments, are prohibited from concurrently working in any business departments.
- We manage our proprietary trading and asset management businesses separately by maintaining independent accounts and using separate trading desks.

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Conflicts of Interests

Conflicts of interests may arise (1) among various business departments; (2) between our clients and us; (3) between our employees and us; (4) between our clients and our employees; and (5) among different clients. We have adopted a variety of internal rules and procedures to identify and address conflicts of interests, which include:

- We require our research department to prepare investment analyzes, forecasts and recommendations provided to the public, our clients and our business departments on an objective and impartial basis.
- We are required to disclose our own interests in companies that are the subjects of our research reports.
- Our employees are prohibited from disseminating internal news briefs, market updates or research results to external parties without proper authorization.

We have adopted a series of measures and methods to manage conflicts of interests based on prioritizing client interests and fair treatment of clients. We primarily utilize information segmentation to avoid conflicts of interests. If conflicts of interests cannot be avoided or managed effectively, we disclose the conflicts of interests or refrain from conducting the relevant business activities. When we or our employees have a conflict of interests with any client, client interests always prevail. When a conflict of interests arises between clients, we treat different clients fairly.

In addition, we have also promulgated a series of internal rules and regulations to avoid and manage conflicts of interests and require our employees to understand and strictly comply with these internal rules, including prioritizing client interests, treating clients fairly and protecting client information. We also require employees to timely disclose any conflicts of interests to their departments.

Anti-Money Laundering

Money laundering covers a wide range of activities intended to mask or alter the source of illegally obtained money. As part of our internal control system, we have adopted policies and procedures to prevent money laundering and terrorist financing in strict compliance with PRC laws and regulations and the requirements of the PBOC and the CSRC. We have established comprehensive “Know Your Client” procedures to identify clients. We adopt stricter identification measures to profile clients with a higher than average likelihood of engaging in money laundering and terrorist financing activities. In light of our “Know Your Client” procedures, we make efforts during client identification to better understand our clients and their actual controllers and beneficiaries and to explore their operations, activities, and sources of assets. Our branches conduct ongoing monitoring of client identification and daily trading for as long as the client relationship continues.

Led and supervised by our chief compliance officer, the legal and compliance department coordinates with other departments to implement anti-money laundering policies. Our planning and finance department, internal audit department, risk management department,

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human resource department, business departments and branches are jointly responsible for implementing anti-money laundering policies in their daily activities in accordance with their respective duties and responsibilities.

We provide regular anti-money laundering training to our employees to help them understand the screening process and the current regulatory landscape. Employees who know, suspect or have a reasonable belief that a client might have engaged in money laundering activities are required to immediately report such activities to our legal and compliance department, which in turn, reports to competent authorities as necessary. We also actively cooperate with regulators in various anti-money laundering activities such as on- and off-site supervision.

We have never engaged in or knowingly assisted in any money laundering or terrorist financing activities. During the Track Record Period, we were not sanctioned by any regulators for failure to strictly comply with applicable anti-money laundering laws and regulations. For risks associated with anti-money laundering activities, see “Risk Factors — Risks Relating to Our Business and Industry”.

FATCA Compliance

We may be subject to FATCA. Although the U.S. and the PRC have in substance agreed to Model 1 IGA, the PRC government has not promulgated any legislation to interpret or implement FATCA. We will continue to monitor the regulatory changes and adopt measures in accordance with the interpretation and implementation of FATCA by the PRC government once they are promulgated.

Outside China, we have adopted the following measures to ensure that our Hong Kong subsidiaries comply with FATCA, including:

- reviewing the holding structure of our Hong Kong subsidiaries and determining the entities that should be considered as in the same “Expanded Affiliate Group” for FATCA purposes;
- performing entity scoping analysis and determining each entity’s FATCA classification and registering the relevant companies with the competent authorities;
- enhancing the client on-board procedure and submit the information of the relevant clients to the Internal Revenue Service of the U.S. in accordance with FATCA; and
- providing training and guidance to employees with respect to the enhanced client on-board procedure.

LEGAL AND REGULATORY MATTERS

Licensing Requirements

We operate our business principally in the PRC and Hong Kong. Our Board and King & Wood Mallesons, our PRC legal advisors, confirm that during the Track Record Period and up

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to the Latest Practicable Date, except as disclosed in “Regulatory Non-compliance”, we had complied with relevant PRC regulatory requirements and guidelines in all material respects, and had obtained all permits and licenses material to our operations. We renew all of our business licenses and permits from time to time to comply with relevant laws and regulations. To the best knowledge of our Directors after due inquiry, our Directors confirm that there were no outstanding regulatory issues involving us, our Directors, senior management or other employees during the Track Record Period and up to the Latest Practicable Date that could threaten our ability to maintain the licenses or memberships necessary for our operations in the jurisdictions in which we operate.

Our various subsidiaries in Hong Kong are required to obtain licenses from the SFC to carry out their business. Below is a summary of the relevant licenses (including any conditions imposed) currently held by our licensed subsidiaries in Hong Kong:

Name of licensed subsidiary	Type 1 Dealing in securities	Type 2 Dealing in futures contracts	Type 3 Leveraged foreign exchange trading	Type 4 Advising on securities	Type 5 Advising on futures contracts	Type 6 Advising on corporate finance	Type 9 Asset management
China Everbright Capital Limited	Yes ⁽¹⁾			Yes		Yes ⁽²⁾	
China Everbright Research Limited				Yes ⁽³⁾			
China Everbright Securities (HK) Limited	Yes			Yes		Yes ^{(4) (5)}	Yes
China Everbright Forex & Futures (HK) Limited		Yes	Yes ⁽⁶⁾		Yes		Yes
China Everbright Securities Asset Management Limited	Yes ^{(7) (8)}			Yes ⁽⁷⁾			Yes ⁽⁷⁾
Sun Hung Kai Investment Services Limited	Yes			Yes			
Sun Hung Kai International Limited	Yes ⁽⁹⁾					Yes ⁽¹⁰⁾	
Sun Hung Kai Commodities Limited		Yes					
SHK Online (Securities) Limited	Yes						
SHK Fund Management Limited	Yes			Yes			Yes
Shun Loong Securities Company Limited	Yes ⁽¹¹⁾						

- (1) on the condition that the licensee shall not engage in dealing activities other than those relating to corporate finance
- (2) on the condition that the licensee must, in the capacity as an adviser to a client on matters/transactions falling within the ambit of the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, act together with another adviser (to the client) not subject to this condition
- (3) on the condition that the licensee shall not hold client assets
- (4) on the condition that the licensee must, in the capacity as an adviser to a client on matters/transactions falling within the ambit of the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, act together with another adviser (to the client) not subject to this condition
- (5) on the condition that the licensee shall not act as sponsor in respect of an application for the listing on a recognized stock market of any securities
- (6) on the condition that the licensee shall not provide discretionary account services
- (7) on the condition that the licensee shall not hold client assets

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- (8) on the condition that the licensee shall only carry on the business of dealing in collective investment schemes
- (9) on the condition that the licensee shall not engage in dealing activities other than those relating to corporate finance
- (10) on the condition that the licensee shall not act as sponsor in respect of an application for the listing on a recognized stock market of any securities
- (11) ceased business of regulated activities since October 5, 2012

In addition, China Everbright Securities Finance Limited, a subsidiary of ESIL holds a money lender license under which it may carry out loan transactions and provide loans to clients.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had complied with relevant Hong Kong regulatory requirements and guidelines in all material respects, and had obtained the material permits and licenses for our operations pursuant to applicable Hong Kong laws and regulations.

Legal Proceedings

We are involved in legal proceedings from time to time in the ordinary course of business. Except as disclosed below, our Directors confirm that, as of the Latest Practicable Date, there were no legal proceedings pending or threatened against us that could, individually or in the aggregate, materially and adversely affect our business, financial condition or results of operations.

Legal Proceedings Related to the 8•16 Event

As of the Latest Practicable Date, we were involved in 502 legal proceedings related to the 8•16 Event. See “— Regulatory Non-compliance”. The plaintiffs are claiming for compensation for losses incurred as a result of the 8•16 Event.

- 498 cases are before the Shanghai No. 2 Intermediate People’s Court. As of the Latest Practicable Date, the Shanghai No. 2 Intermediate People’s Court had heard 480 cases: it permitted the withdrawal of 50 claims, dismissed 90 claims and ordered that we pay an aggregate compensation of approximately RMB39.8 million in respect of 340 claims. We appealed against 75 of these payment orders to the Shanghai High People’s Court. As of the Latest Practicable Date, the Shanghai High People’s Court had dismissed five of our appeals, and we had applied to withdraw the remaining appeals and intend to comply with all of the court orders. As of the Latest Practicable Date, we had paid approximately RMB14.2 million of compensation.
- One case is before the Zhengzhou Intermediate People’s Court. As of the Latest Practicable Date, the relevant court had rendered the first instance judgment ordering us to pay the plaintiff RMB110,307.76. We will compensate the relevant plaintiff in accordance with the court order.
- One case is before the Shenzhen Intermediate People’s Court. As of the Latest Practicable Date, the case had not gone to trial.

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- One case is before the Nanning Intermediate People's Court. As of the Latest Practicable Date, the case had not gone to trial.
- One case is before the Shanghai No. 1 Intermediate People's Court. The Shanghai No. 1 Intermediate People's Court heard the case on June 18 and July 15, 2015. As of the Latest Practicable Date, the court had yet to deliver a judgment.

Our Directors estimate that our maximum liability under the pending legal proceedings would be approximately RMB3.2 million.

Legal Proceeding Related to Margin Financing and Securities Lending Business

On January 26, 2016, we received a notice of appearance issued by the People's Court of Jing'an District of Shanghai, pursuant to which a margin financing and securities lending client filed a claim against us for RMB39,390,000 and costs. The plaintiff alleged that we breached the agreement not to liquidate his margin account which caused loss to him. The relevant court heard the case on June 6, 2016. As of the Latest Practicable Date, the Court had yet to deliver a judgment.

Legal Proceeding Related to Asset Management Business

On June 7, 2016, the Second Intermediate People's Court of Shanghai issued a notice of appearance to Everbright Asset Management, pursuant to which Xiamen International Bank Co., Ltd. Shanghai Branch filed a claim against Everbright Asset Management in respect of a contractual dispute on asset management services. In November 2012, the plaintiff invested RMB150 million in a trust product through a TAM scheme established and managed by Everbright Asset Management. The investment has a duration of 365 days and expected annual return of 6.2%. The plaintiff alleged that Everbright Asset Management breached its fiduciary duty of care in managing the entrusted assets under the TAM scheme. Therefore, the plaintiff requested Everbright Asset Management to return the principal invested and expected investment returns. In addition, the plaintiff also requested a third party bank which provided guarantee to it to be jointly and severally liable for the claimed amount. On July 8, 2016, Everbright Asset Management filed a counterclaim against the plaintiff and also requested the plaintiff to take back the entrusted assets in accordance with the contract and compensate Everbright Asset Management for its losses and legal costs. As of the Latest Practicable Date, the trial has not gone to trial.

We will defend the above two proceedings vigorously based on legal advice on the merits of our case, but we cannot assure you we will prevail in the proceedings. Our Directors have confirmed that these legal proceeding will not have any material effect on our business, financial condition or results of operation. King & Wood Mallesons, our PRC legal advisors, has advised us that based on the merits of our case, these proceedings will not materially and adversely affect our operations or financial condition.

Legal Proceeding Related to SHKFL

In February 2008, Global Bridge Assets Limited (“GBA”) and Long Prosperity Industrial Limited (“LPI”) filed an action in the Court of First Instance of the High Court of Hong Kong against SHKFL for damages, interest and costs. The plaintiffs claimed that SHKFL failed to transfer its equity interests in a joint venture company to LPI, as GBA’s nominee pursuant to a capital transfer contract. LPI also entered into a deed of waiver and indemnification which contained an undertaking not to sue SHKFL in respect of any claims arising from the capital transfer agreement. The Court of Appeal of the High Court of Hong Kong dismissed the claims in February 2010.

On August 30, 2014, GBA and LPI commenced a new action seeking (1) damages from SHKFL for fraudulently misrepresenting that it held equity interests in the joint venture company at the time of signing the capital transfer contract, and (2) rescission of the capital transfer contract and the deed of waiver and indemnification. On May 26, 2016, GBA and LPI’s claims were struck out and the action was dismissed by the court with costs awarded to SHKFL. GBA and LPI were wound up by court orders on May 30, 2016. The Official Receiver and the liquidation will take over the affairs of GBA and LPI. Our Directors have confirmed that the legal proceeding will not have any material effect on our business, financial condition or results of operation.

Ongoing Investigation

On January 11, 2016, the People’s Procuratorate of Huining County, Gansu Province issued a case filing notification that it would begin investigations into suspected corporate bribery offenses involving our Urumqi securities brokerage branch (Mr. Zhang Jiansheng being its former responsible officer). As far as we are aware, this investigation involves the suspected payment of kickbacks by a sales representative of our Urumqi securities brokerage branch to an officer of a shareholder of an institutional client to procure the client to sell stock through our Urumqi securities brokerage branch. As of the Latest Practicable Date, the investigations are ongoing and no charges had been brought against our Urumqi securities brokerage branch or Mr. Zhang. We are unable to predict the outcome of the investigations. We have been advised by King & Wood Mallesons, our PRC legal advisors, that based on the results of the investigations, the procuratorate may decide to (a) prosecute against our Urumqi securities brokerage branch, or (b) not to prosecute against our Urumqi securities brokerage branch, or (c) drop the case. King & Wood Mallesons further advised us that (a) if our Urumqi securities brokerage branch is prosecuted and convicted of bribery, we may be subject to a maximum fine of approximately RMB1.76 million, and (b) we would not be subject to any administrative penalties imposed by the securities regulatory authorities because PRC law, rules and regulations do not prescribe administrative penalties for the alleged bribery offenses. None of our Directors or senior management was involved in or was the subject of the investigation. Our Directors are of the view that the investigation does not have any material adverse impact on our business, financial condition or results of operations.

Regulatory Non-compliance

We must comply with regulatory requirements and guidelines promulgated by PRC and Hong Kong, regulators including, among others, the CSRC, the PBOC, the Shanghai Stock

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Exchange, the SFC, the Hong Kong Stock Exchange and their respective local bureaus and offices. ESIL and SHKFGL are also subject to FATCA.

Non-compliance Events Leading to Administrative Penalties or Regulatory Marks Deduction

We have, from time to time, been involved in incidents of regulatory non-compliance and received regulatory letters, warnings, fines or other forms of administrative penalties from regulators. We set forth below the non-compliance incidents that led or would likely lead to administrative penalties or deduction of regulatory points during the Track Record Period and up to the Latest Practicable Date.

Non-compliance Incidents	Brief explanation and our primary remedial measures
Non-compliance incidents arising from our business in the PRC	
<p>On January 22, 2013, the CSRC issued a warning letter stating that in sponsoring the IPO of Shanghai Kangda New Materials Co., Ltd (“Kangda”), we had failed to make a written statement to the CSRC explaining Kangda’s dramatic revenue decrease immediately before the issue of its prospectus and failed to procure Kangda to explain the revenue decrease during the offering process.</p>	<p>The incident was due to our failure to procure the proposed issuer to make full disclosure in accordance with CSRC requirements.</p>
<p>The CSRC also suspended accepting administrative applications submitted by the sponsor representatives for three months and reviewing administrative applications previously submitted by the sponsor representatives.</p>	<p>We adopted a series of remedial measures, including: (1) imposing internal discipline on the sponsor representatives, including demotion and reduced compensation, and (2) strengthening the management and quality control of our investment banking business, requiring investment banking divisions to strictly observe work procedures, enhancing information disclosure and paying particular attention to similar projects to avoid similar non-compliance incidents.</p>
	<p>In 2016, our Board approved the establishment of an investment banking quality control department to enhance the quality control of our investment banking business. Our Board has also adopted other measures to enhance the supervision over our risk management and internal control. See “— Legal and Regulatory Matters — Regulatory Non-compliance — Enhanced Board Supervision of Internal Control” for details.</p>
	<p>As of the Latest Practicable Date, we had not received any follow-up comments from the CSRC on this matter.</p>

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Non-compliance Incidents

On April 15, 2013, the CSRC conducted an onsite inspection of Tianfon Energy-saving, an A-share listing applicant, and identified Tianfon Energy-saving's involvement in a series of violations, including inflating revenues and assets, covering up related-party transactions and failing to record related-party transactions in accordance with applicable accounting standards. The CSRC also found that our two sponsor representatives acting on Tianfon Energy-saving's IPO had failed to perform sufficient due diligence on Tianfon Energy-saving's financial statements to discover Tianfon Energy-saving's non-compliant acts, resulting in fraudulent statements in the sponsoring letter and self-inspection report. On February 12, 2014, the CSRC imposed a fine of RMB4.30 million and confiscated income totaling RMB2.15 million from acting as the sponsor of Tianfon Energy-saving's proposed IPO. Meanwhile, the CSRC required us to resolve deficiencies in our due diligence system and internal controls within three months. In addition, each of the two sponsor representatives acting for Tianfon Energy-saving's IPO was fined RMB300,000 and banned from the securities industry for ten years. Furthermore, the CSRC issued regulatory warning letters to two managerial employees responsible for our sponsorship business and internal audit.

Brief explanation and our primary remedial measures

The incident was due to our failure to closely monitor our sponsor representatives in discharging their due diligence responsibilities.

We paid the administrative fines and confiscated income to the CSRC, and adopted a series of remedial measures, including: (1) withdrawing Tianfon Energy-saving's IPO application materials, (2) terminating employment agreements with the two sponsor representatives directly responsible for the Tianfon Energy-saving project, (3) thoroughly reviewing all ongoing IPO projects and projects for which we acted as post-listing compliance adviser to identify potential problems and ensure the quality of these projects, (4) reviewing and fine-tuning internal rules, policies and work procedures for our investment banking business, (5) improving our management of sponsor representatives, including updating performance evaluations and incentive policies, (6) increasing the independence of the quality control department, and (7) improving compliance and risk management training for our investment banking employees.

On June 27, 2013, we submitted our rectification report to the CSRC and, on May 8, 2014, we paid the administrative fines and confiscated income to the CSRC.

In 2016, our Board approved the establishment of an investment banking quality control department to enhance the quality control of our investment banking business. Our Board has also adopted other measures to enhance the supervision over our risk management and internal control. See “— Legal and Regulatory Matters — Regulatory Non-compliance — Enhanced Board Supervision of Internal Control” for details.

As of the Latest Practicable Date, we had not received any follow-up comments from the CSRC on this matter.

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Non-compliance Incidents

On May 17, 2013, the Guizhou Securities Regulatory Bureau of the CSRC issued an order finding that (1) Mr. Ma Jun did not obtain his qualification to serve as a branch manager before beginning to serve as the deputy general manager of our securities brokerage branch at Zunyi, and (2) we failed to conduct the required resignation audit before Mr. Li Shigang, the former manager of our securities brokerage branch at Zunyi, relocated to another branch. The CSRC required us to take immediate remedial measures and submit a rectification report before June 17, 2013.

Brief explanation and our primary remedial measures

The incident was due to our failure to strictly comply with the rules and regulations governing the appointment and relocation of securities brokerage branch managers.

We adopted a series of remedial measures, including: (1) suspending Mr. Ma's appointment until his qualification was approved by the regulators, (2) directing the relevant branches to closely monitor the progress of Mr. Ma's application for qualification to serve as a branch manager, and (3) conducting the required resignation audit for Mr. Li.

To prevent the occurrence of similar incidents, we also adopted the following measures: (1) enhancing internal rules and policies regarding the qualification of employees in charge of subsidiaries and branches, (2) increased monitoring of manager relocation to ensure compliance with applicable laws and regulations (in August 2014, the CSRC changed the procedure from pre-approval to post-event registration), (3) providing training to the relevant employees to increase their compliance awareness, (4) requesting our subsidiaries and branches to communicate closely with local regulators to implement new requirements in a timely manner, and (5) improving our internal accountability system and increasing the effectiveness of disciplinary actions against employees who violate applicable laws and regulations.

Our Board has also adopted measures to enhance the supervision over our risk management and internal control. See “— Legal and Regulatory Matters — Regulatory Non-compliance — Enhanced Board Supervision of Internal Control” for details.

We submitted our rectification report to the Guizhou Securities Regulatory Bureau on May 29, 2013. Mr. Ma obtained his qualification to serve as a branch manager on July 17, 2013. As of the Latest Practicable Date, we had not received any objections or follow-up comments from the regulator.

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Non-compliance Incidents

On August 16, 2013, while conducting arbitrage transactions, a technical glitch in our ETF strategy execution system caused the system to erroneously place purchase orders totaling RMB23.4 billion for 180 ETFs, RMB7.27 billion of which were executed at market prices. This caused the CSI 300 Index, Shanghai Composite Index and other major indices and many weighted stock indices to experience dramatic fluctuations over a short period of time. Upon realizing this error, we hedged against the risks by short selling index futures contracts and converting and selling ETFs.

The CSRC believed that the incident revealed major deficiencies in our internal control, risk management and compliance systems. The CSRC also believed that our failure to promptly disclose the incident to the market before engaging in hedging activities constituted insider trading.

On August 30, 2013, the CSRC took a series of regulatory actions, including (1) confiscating income totaling RMB87 million and fining us RMB436 million, (2) revoking our proprietary trading license (other than for proprietary trading of fixed-income securities), (3) suspending acceptance of applications for new businesses, and (4) requiring us to take remedial measures, impose internal sanctions on the employees responsible for the incident and report the results to the CSRC.

Brief explanation and our primary remedial measures

The incident was due to our use of a new strategic transaction system developed by a third party beginning in July 2013. The system had serious design flaws that disabled safeguards against orders placed beyond account credit limits. Prior to this incident, the “replace order” function had never been used, causing serious program errors to go unnoticed. In addition, to promote our strategic investment business, our management had granted wide decision-making discretion to the strategic investment department without bringing the strategic investment department under our integrated risk management system.

In order to prevent the occurrence of similar incidents, we launched a firm-wide campaign to reduce risks and adopted a number of remedial measures, which included:

- (1) *Corporate governance*: we reviewed and updated internal rules for our board of directors, supervisory committee and president to ensure major corporate decisions are made collectively and establish proper checks and balances.
- (2) *Internal control*: (a) we formulated detailed rules and standards for compliance audits and reviews to clarify standards, procedures and requirements, and specified procedures for compliance audits of new services and products, (b) we optimized trading policies and procedures and implemented checks and balances among investment decision-making, transaction execution, risk control, clearing and settlement, fund allocation and accounting, and (c) we revised internal rules regarding employee non-compliance and updated our internal accountability mechanism.

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Non-compliance Incidents	Brief explanation and our primary remedial measures
<p>On the same day, the CSRC imposed sanctions on the employees responsible for the incident, including (1) a warning and a fine of RMB600,000 against Mr. Xu Haoming, our former president and one of the persons directly responsible for insider trading, (2) a warning and a fine of RMB600,000 against Mr. Shen Shiguang, the former manager of our planning and finance department and one of the persons directly responsible for insider trading, (3) a warning and a fine of RMB600,000 against Mr. Yang Chizhong, the former assistant president of our strategic investment department and one of the persons directly responsible for insider trading, (4) a warning and a fine of RMB600,000 against Yang Jianbo, the former general manager of our strategic investment department and one of the persons directly responsible for insider trading, and (5) banning Xu Haoming, Yang Chizhong, Shen Shiguang and Yang Jianbo from the securities and futures industries for life.</p> <p>On the same day, the CSRC also imposed a fine of RMB200,000 against Mei Jian, the former secretary of our Board, for disseminating misleading information on the incident and ordered him to rectify his misconduct.</p> <p>In addition, on August 18, 2013, we received a regulatory letter from China Financial Futures Exchange restricting our opening of new positions for proprietary trading of index futures beginning on August 19, 2013.</p> <p>We relieved Yang Jianbo on August 20, 2013 and terminated his employment contract on December 11, 2013. On August 22, 2013, we received a resignation letter from Xu Haoming. On August 31, 2013, we received resignation letters from Yang Chizhong and Mei Jian.</p>	<p>(3) <i>Compliance management:</i> (a) we updated procedures for issuing internal regulations and strengthened our compliance reviews, and (b) we increased the number of compliance personnel to improve internal compliance checks.</p> <p>(4) <i>Risk management:</i> (a) we set thresholds for risk and compliance control indicators in our uniform trading system to implement front-end control, (b) the risk management department upgraded the real-time monitoring function in the risk management system for our investment business, (c) we recruited a chief risk officer with extensive risk management experience at large overseas financial institutions to design and implement a comprehensive risk management system, and (d) the board of directors established risk indicators, such as credit risk, market risk and liquidity risk tolerance limits, and applied them to all business activities.</p> <p>(5) <i>Management of proprietary trading:</i> (a) we formulated procedures for managing proprietary trading, including a multi-layered authorization framework comprised of the board of directors, the assets and liabilities committee and the departments responsible for proprietary trading, (b) we consolidated our strategic investment department with Everbright Fortune to segregate strategic investment from its parent company's business, and (c) the departments responsible for proprietary trading established enhanced procedures for managing our quantitative investment business.</p>

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Non-compliance Incidents

As of the Latest Practicable Date, we were involved in 502 civil proceedings instituted by investors seeking compensation for losses resulting from our insider trading. See “— Legal Proceedings” for more details of these proceedings.

Brief explanation and our primary remedial measures

- (6) *IT management*: we clarified that our IT department is responsible for all matters related to IT system development and maintenance, and prohibited business departments from installing unauthorized trading systems.
- (7) *Information disclosure*: (a) we provided trainings to all departments and subsidiaries on information disclosure, (b) we established a periodic communication mechanism for more efficient internal communication, (c) we clarified daily reporting duties of employees responsible for information disclosure to ensure disclosure obligations are timely satisfied.
- (8) *Contingency plan*: we established reporting protocols for major emergencies and organized an emergency response team.

Our Board closely monitored and supervised the implementation of the remedial measures responding to the 8•16 Event, and has also adopted other measures to enhance the supervision over our risk management and internal control. See “— Legal and Regulatory Matters — Regulatory Non-compliance — Enhanced Board Supervision of Internal Control” for details.

We submitted a rectification report to the CSRC on May 14, 2014 and successfully passed CSRC re-examination. We also paid the fines and confiscated income to the CSRC. On July 9, 2014, we received an administrative decision from the CSRC, confirming that we had substantially completed our rectification measures and, therefore, the CSRC lifted its ban on proprietary trading and resumed accepting our applications for new business.

On August 8, 2014, we received a letter from China Financial Futures Exchange lifting its ban on opening new positions for proprietary trading of index futures beginning on August 11, 2014 and allowing us to resume proprietary trading.

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Non-compliance Incidents	Brief explanation and our primary remedial measures
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Non-compliance incidents arising from our overseas business

From October 2007 to September 2009, Sun Hung Kai International Limited (“SHK International”), a subsidiary of SHKFGL, acted as sponsor for the listing of Sino-Life Group Limited (“Sino-Life”, Hong Kong Stock Exchange code: 08296) on the GEM of the Hong Kong Stock Exchange. According to an SFC investigation, SHK International had failed to: (1) assess the accuracy and completeness of information submitted by Sino-Life to demonstrate that it met financial requirements for listing on the GEM, (2) confirm whether there were encumbrances on title in a major transaction of Sino-Life, (3) properly assess the business of Sino-Life’s wholly-owned subsidiary in Taiwan, (4) ensure the accuracy and completeness of disclosure made to the Hong Kong Stock Exchange and in Sino-Life’s prospectus and had made untrue statements in its sponsor declaration in relation to its undertaking to the Hong Kong Stock Exchange, thereby breaching the sponsor’s undertaking to the Hong Kong Stock Exchange, and (5) maintain proper records regarding its work as sponsor.

On January 27, 2014, the Securities and Futures Appeal Tribunal imposed sanctions on SHK International, including: (1) public reprimand, (2) a HK\$12 million fine, and (3) a one-year suspension of its license to provide corporate finance advisory services. In addition, the SFC held that Mr. Eric Shum Kam Chi, the then responsible officer of SHK International, had failed to adequately discharge his duties as SHK International’s senior management in sponsoring the listing of Sino-Life. Therefore, the SFC suspended Mr. Shum’s credentials to act as a representative in regulated activities or as a responsible officer of SHK International for three years from September 15, 2014 to September 14, 2017.

This non-compliance incident occurred before our acquisition of a 70% interest in SHKFGL and was mainly due to SHK International’s failure to properly supervise the project team in fulfilling its due diligence responsibilities during the incident.

After the incident, SHK International revised and fine-tuned its “Guidelines on Corporate Finance Services” and formulated the “Manual for Capital Markets Services” as its standard business guide.

In addition to the above remedial measures, an internal control advisor was engaged to assess areas for improvement relating to the control infrastructure of SHK International for managing material legal and regulatory risks of its corporate finance business. The internal control advisor was of the view that (1) the controls and procedures reviewed were sound and on the whole adequate to ensure compliance with applicable regulatory requirements, and (2) on the whole the control infrastructure reviewed was equal to if not more comprehensive than that in other brokerage houses that the internal control advisor had been involved in. The internal control advisor also provided recommendations on further improvements in the control infrastructure.

By 2011, all employees of SHK International that had participated in Sino-Life’s listing had resigned from SHK International. The SFC’s investigation into this incident has been concluded and SHK International paid its fine to the SFC on March 21, 2014. In January 2015, SHK International regained its Type 6 license (for advising on corporate finance). In August 2015, for commercial reasons, SHK International voluntarily applied to the SFC to end its sponsorship business.

To prevent the re-occurrence of similar non-compliance incidents, our Board has adopted measures to enhance the supervision over our risk management and internal control. See “— Legal and Regulatory Matters — Regulatory Non-compliance — Enhanced Board Supervision of Internal Control” for details.

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Non-compliance Incidents	Brief explanation and our primary remedial measures
<p>On September 8, 2011, an account executive of Sun Hung Kai Investment Services Co., Ltd. (“SHK Investment”), a subsidiary of SHKFGL, received client instruction to purchase 25,000 shares of China Life Insurance Company Limited (Hong Kong Stock Exchange Code: 2628). In executing the order, the account executive mistakenly inputted “2,500,018,000” shares. SHK Investment’s dealing system automatically split the erroneous order into 834 smaller orders that were then sent to the market. SHK Investment’s real-time credit controls failed to filter the erroneous order due to an incorrect credit rules setting. Although the account executive cancelled the transaction immediately after identifying the mistake and approximately 97% of the orders were cancelled, the remaining 3% (81,978,000 shares) were executed at a price of HK\$18.82 per share.</p>	<p>This non-compliance incident occurred before our acquisition of a 70% interest in SHKFGL. The main reason for this incident was that a credit officer of SHK Investment inputted an erroneous indicator into the system when modifying credit rules, resulting in the real-time credit control system failing to prevent the account executive from inputting inaccurate purchase instructions.</p>
<p>SHK Investment timely notified the SFC of the incident. The SFC’s investigation revealed certain weaknesses in SHK Investment’s internal controls, including: (1) SHK Investment’s system did not impose a limit on the number of orders that large orders may be split into, (2) changes to credit rules were manually entered into the production environment, increasing the likelihood of input errors, and (3) there was no segregation of duties for changes to credit rules, with the same employee implementing, reviewing and approving changes.</p>	<p>After the incident, SHK Investment adopted remedial measures, including: (1) formulating internal policies regarding changes to management procedures, clarifying each step from the application for to the implementation of such changes, and (2) optimizing the procedures for amending credit policies in the system and clarifying the duties and responsibilities of different divisions when amending credit policies. SHK Investment also issued warning letters to the relevant account executive and credit officer.</p>
<p>On April 22, 2013, the SFC reprimanded SHK Investment and fined it HK\$1.5 million for internal control failures.</p>	<p>In addition to the above remedial measures, SHK Investment engaged an internal control advisor to assess the ADSR2 securities trading platform and recommend improvements on control areas to prevent the re-occurrence of the incident. The internal control advisor was of the view that (1) SHK Investment had established internal procedures to respond to the incident, including timely escalation to management, incident resolution and reporting to the regulators, (2) the internal investigations conducted by SHK Investment had identified the root cause of the incident and specific recommended actions to prevent a similar event from re-occurring, and (3) SHK Investment had implemented appropriate remediation measures.</p>

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Non-compliance Incidents	Brief explanation and our primary remedial measures
	<p data-bbox="810 257 1410 846">In 2013, SHK Investment and the SFC requested the same internal control advisor to perform a second review on SHK Investment’s internal systems and controls, procedures and working practices in respect of Hong Kong exchange-traded equity securities dealt by SHK Investment via its securities trading system. The internal control advisor was of the view that (1) SHK Investment’s management had demonstrated a proactive approach in addressing weaknesses in the IT control environment of SHK Investment, and (2) most of the findings and observations identified in the first review performed in 2011 had been remediated as agreed and certain points were also identified for management attention.</p> <p data-bbox="810 885 1410 1155">To prevent the re-occurrence of similar non-compliance incidents, our Board has adopted measures to enhance the supervision over our risk management and internal control. See “— Legal and Regulatory Matters — Regulatory Non-compliance — Enhanced Board Supervision of Internal Control” for details.</p> <p data-bbox="810 1193 1410 1293">The SFC investigation of this incident has been concluded and SHK Investment paid its fine on April 19, 2013.</p>

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Non-compliance Incidents

From March to September 2010, China Everbright Securities (HK) Limited received multiple client complaints alleging that clients did not know their account manager, Mr. Koo Yiu Chee. Upon receiving these complaints, China Everbright Securities (HK) Limited conducted an internal investigation. In 2013, the SFC also conducted an investigation of China Everbright Securities (HK) Limited and found that Mr. Koo had failed to perform proper account opening and “Know Your Client” procedures. The SFC also found that Mr. Koo had falsely represented that he explained risk disclosure statements to clients and witnessed the execution of account opening documents by a number of clients residing in China. The SFC further found that China Everbright Securities (HK) Limited had failed to establish controls to ensure Mr. Koo handled accounts in compliance with proper account opening and “Know Your Client” procedures.

On April 11, 2013, the SFC reprimanded China Everbright Securities (HK) Limited and fined it HK\$1.2 million for failing to adequately supervise Mr. Koo’s conduct and for lack of adequate internal controls. The SFC also reprimanded Mr. Chan Kam Hop, the then responsible officer of China Everbright Securities (HK) Limited, and fined him HK\$400,000 for supervisory and managerial failures. In addition, the SFC banned Mr. Koo from the industry for eight months from September 10, 2013 to May 9, 2014.

Brief explanation and our primary remedial measures

Although the SFC conducted its investigation in 2013, the incident occurred before we acquired a 51% interest in China Everbright Securities (HK) Limited. The incident was due to China Everbright Securities (HK) Limited’s failure to effectively monitor account opening and “Know Your Client” procedures.

Following this incident, China Everbright Securities (HK) Limited adopted a series of remedial measures, including: (1) establishing a client return visit procedure and requiring that return visits be completed before account opening to ensure that an employee of China Everbright Securities (HK) Limited witnesses the execution of account opening documents, and (2) requiring all the client service personnel to be licensed by the SFC and enhancing professional training to ensure compliance with relevant codes and guidance. China Everbright Securities (HK) Limited also terminated Mr. Koo’s employment agreement on March 27, 2010.

The SFC’s investigation of this incident has been concluded and China Everbright Securities (HK) Limited paid its fine to the SFC on May 9, 2013.

To prevent the re-occurrence of similar non-compliance incidents, our Board has adopted measures to enhance the supervision over our risk management and internal control. See “— Legal and Regulatory Matters — Regulatory Non-compliance — Enhanced Board Supervision of Internal Control” for details.

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Employee Non-compliance Incidents

During the Track Record Period and up to the Latest Practicable Date, regulators discovered one non-compliance incident involving an employee who has been convicted for his illegal conduct. The table below provides a brief description of the incident and main remedial actions we have taken:

<u>Non-compliance Incidents</u>	<u>Brief explanation and our primary remedial measures</u>
<p>In October 2013, the CSRC initiated a preliminary investigation of alleged malpractice by Qian Jun, a former fund manager at Everbright Pramerica, for taking advantage of non-public information when trading stocks. In December 2013, the case was officially filed. According to the SFC investigation, beginning in February 2009, Mr. Qian took advantage of non-public information obtained as a fund manager to trade over 130 stocks, with a total trading volume of RMB122 million, in connection with similar transactions conducted by funds he managed, thereby receiving illegal gains of RMB1,401,700. Mr. Qian's conduct also constituted a violation of the PRC criminal law. On October 22, 2014, Shanghai No. 1 Intermediate Court convicted Mr. Qian of trading on non-public information, sentenced him to 18 months imprisonment (suspended for 18 months) and fined him RMB1.60 million.</p>	<p>When Mr. Qian's malpractice was discovered, he had already resigned from Everbright Pramerica. Everbright Pramerica cooperated closely with regulators authorities and the public security bureau in the investigation. Mr. Qian's conduct was purely in his personal capacity.</p> <p>Everbright Pramerica has not been subject to any administrative sanctions by the CSRC due to this incident, although the CSRC conducted an on-site inspection of Everbright Pramerica in November 2014. See "— Regulatory Inspection" for more details. The investigation of this incident has been concluded. Our Directors are of the view that this incident will not subject us to any material penalties or liabilities or have any material adverse impact on our business, financial condition or results of operations.</p>

General Remedial Measures

Other than the remedial measures we undertook immediately after each incident, we have also implemented general remedial measures at operational levels aimed at preventing the occurrence of similar incidents. These remedial measures include, among others:

- reviewing and improving internal control policies and procedures;
- enhancing self-inspections on the compliance of our business lines, sub-divisions and branches;
- increasing the weight of compliance and risk management in the performance evaluation of our business departments;
- enhancing internal compliance monitoring and sanctions mechanism; and
- improving compliance training systems to increase employees' compliance awareness.

Enhanced Board Supervision of Internal Control

In order to prevent the re-occurrence of similar non-compliance incidents, our board has adopted measures to enhance the supervision over our risk management and internal control. These measures include:

- reporting by the chief compliance officer on compliance management to our Board on an a semi-annual basis, and to our chairman and president at least on a quarterly basis;
- reviewing and inspecting on specific compliance-related matters identified by our business departments and subsidiaries from time to time;
- requiring risk management committee to conduct pre-assessment of the risk and compliance implication of proposals submitted to our Board; and
- reviewing annual evaluation report on the effectiveness of our compliance system prepared by the management.

Our Directors believe that these remedial measures are adequate and effective in preventing re-occurrence of similar non-compliance incidents in the future.

Based on (1) there being no material adverse impact of the non-compliance incidents on our business, financial condition or results of operations, (2) the internal control measures we have adopted based on the recommendations of our internal control consultant, (3) confirmation by our internal control consultant that there was no material internal control weakness identified in relation to our tracking, handling and monitoring procedures and management of non-compliance incidents in the internal control review performed by the internal control consultant in 2015; and (4) the legal opinion issued by King & Wood Mallesons, our PRC legal advisors, our Directors believe that (1) we have adequate and effective internal controls; (2) it is unnecessary to make any provision for these non-compliance incidents; and (3) such non-compliance incidents do not affect the suitability of our Directors and our suitability for listing. After making reasonable inquiries regarding the non-compliance incidents and our remedial measures, there is nothing that causes the Joint Sponsors to disagree with our view.

Regulatory Inspection

We are subject to regulatory inspections, examinations and inquiries by the regulators in the PRC, such as the CSRC and the PBOC, and the SFC in Hong Kong from time to time relating to our compliance with applicable laws, regulations and guidelines. During the Track Record Period, such inspections, examinations and inquiries covered, among others, IT systems, risk management and internal controls and specific businesses including sale of financial products, margin financing and securities lending, repurchase agreements and asset management.

Although we were not subject to any administrative penalties arising from such inspections, examinations and inquiries, the results have revealed certain deficiencies in our

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business operations, risk management and internal controls. We took immediate remedial measures and improved our risk management and internal control systems based on recommendations from regulators. The results of key examinations or inspections are summarized below.

On-site Inspection by the CSRC Shanghai Bureau in October 2013

From October 14, 2013 to October 22, 2013, the CSRC Shanghai Bureau conducted an on-site inspection of our credit businesses, including margin financing and securities lending, repurchase agreements and collateralized stock repurchase agreements, and the sale of third party financial products. The regulator identified the following issues relating to our credit business:

- permitting certain clients to extend overdue agreements and opened margin accounts for, and offered margin financing and securities lending services to, clients who had traded securities with us for less than six consecutive months;
- failure to designate a department to maintain our margin financing and securities lending risk management system, which had previously experienced failures in collecting mega data resulting in alert malfunctions;
- heavy reliance on evaluations of clients' securities assets when reviewing creditworthiness while failing to conduct credit investigations based on other factors, such as financial condition, securities investment, credit record and risk profile;
- failure to establish detailed due diligence rules for our collateralized stock repurchase business, and in comprehensive due diligence performed by our branches;
- lack of effective measures for tracking and monitoring clients' uses of proceeds;
- failure by our risk management department to appoint a credit business committee member to approve adjustments to major policies governing the extension of credit and securities lending and margin financing;
- missing information in credit business agreements entered into with certain clients, such as signing dates or our company chop;
- failure to promptly update internal rules governing repurchase agreements in accordance with the latest regulatory requirements of the CSRC; and
- lack of written resolutions of our asset allocation committee on adjusting the scale of our quoted repurchase business.

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We have taken the following remedial measures to address the issues identified in our credit businesses:

- we reviewed overdue margin financing and securities lending agreements and completed handling these agreements by September 30, 2013;
- we canceled credit accounts of clients that have engaged in securities trading with us for less than six consecutive months;
- we designated the IT department to take charge of the risk management system for margin financing and securities lending, and required system hardware suppliers to regularly optimize the system, maintain system stability, and ensure we receive effective early warnings;
- we required business departments to grant credit in strict accordance with the credit worthiness of client accounts, and to conduct a comprehensive credit evaluation of clients' basic information, financial situation, trading, profits and losses and integrity;
- we formulated due diligence procedures for our collateralized stock repurchase business;
- we adopted different follow-up monitoring measures for clients with different risk levels;
- we revised the rules of our credit business management committee and added personnel to the committee as appointed by the risk management department to participate in reviewing and approving major extensions of credit and adjustments to major policies regarding margin financing and securities lending;
- we supplemented missing information in certain margin financing and securities trading agreements, updated business procedures and required business departments to submit scanned trading agreements and other materials to the head office for review;
- we updated our repurchase business rules in accordance with the latest CSRC requirements; and
- we issued written resolutions adjusting the scale of our repurchase business and required system developers to optimize our quoted repurchase business system.

The regulator identified the following key issues relating to our sales of third party financial products:

- we had sold third party financial products after the CSRC promulgated rules permitting such sales but before obtaining required licenses;

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- we had sold third party financial products before registering such sales activities with the relevant authorities;
- although we had established internal rules on the review of financial product developers, we had failed to specify how the results of such reviews should be used or to formulate detailed rules and procedures for due diligence on the sale of third party financial products;
- one of our branches marketed certain financial products to clients through text messages before we had formally approved the sale of such third party financial products;
- the departments responsible for compliance and risk management did not participate in the formulation and review of our internal policies on the sale of third party financial products;
- we failed to formulate detailed rules regarding umbrella trusts established by trust companies; and
- risk assessment questionnaires filled out by certain individual clients were incomplete.

We have taken the following remedial measures to address issues with our sale of third party financial products:

- we formulated detailed internal policies and rules regarding the sale of third party financial products and provided training to employees of our subsidiaries and branches;
- we conducted multi-round compliance inspections of sales of third party financial products, which included compliance with sales processes, client suitability management, record keeping and information disclosure;
- we engaged third party rating agencies to assist in evaluating financial products and their developers. The evaluation reports prepared by these rating agencies help review committees make decisions on whether we can sell certain third party financial products;
- we had professionals from our business departments form an expert panel to provide opinions on innovative financial products such as quantitative and securitized products;
- we optimized rules for selling third party financial products to suitable clients and required our branches to fully disclose the potential risks of financial products before entering into subscription agreements with clients;
- we optimized the rules for our return visit system for clients of third party financial products to better manage client suitability; and

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- we strengthened our accountability system and emphasized that sales personnel may not carry out certain unlawful or improper activities when promoting financial products.

We submitted our rectification report to the CSRC Shanghai Bureau in July 2014. As of the Latest Practicable Date, we had not received any objections to or follow-up comments on our rectification report from the regulator.

On-site inspection of Everbright Pramerica by the CSRC Shanghai Bureau in November 2014

From November 5, 2014 to November 6, 2014, the Shanghai Bureau of the CSRC conducted an on-site inspection of Everbright Pramerica and identified certain deficiencies associated with Everbright Pramerica's internal controls and risk management. The Shanghai Bureau of the CSRC issued a decision requiring Everbright Pramerica to adopt remedial measures within three months and, during such three-month rectification period, the CSRC ceased accepting any applications from Everbright Pramerica to register mutual fund products.

After being notified of the inspection results by the CSRC Shanghai Bureau, Everbright Pramerica formed a group to implement remedial measures with the chairman of the board of directors acting as group leader and senior management as group members. Everbright Pramerica adopted a series of remedial measures, including:

- establishing rules for the use of communications devices to mitigate the risk of employees going online without supervision or using personal computers without authorization, and further clarifying the responsibilities of each department;
- strengthening the system for employee declarations of securities investments and conducting an audit on all employee securities investment accounts. Everbright Pramerica imposed disciplinary sanctions on employees whose self-declarations were inconsistent with inspection results. It also revised administrative rules governing securities investments by employees to strengthen the requirements for declaring securities investments;
- strengthening the management of investment researcher authorization; and
- strengthening the management of related procedures, including employee departure reviews, completeness of disciplinary records, random reviews of research reports for inside information or inappropriate statements and strengthening reporting obligations on compliance issues by investment researchers.

In April 2015, we submitted our rectification report to the CSRC Shanghai Bureau. As of the Latest Practicable Date, we had not received any opposing opinions from the regulators on our rectification report.

Our Directors confirm that, except as disclosed above, there were no other material breaches or material incidents of regulatory non-compliance committed by us or our employees or material investigations against us in the jurisdictions in which we operated during the Track Record Period and up to the Latest Practicable Date.

RELATIONSHIP WITH THE EVERBRIGHT GROUP

OVERVIEW

As at the Latest Practicable Date, the Everbright Group directly held approximately 29.68% of the total issued share capital of our Company, and indirectly through Everbright Limited held approximately 29.16% of the total issued share capital of our Company, and therefore held approximately 58.84% of the total issued share capital of our Company in aggregate, and was our controlling shareholder. Immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised, the Everbright Group will directly hold approximately 25.28% of the total issued share capital of our Company and indirectly through Everbright Limited hold approximately 24.84% of the total issued share capital of our Company and therefore hold approximately 50.12% of the total issued share capital of our Company in aggregate and remain our controlling shareholder.

The Everbright Group is a state-owned company incorporated under the PRC laws on November 12, 1990. On December 8, 2014, the Everbright Group converted into a joint stock company and renamed as “China Everbright Group Corporation Limited”. As at the Latest Practicable Date, the Everbright Group was held as to 44.33% by the MOF and 55.67% by Huijin.

As at the Latest Practicable Date, Huijin, indirectly through its wholly-owned subsidiary Central Huijin Asset Management Ltd., held approximately 0.96% of the total issued share capital of our Company, indirectly through the Everbright Group held approximately 58.84% of the total issued share capital of our Company, and therefore held approximately 59.80% of the total issued share capital of our Company in aggregate. Immediately following the completion of the Global Offering and assuming that the Over-allotment Option is not exercised, Huijin will directly hold approximately 0.82% of the total issued share capital of our Company and indirectly through the Everbright Group hold approximately 50.12% of the total issued share capital of our Company, and therefore hold approximately 50.94% of the total issued share capital of our Company in aggregate. Huijin is authorized by the State Council of the PRC to carry out equity investment in key state-owned financial enterprises and on behalf of the PRC exercises investors’ rights and performs investors’ obligations in key state-owned financial enterprises within the amount of subscribed capital contribution, to maintain and increase the value of state-owned financial assets. Huijin is not engaged in any commercial operating activities and does not involve any daily operating activities of key state-owned financial enterprises controlled by it.

BUSINESS DELINEATION BETWEEN US AND THE EVERBRIGHT GROUP

Principal Business of Our Group

On August 18, 2009, our Company was listed on the Shanghai Stock Exchange through an initial public offering (with stock code: 601788). We operate as an independent listed entity and provide comprehensive securities and financial services to individual clients, corporate clients and institutional investors. Our principal business lines comprise brokerage and wealth management business, credit business, institutional securities services, investment management and overseas business (the “Principal Businesses”). See “Business — Our Business” for further details. Our business in PRC is mainly regulated by the CSRC, while our financial business in Hong Kong is mainly regulated by the SFC.

RELATIONSHIP WITH THE EVERBRIGHT GROUP

Principal Business of the Everbright Group

The Everbright Group is a finance holding company and is not directly engaged in any business operations. It mainly develops its financial business through its affiliates, which are primarily engaged in the investment in and management of financial business (including banking, securities, insurance, funds, trust, futures, leasing and bullion trading) and non-financial business. As of December 31, 2015, the registered capital of the Everbright Group was RMB60,000 million. For the years ended December 31, 2013, 2014 and 2015, the Everbright Group recorded total operating revenue of RMB74,295 million, RMB95,543 million and RMB123,603 million, respectively, and net profits of RMB28,253 million, RMB33,266 million and RMB40,801 million, respectively.

As of the Latest Practicable Date, the subsidiaries of the Everbright Group which conduct business similar to that conducted by our Group were as follows:

- *Everbright Bank.* Everbright Bank was directly owned as to 25.15% by the Everbright Group. It is a commercial bank incorporated in the PRC and listed on the Hong Kong Stock Exchange (stock code: 6818) and the Shanghai Stock Exchange (stock code: 601818);
- *Sun Life Everbright.* Sun Life Everbright was owned as to 50% by the Everbright Group. Sun Life Everbright is incorporated in the PRC and engaged in general insurance business and related reinsurance business. Sun Life Everbright, through its subsidiary, is engaged in asset management related to insurance;
- *Everbright Financial Holding Asset Management.* Everbright Financial Holding Asset Management was wholly-owned by the Everbright Group. Everbright Financial Holding Asset Management is incorporated in the PRC and engaged in equity investment and management, financial consulting, investment consulting, merger and acquisition of assets, and asset entrusted management and related consulting; and
- *Everbright Limited.* Everbright Limited was indirectly owned as to 49.74% by the Everbright Group. Everbright Limited is a company incorporated in Hong Kong and listed on the Hong Kong Stock Exchange (stock code: 165). It is primarily engaged in fund management and investment business.

Each sector of the PRC financial industry (including the securities, commercial banking, trust and insurance sectors) are regulated and supervised by different regulatory authorities and laws. The subsidiaries of the Everbright Group engaging in various businesses including commercial banking, trust and insurance are regulated and supervised by different regulatory authorities and laws. Each of them must be operated and managed independently and is restricted by the applicable laws and regulations from conducting securities business. For details of the regulatory regime of the PRC financial industry, see “Supervision and Regulation — Summary of China’s Regulatory Environment — Industry Entry Requirements”.

RELATIONSHIP WITH THE EVERBRIGHT GROUP

Everbright Bank

Everbright Bank is a commercial bank incorporated in the PRC and listed on the Hong Kong Stock Exchange (stock code: 6818) and the Shanghai Stock Exchange (stock code: 601818). It is mainly engaged in corporate banking, retail banking, financial market business and other financial business permitted by the applicable laws and regulations. Unless otherwise permitted by the PRC laws and regulations, it is not allowed to engage in trusts and securities business.

The following table sets out the relevant financial information of Everbright Bank during the Track Record Period:

	2013	2014	2015
		(RMB in millions)	
Total assets (as of December 31) . . .	2,415,086	2,737,010	3,167,710
Operating revenue (for the year ended December 31)	65,306	78,531	93,159
Net profit (for the year ended December 31)	26,754	28,928	29,577

Everbright Group does not participate in our daily operations nor the daily operations of Everbright Bank. Everbright Bank, being a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, is independent from Everbright Group in its operations and management. Similarly, we, being a company listed on the Shanghai Stock Exchange, are also operated and managed independently from Everbright Group. Further, both Everbright Bank and us have corporate governance mechanisms in place to avoid conflict of interest in compliance with the applicable laws, regulations and the Listing Rules.

Everbright Bank and our Group are regulated by different regulatory authorities and subject to different laws and regulations. As a commercial bank, Everbright Bank is mainly regulated by the CBRC and PBOC and subject to laws and regulations generally applicable to commercial banks. In contrast, we, as a securities firm, are mainly regulated by the CSRC and subject to laws and regulations generally applicable to securities firms.

Everbright Bank and we are both engaged in fixed-income product offering, asset management, asset custody and Hong Kong securities business. However, our major customers and those of Everbright Bank are different by nature. The attributes of our clients, including their requirements on wealth management and risk appetites, are inherently different from those of Everbright Bank on the whole. Accordingly, the products and services provided by Everbright Bank to its clients and by us to our clients are also different in aspects such as risk level.

In addition, our primary marketing and sale channels are different from those of Everbright Bank. The financial products of Everbright Bank are mainly marketed and sold through its nationwide bank branch network and electronic channels while we formulated different marketing strategies and sell our products to our customers mainly through our nationwide securities branch network and customer service personnel.

RELATIONSHIP WITH THE EVERBRIGHT GROUP

Below are further distinctions between these businesses conducted by Everbright Bank and us.

Underwriting of Fixed-Income Products

Although Everbright Bank and our Group both carry out underwriting of fixed-income products traded in inter-bank bond markets, the focus of the underwriting business of Everbright Bank is different from that of our Group. Everbright Bank mainly underwrites short-term and medium-term notes. While we also underwrite short-term and medium-term notes, our focus on underwriting of financial bonds and subordinated debt.

The following table sets out the relevant financial information of the fixed-income products underwriting business of Everbright Bank during the Track Record Period:

	For the year ended December 31,		
	2013	2014	2015
Operating revenue			
<i>(RMB in millions)</i>	1,010.4	1,147.2	1,182.7
% of total revenue of			
Everbright Bank.	1.6	1.5	1.3
% of total revenue of the			
Everbright Group	1.4	1.2	1.0

The following table sets out the relevant financial information of our underwriting of fixed-income products during the Track Record Period:

	For the year ended December 31,		
	2013	2014	2015
Operating revenue			
<i>(RMB in millions)</i>	118.8	86.9	576.7
% of our total revenue	2.3	1.0	2.5

As shown above, the contribution of the fixed-income products underwriting business to the overall financial significance of Everbright Bank and the Everbright Group is limited, and such contribution of our fixed-income products underwriting business to us is also not significant.

Given the further delineation between the fixed-income products underwriting business of Everbright Bank and us in terms of target products, we are of the view that there is no substantive competition between Everbright Bank and us in fixed-income products underwriting business. Based on the above financial information, we believe that any competition between Everbright Bank and us in fixed-income products underwriting business will not have any significant impact on our overall business and financial results.

Asset Management

Although Everbright Bank and Everbright Asset Management, our wholly-owned subsidiary, both carry out asset management business, the positioning and strategies of Everbright Bank and Everbright Asset Management are different. Everbright Bank primarily

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offers self-developed banking wealth management products, which are typically of low-to-medium risk level, to its corporate and retail banking customers. Except for certain private banking customers, Everbright Bank's asset management clients are mainly retail banking customers. The threshold for financial products subscribed by retail customers are relatively low, and retail customers are less familiar with the financial markets, and more demanding on asset liquidity and security, and therefore, have a lower level of risk tolerance. Our asset management business primarily offers TAM schemes, CAM schemes and SAM schemes to our customers. Our CAM products are offered to a wide range of customers and accordingly, carry varying levels of risk depending on customer needs; our TAM products targets institutional investors and high-net-worth individuals and carry relatively greater risks; our SAM products are mainly asset-backed securities, the level of risk of which is determined by rating agencies. Senior asset-backed securities typically target commercial banks, insurance companies, securities companies and other institutional clients, while subordinated asset-backed securities are mainly bought by beneficial equity owners. In general, given our nature of a securities firm, our asset management customers are typically institutions or high-net-worth individuals, who are able to bear greater loss to investment principal, more familiar with the financial markets and less demanding on asset liquidity, and therefore, have a higher level of risk tolerance.

As of December 31, 2015, the total AUM of Everbright Bank's asset management business was approximately RMB1,216.1 billion, whereas the total AUM of Everbright Asset Management was only RMB235.3 billion.

The following table sets out the relevant financial information of the asset management business of Everbright Bank during the Track Record Period:

	For the year ended December 31,		
	2013	2014	2015
Operating revenue			
<i>(RMB in millions)</i>	2,285.0	3,349.0	7,253.0
% of total revenue of			
Everbright Bank.	3.5	4.3	7.8
% of total revenue of the			
Everbright Group	3.1	3.5	5.9

The following table sets out the relevant financial information of Everbright Asset Management during the Track Record Period:

	For the year ended December 31,		
	2013	2014	2015
Operating revenue			
<i>(RMB in millions)</i>	238.3	412.8	960.5
% of our total revenue	4.6	4.8	4.1

As shown above, Everbright Bank's asset management business is currently of a much larger scale than ours. The contribution of Everbright Bank's asset management business to the overall business size and financial significance of Everbright Bank and the Everbright Group is not significant, and such contribution of Everbright Asset Management to us is also not significant.

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Given the further delineation between the asset management business of Everbright Bank and us in terms of product type, we are of the view that there is no substantive competition between Everbright Bank and us in such business. Based on the above financial information, we believe that any competition between Everbright Bank and us in asset management business will not have any significant impact on our overall business and financial results.

On the contrary, we have a cooperative relationship with affiliates of the Everbright Group. We sell our asset management products through both our nationwide distribution network and third party agency banks, including Everbright Bank. In addition, we design investment schemes for such affiliates and collaborated with them to design and provide custody services for asset management products. Historically, we have designed schemes for, among other companies, Everbright Bank and Everbright Limited. See “Business — Our Business — Investment Management — Asset Management — Everbright Asset Management” for details.

Asset Custody Business

Both Everbright Bank and our Group conduct asset custody business. However, we mainly provide asset custodial services to private fund managers registered with the Asset Management Association of China, whereas Everbright Bank provides asset custodial services for both public and private funds, and its scope of target clients is much wider and include financial institutions such as banks, trusts, securities companies, futures companies, insurance companies and funds.

The following table sets out the relevant financial information of the asset custody business of Everbright Bank during the Track Record Period:

	For the year ended December 31,		
	2013	2014	2015
Operating revenue (RMB in millions)	715.0	969.0	1,649.0
% of total revenue of Everbright Bank	1.1	1.2	1.8
% of total revenue of the Everbright Group	1.0	1.0	1.3

The following table sets out the relevant financial information of our asset custody business during the Track Record Period:

	For the year ended December 31,		
	2013	2014	2015
Operating revenue (RMB in millions)	0.02	0.06	0.10

The operating revenue recorded for our asset custody business for each of the years ended December 31, 2013, 2014 and 2015 accounted for less than 0.01% of our total revenue for the same period.

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As shown above, currently, the contribution of the asset custody business to the overall financial significance of Everbright Bank and the Everbright Group is limited, and such contribution of our asset custody business to us is also not significant.

Given the further delineation between the asset custody business of Everbright Bank and us in terms of customer base, we are of the view that there is no substantive competition between Everbright Bank and us in such business. Based on the above financial information, we believe that any competition between Everbright Bank and us in asset custody business will not have any significant impact on our overall business and financial results.

Hong Kong Securities Business

A subsidiary of Everbright Bank, CEB International Capital Corporation Limited (“CEBI”), is expected to carry out the business permitted under Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 6 (Advising on Corporate Finance) licenses of the SFC. Some of our subsidiaries in Hong Kong also hold the same licenses and carry out the activities permitted under the licenses. For details of delineation of the business of CEBI and the Relevant Hong Kong Subsidiaries (as defined below), please refer to “— Excluded Hong Kong Securities Business” below.

Sun Life Everbright

Sun Life Everbright was established in the PRC. It is engaged in insurance business, including insurances such as life insurance, health insurances and accidental injury insurance, and reinsurance business of the aforementioned businesses. Its subsidiary is mainly engaged in the asset management businesses related to insurance, including managing entrusted funds, owned funds, and developing insurance assets management products businesses. As an insurance company, Sun Life Everbright is regulated by the CIRC.

While our Group and Sun Life Everbright both conduct asset management business, the asset management business of Sun Life Everbright and our Group are regulated by different regulatory authorities, laws and regulations. The asset management business of Sun Life Everbright is mainly regulated by the CIRC and subject to the laws and regulations applicable to asset management business of insurance companies, while our asset management business is mainly regulated by the CSRC and subject to the laws and regulations applicable to the asset management business of securities firms.

Sun Life Everbright’s asset management business mainly manages insurance premium received from its insurance customers, while our asset management business manage funds received from individual and institutional customers developed through our principal business. As such, our asset management business has a wider and more varied customer base.

As of December 31, 2015, the total AUM of Sun Life Everbright’s asset management business was approximately RMB375.7 billion, whereas the total AUM of Everbright Asset Management was RMB235.3 billion.

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The following table sets out the relevant financial information of the asset management business of Sun Life Everbright during the Track Record Period:

	For the year ended December 31,		
	2013	2014	2015
Operating revenue			
<i>(RMB in millions)</i>	266.1	303.2	316.3
% of total revenue of			
Sunlife Everbright	5.9	7.5	5.7
% of total revenue of the			
Everbright Group	0.4	0.3	0.3

The following table sets out the relevant financial information of Everbright Asset Management during the Track Record Period:

	For the year ended December 31,		
	2013	2014	2015
Operating revenue			
<i>(RMB in millions)</i>	238.3	412.8	960.5
% of our total revenue	4.6	4.8	4.1

As shown above, the contribution of Sun Life Everbright's asset management business to the overall business size and financial significance of Sun Life Everbright is limited and is insignificant to that of the Everbright Group, and such contribution of Everbright Asset Management to us is also not significant.

In light of the above differences, we are of the view that there is no substantive competition between Sun Life Everbright and us. Further, based on the above financial information, we believe that any competition between Sun Life Everbright and us in asset management business will not have any significant impact on our overall business and financial results.

Everbright Financial Holding Asset Management

Everbright Financial Holding Asset Management was established in the PRC and is engaged in equity investment and management, financial consulting, investment consulting, asset merger and acquisition, and asset entrusted management and consulting.

While both our Group and Everbright Financial Holding Asset Management provide financial advisory services related to asset mergers and acquisitions business, the nature of these services are different. We have obtained licenses issued by the CSRC for providing certain financial advisory services and professional services related to asset mergers and acquisitions within the scope permitted under such licenses. In contrast, Everbright Financial Holding Asset Management does not possess such licenses and hence, can only act as an agent in certain fixed-income transactions and asset mergers and acquisitions.

RELATIONSHIP WITH THE EVERBRIGHT GROUP

The following table sets out the relevant financial information of the financial advisory services of Everbright Financial Holding Asset Management during the Track Record Period:

	For the year ended December 31,		
	2013	2014	2015
Operating revenue (RMB in millions)	16.3	10.8	22.3
% of total revenue of Everbright Financial Holding Asset Management	7.6	4.1	7.1
% of total revenue of the Everbright Group	0.02	0.01	0.02

The following table sets out the relevant financial information of our financial advisory services during the Track Record Period:

	For the year ended December 31,		
	2013	2014	2015
Operating revenue (RMB in millions)	83.8	88.8	201.0
% of our total revenue	1.6	1.0	0.9

As shown above, the contribution of Everbright Financial Holding Asset Management’s financial advisory services business to the overall business size and financial significance of Everbright Financial Holding Asset Management and the Everbright Group is limited, and such contribution of our financial advisory services business to us is also not relatively high.

In light of the above differences, we are of the view that there is no substantive competition between Everbright Financial Holding Asset Management and us. Based on the above financial information, we believe that any competition between the financial advisory services conducted by Everbright Financial Holding Asset Management and us will not have any significant impact on us.

Our Group and Everbright Financial Holding Asset Management also both operate direct investment business. For details of delineation between our direct investment business and the direct investment of Everbright Financial Holding Asset Management, please refer to “— Excluded Direct Investment Business” below.

Everbright Limited

Everbright Limited is a company incorporated in Hong Kong and listed on the Hong Kong Stock Exchange (stock code: 165). It is primarily engaged in fund management and investment business.

While Everbright Limited and our Group both conduct fund management business, the investment targets of these businesses are different. We provide fund management mainly through our subsidiary, Everbright Pramerica. Everbright Pramerica holds a license issued by

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the CSRC which allows it to manage public funds that invest in the PRC secondary market mainly for domestic individual investors and institutional investors. However, Everbright Limited currently does not possess the necessary CSRC license to manage public funds and hence, is not allowed to manage public funds in the PRC that invest in the PRC secondary market. In contrast, Everbright Limited's fund management business is mainly focused on managing primary market and secondary market funds for offshore international institutional investors, domestic corporations and banks.

Based on the above, we consider that is no substantive competition between the fund management business conducted by Everbright Limited and us. Further, based on the following financial information, any competition between Everbright Limited and us will not have any significant impact on our overall business and financial results. As of December 31, 2015, the total AUM of the secondary market funds managed by Everbright Limited was approximately HKD6.1 billion, whereas the total AUM of the funds managed by Everbright Pramerica was approximately RMB74.5 billion.

The following table sets out the relevant financial information of the secondary market funds managed by of Everbright Limited during the Track Record Period:

	For the year ended December 31,		
	2013	2014	2015
Operating revenue (<i>HKD in millions</i>)	53.0	158.4	199.0
% of total revenue of Everbright Limited	2.3	5.3	6.8

The following table sets out the relevant financial information of fund management business of Everbright Pramerica during the Track Record Period:

	For the year ended December 31,		
	2013	2014	2015
Operating revenue (<i>RMB in millions</i>)	371.2	371.4	462.0
% of our total revenue	7.2	4.3	2.0

In addition, both we and Everbright Limited are listed companies. Everbright Limited, being a company listed on the Hong Kong Stock Exchange, is independent from the Everbright Group in its operations and management. Similarly, we, being a company listed on the Shanghai Stock Exchange, are also operated and managed independently from the Everbright Group. Further, both Everbright Limited and us have corporate governance mechanisms in place to avoid conflict of interest, which is in compliance with laws, regulations and the Listing Rules.

Our Group and Everbright Limited also both operate direct investment business. For details of delineation between our direct investment business and the direct investment of Everbright Limited, please refer to “— Excluded Direct Investment Business” below.

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EXCLUDED DIRECT INVESTMENT BUSINESS

Direct investment can generally be classified into two major types, financial investment and strategic investment. Financial investment mainly refers to investment in target companies for capital appreciation through future exit opportunities, or for earning dividends income, while strategic investment generally refers to investment in target companies which can fit into the investor's own long-term business plans, or for the purpose of vertical expansion (towards the customer or supplier), horizontal expansion (into new geographic markets or product lines), eliminating competition, or strengthening its competitiveness.

Excluded Direct Investment Entities

As of the Latest Practicable Date, among the affiliates controlled by the Everbright Group which are engaged in financial services investment and management, the entities which are or may be engaged in financial investment and/or strategic investment (the "Excluded Direct Investment Business") are primarily Everbright Financial Holding Asset Management and Everbright Limited and their respective subsidiaries (collectively, the "Excluded Direct Investment Entities").

Our Direct Investment Business

We conduct direct investment business through Everbright Capital and Everbright Fortune. The following table sets out the relevant financial information of these two entities during the Track Record Period:

Name	Revenue for the three years ended December 31,			Net profits (loss) for the three years ended December 31,		
	2013	2014	2015	2013	2014	2015
	(RMB in millions)			(RMB in millions)		
Everbright Capital	17.3	31.3	411.7	(7.8)	(62.0)	367.7
Everbright Fortune	7.4	5.2	297.8	(6.8)	(9.2)	155.1
Total	24.7	36.5	709.5	(14.6)	(71.2)	522.8

Reasons for Exclusion of the Excluded Direct Investment Business

Although the Excluded Direct Investment Entities and our Group are both engaged in direct investment business, there are significant differences between the Excluded Direct Investment Business and our direct investment business conducted through Everbright Capital and Everbright Fortune:

Materiality of Our Direct Investment Business

For the years ended December 31, 2013, 2014 and 2015, Everbright Capital and Everbright Fortune accounted for approximately 0.62%, 0.55% and 4.28% of the total revenue of our Group, respectively. For the year ended December 31, 2015, Everbright Capital and Everbright Fortune accounted for approximately 6.75% of the net profit of our Group, whereas in the years ended December 31, 2013 and 2014, Everbright Capital

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and Everbright Fortune recorded net loss. The loss recorded by Everbright Capital in 2013 and 2014 primarily reflected provision of RMB20 million for impairment losses on the long-term equity investment in an investee company and RMB102.8 million in aggregate for impairment losses on the long-term equity investment in four investee companies, respectively. Everbright Fortune began to operate direct investment business in 2015 and the loss recorded in 2013 and 2014 resulted from adverse impact of market conditions on its strategic investments. Accordingly, the revenue and profit contribution of our direct investment business to our Group during the Track Record Period was relatively small. As such, our Directors believe that any potential competition between our Group and the Excluded Direct Investment Entities in direct investment business will have little impact on our Group's overall business.

In addition, our Directors do not expect that our Group direct investment business will account for a material portion of our overall business in the foreseeable future.

Nature of Relevant Markets

The PRC direct investment market is sizeable and open, and it is able to accommodate a very large number of participants. It is common for multiple investors to invest in the same target company. As of December 31, 2015, the direct investment business of Everbright Financial Holding Asset Management had total committed capital of more than RMB21 billion and the direct investment business of Everbright Limited had total committed capital of HKD50.4 billion, respectively, whereas the direct investment business of our Group had total committed capital of approximately RMB8.3 billion. Based on the above, any potential competition between our Group and the Excluded Direct Investment Entities is of no difference from competition encountered by our Group with any Independent Third Party.

As further illustrated in “Our Business Relationship with the Everbright Group” below, instead of competing with them, the relationship between our Group and the Excluded Direct Investment Entities is more of a collaborative nature.

As of the Latest Practicable Date, we had not competed with the Excluded Direct Investment Entities in any investment opportunity.

Financial Performance of the Excluded Direct Investment Business

The following table sets out the relevant financial information of the direct investment business of Everbright Financial Holding Asset Management during the Track Record Period:

	For the year ended December 31,		
	2013	2014	2015
Operating revenue (RMB in millions)	197.7	254.3	292.6
% of total revenue of the Everbright Group	0.3	0.3	0.2
Profit (RMB in millions)	34.9	51.4	167.0
% of profit of the Everbright Group	0.1	0.1	0.3

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The following table sets out the relevant financial information of the direct investment business of Everbright Limited during the Track Record Period:

	For the year ended December 31,		
	2013	2014	2015
Operating revenue (<i>HK\$ in millions</i>)	682.4	1,270.5	1,335.3
% of total revenue of Everbright Limited	29.7	42.4	45.4
% of total revenue of the Everbright Group	0.9	1.3	1.1
Profit (<i>HK\$ in millions</i>)	488.6	2,111.7	5,161.5
% of profit of Everbright Limited	27.2	71.1	89.4
% of profit of the Everbright Group	1.70	6.30	12.60

Independent Operation and Management

Everbright Limited, being a company listed on the Hong Kong Stock Exchange, is independent from the Everbright Group in its operation and management. In addition, the directors of Everbright Limited have duties to act in the interest of its shareholders as a whole. Similarly, we, being a company listed on the Shanghai Stock Exchange, are operated and managed independently from the Everbright Group. Our Directors have duties to act in the interest of our Shareholders as a whole. As such, any competition between our Group and Everbright Limited in direct investment business is of no difference from competition between our Group and any Independent Third Party.

In light of the above reasons, our Directors are of the view that there is no material competition between the Excluded Direct Investment Business and our direct investment business.

EXCLUDED HONG KONG SECURITIES BUSINESS

Excluded Hong Kong Securities Business

CEBI, a wholly-owned subsidiary of Everbright Bank established on August 6, 2015, obtained Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 6 (Advising on Corporate Finance) licenses (collectively, the “Relevant SFC Licences”) from the SFC in December 2015, and intends to carry out activities permitted under such licenses (the “Excluded Hong Kong Securities Business”).

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Our Hong Kong Securities Business

Some of EBSHK's Hong Kong subsidiaries (the "Relevant Hong Kong Subsidiaries"), including certain subsidiaries of ESIL and SHKFGL, also hold the Relevant SFC Licenses and carry out activities permitted under such licenses. The following table sets out the relevant financial information of the Relevant Hong Kong Subsidiaries during the Track Record Period:

Total Revenue for the three years ended December 31,			Net profits (losses) for the three years ended December 31,		
2013 ⁽¹⁾	2014 ⁽¹⁾	2015 ⁽¹⁾	2013 ⁽¹⁾	2014 ⁽¹⁾	2015 ⁽¹⁾
(RMB in millions)			(RMB in millions)		
293.2	277.1	825.8	60.4	(128.1)	(24.0)

(1) The total revenue and net profits (losses) for the years ended December 31, 2013, 2014 and 2015 did not include the total revenue and net profits (losses) of SHKFGL and its subsidiaries prior to the acquisition of a 70% interest in SHKFGL by EBSHK.

Reasons for exclusion of the Excluded Hong Kong Securities Business

Although CEBI holds the same SFC Licenses and intends to carry out similar activities as the Relevant Hong Kong Subsidiaries, CEBI has been established less than one year and it is at an early stage of carrying on the Excluded Hong Kong Securities Business. Our Hong Kong securities business is well-established with mature operation and management. Furthermore, our Directors are of the view that there is no material competition between the Excluded Hong Kong Securities Business and our Hong Kong securities business conducted through the Relevant Hong Kong Subsidiaries based on the following reasons:

Nature of Relevant Market

The Group conducts underwriting business for initial public offerings of securities in Hong Kong through China Everbright Capital Limited, China Everbright Securities (HK) Limited and Sun Hung Kai International Limited, which obtained licenses from the Hong Kong SFC to carry out Type 6 regulated activities (Advising on Corporate Finance). The Hong Kong securities market is of a significant scale and can accommodate a large number of market participants (as of March 31, 2016, there were over 1,100 market participants in Hong Kong licensed to carry out underwriting business for initial public offerings of securities). It is common for multiple financial service providers to provide services to a client or a group of clients in the same transaction.

Independent Operation and Management

Both we and Everbright Bank are listed companies. Everbright Bank, being a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, operates independently from the Everbright Group and independently carries out the Excluded Hong Kong Securities Business. In addition, the directors of Everbright Bank are obliged to perform their duties for the best interest of its shareholders as a whole. Similarly, we, being a company listed on the Shanghai Stock Exchange, are operated and managed independently from the Everbright Group for the best interests of our Company

RELATIONSHIP WITH THE EVERBRIGHT GROUP

and Shareholders as a whole. Further, both Everbright Bank and us have stringent corporate governance mechanisms in place to avoid conflict of interest, which is in compliance with the applicable laws, regulations and the Listing Rules.

Materiality of Our Hong Kong Securities Business

For the years ended December 31, 2013, 2014 and 2015, the Relevant Hong Kong Subsidiaries accounted for approximately 5.84%, 3.27% and 3.57% of the total revenue of our Group, respectively. For the year ended December 31, 2013, the Relevant Hong Kong Subsidiaries recorded net profit of RMB60.4 million but recorded net loss for the years ended December 31, 2014 and 2015. Please refer to “Financial Information — Segment Operating Results — Overseas Business — Profit/(loss) before income tax” for discussion of the reasons for the net profit/(loss) recorded by the Relevant Hong Kong Subsidiaries, which are covered under our overseas business. As such, our Directors expect that any competition between the Relevant Hong Kong Subsidiaries and CEBI will have little impact on our Group’s overall business.

In light of the above reasons and considering the current operation scale of CEBI, our Directors are of the view that any competition between our Hong Kong securities business and the Excluded Hong Kong Securities Business is immaterial and no different from competition with the Hong Kong securities business conducted by an Independent Third Party.

OUR BUSINESS RELATIONSHIP WITH THE EVERBRIGHT GROUP

Apart from leasing of commercial properties from each other, our Group and the Everbright Group and its associates have also entered into certain securities and financial product transactions including products with fixed income features, fixed income related derivative products, equity-linked products, financing transactions, futures, foreign exchange and commodities trading. In addition, our Group and the Everbright Group and its associate also provide securities and financial services to each other : (a) services we provide to the Everbright Group and its associates include underwriting and sponsorship services, other investment banking services, securities brokerage services, financial products sale services, entrusted asset management services, and other miscellaneous securities and financial advisory and consulting services; and (b) services the Everbright Group and its associates provide to us include deposit services, client deposits management services, loan services, and other miscellaneous securities and financial advisory and consulting services and monetary brokerage services. The revenue generated from the above transactions accounted only for 4.04%, 3.12%, 2.24% and 2.23% of the total revenue of our Company for each of the three years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016. For further details, please see “Connected Transactions — Non-exempt Continuing Connected Transactions — 2. Financial Products and Services Framework Agreement between our Company and the Everbright Group”.

To facilitate collaboration among its subsidiaries, the Everbright Group has set up task forces among its various subsidiaries, including our Company. The Everbright Group is responsible for the overall planning and coordination of the development and marketing of financial products, and the integration of customer resources and sales channels among its

RELATIONSHIP WITH THE EVERBRIGHT GROUP

various subsidiaries, while its subsidiaries are responsible for formulating and implementing the detailed plans. As a core securities financial services platform of the Everbright Group, our Group benefits from the synergy with the Everbright Group and its other subsidiaries. By establishing cooperative relationships with the Everbright Group and its subsidiaries through the sharing of customers and industry information, and the cross-selling of financial products and services, we are able to provide one-stop multi-dimensional securities financial services to our customers, thereby satisfying different financial needs of the same customer. In 2015, our Group collaborated with certain subsidiaries of the Everbright Group, including Everbright Bank, Sun Life Everbright and Everbright Limited, in areas including asset custody business, credit business, investment banking business, fixed income business, asset management business and fund deposit business. As a result, the sales channels of our financial products have been expanded to the main subsidiaries of the Everbright Group, including Everbright Bank and Sun Life Everbright Asset Management Co., Ltd., a subsidiary of Sun Life Everbright.

In addition, the brand effect of “Everbright” coupled with our leading market position allow us to better capitalize market opportunities brought by various innovative policies of the CSRC. In April 2015, we co-founded Everbright Cloud Pay with the Everbright Group, Everbright Financial Holding Asset Management, Sun Life Everbright, Everbright Investment and Assets Management and Everbright Trust. Following the establishment of Everbright Cloud Pay, the sale of the financial products developed by the Everbright Group and certain of its subsidiaries by us will account for a growing portion of our business, allowing us to further capitalize on the synergy established with the Everbright Group and its other subsidiaries.

Although our Company is able to realize the synergies between the Everbright Group’s subsidiaries and the brand recognition of “Everbright”, our Company operates its businesses independently from the Everbright Group in the aspects of management, operation and finance. For further details, please see “Independence from Our Controlling Shareholder”.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

Based on the following reasons, our Directors believe that we will be able to conduct our business independently from our controlling shareholder and their respective close associates (excluding the Group) upon the Listing:

Management Independence

As at the Latest Practicable Date, the Board consisted of eleven⁽¹⁾ Directors, including one executive Director, six non-executive Directors and four⁽¹⁾ independent non-executive Directors.

(1) According to the Articles of Association that will become effective on the Listing Date, the Board will consist of thirteen Directors. The Company will appoint Mr. Au Sing Kun as our independent non-executive Director with effect from the Listing Date. Therefore, The Board will have twelve Directors on the Listing Date. As advised by King & Wood Mallesons, our PRC legal advisors, the composition of the Board on the Listing Date will be in compliance with the Articles of Association. The Company is in the process of selecting the 13th Director and will make the appointment as soon as practical after the Listing.

RELATIONSHIP WITH THE EVERBRIGHT GROUP

The following table sets out the positions held by our Directors, Supervisors and senior management, respectively, in the Everbright Group or its subsidiaries as at the Latest Practicable Date:

Name of Director/ Supervisor/ Senior Management	Position held in our Company	Position held in the Everbright Group	Position held in the subsidiaries of the Everbright Group
Mr. Tang Shuangning	Non-executive Director	Chairman	Chairman of the board of directors of Everbright Limited, chairman of the board of directors of China Everbright International Limited, chairman of China Everbright Holdings, chairman of Everbright Bank, director of Sun Life Everbright
Mr. Gao Yunlong	Non-executive Director	Vice chairman, general manager	Director of Sun Life Everbright, and vice chairman of Everbright Bank
Mr. Guo Xinshuang	Chairman, non-executive Director	Deputy general manager	N/A
Mr. Yin Lianchen	Non-executive Director	N/A	Chief investment officer and a member of the Management Decision Committee of Everbright Limited, and supervisor of Everbright Bank
Mr. Chan Ming Kin	Non-executive Director	N/A	Chief legal advisor and Company Secretary, and a member of the Investment Decision Committee of Everbright Limited
Ms. Jiang Bo	Supervisor	Chief financial officer, chairman of the trade union	Director of Everbright Financial Holding Asset Management, director of China Everbright Holdings, and director of Sun Life Everbright
Mr. Nie Ting Ming	Supervisor	N/A	Managing director and department head of the investment management department of Everbright Limited
Mr. Wang Weimin	Vice president	N/A	Non-executive director of Everbright Limited

Except for the individuals listed above, none of the Directors, Supervisors and senior management of our Company hold any position in the Everbright Group or its subsidiaries, and they are independent from the Everbright Group.

RELATIONSHIP WITH THE EVERBRIGHT GROUP

Despite certain of our Directors/Supervisors/senior management also held positions in the Everbright Group or its subsidiaries, our Directors believe that our Company is able to operate its business independently from the Everbright Group due to the following reasons:

- (i) The daily operation of our Company is managed by our experienced senior management team and overseen by our sole executive Director, Mr. Xue Feng. Our non-executive Directors only participate in the decision making of significant matters, such as our operational strategy:
 - (a) Our sole executive Director, Mr. Xue Feng, has extensive experience in the financial industry. He oversees and manages the day-to-day operation of our Company with the support from our Company's experienced senior management team and is responsible for its business operation. Mr. Xue Feng does not hold any position in the Everbright Group or any of its subsidiaries;
 - (b) As at the Latest Practicable Date, out of the eleven Directors of our Company, there were only two Directors who concurrently served on the respective Boards of our Company and the Everbright Group, namely Mr. Tang Shuangning and Mr. Gao Yunlong. The other non-executive Director, Mr. Guo Xinshuang is the deputy general manager of the Everbright Group and he is not a member of the board of the Everbright Group. As non-executive Directors of our Company, they do not participate in our daily operation and management and only participate in the decision-making process of significant matters, such as our operational strategy;
 - (c) Our other two non-executive Directors, namely Mr. Yin Lianchen and Mr. Chan Ming Kin, only hold positions in a subsidiary of the Everbright Group but not the Everbright Group itself. As such, they have little influence, if any, at the level of the Everbright Group;
 - (d) Mr. Wang Weimin, our vice president, is only a non-executive director of Everbright Limited, a subsidiary of the Everbright Group and does not participate in the daily operation and management of Everbright Limited;
- (ii) Each of our Directors is fully aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interests of our Company and its Shareholders as a whole and does not allow any conflict between his/her duties as a Director and his/her personal interest to exist;
- (iii) Our Directors believe that our Board has a balanced composition of executive Director, non-executive Directors and independent non-executive Directors which ensures the independence of the Board in making decisions affecting our Company:
 - (a) our independent non-executive Directors account for more than one-third of the Board;
 - (b) our independent non-executive Directors do not and will not take up any position in the Everbright Group or its subsidiaries;
 - (c) our independent non-executive Directors, details of whom are set out in "Directors, Supervisors and Senior Management", together possess the requisite industry knowledge and experience for their views to carry weight; and
 - (d) all of our independent non-executive Directors have experience as independent directors of listed

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companies and will be able to provide impartial and professional advice. In conclusion, the Directors believe that our independent non-executive Directors bring independent judgment to the decision making of our Board and protect the interest of our Company and its Shareholders as a whole;

- (iv) There is no material competition between the businesses engaged in by the Everbright Group and its subsidiaries and other entities controlled by it (excluding our Group) and our Group's business engaged in by a securities firm and regulated by the relevant securities commission;
- (v) Since our A shares became listed on the Shanghai Stock Exchange in August 2009, our Company has been in compliance with all applicable requirements of the Shanghai Stock Exchange and established a series of stringent corporate governance measures on internal control, risk management and connected transactions. In addition, upon the Listing, our Company will establish the following corporate governance measures to avoid any potential conflicts of interest as a result of the overlapping of Directors between us and the Everbright Group. Therefore, the Directors believe that our Company has sufficient and effective control mechanisms to ensure that the Directors perform their respective duties properly and safeguard the interests of our shareholders as a whole:
 - (a) The decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflicts of interest by providing, among other things, that Directors who are connected with the corporations involved in the matters to be resolved at the Board meeting shall neither vote on such resolution nor vote on behalf of other Directors. The Board meeting may proceed if more than half of the Directors that have no such connected relations are present, and resolutions of the Board meeting may be adopted if approved by more than half of Directors that have no such connected relations. Where the number of the Directors who have no such connected relations attending the Board meeting is less than 3, then matters to be discussed at such meeting shall be submitted to the shareholders' general meeting for consideration. Pursuant to the "Procedures on Management of Related Party Transactions" as formulated by the Company, in the event of conflicts of interest, when potential and actual conflicts arising from related party/connected transaction(s) are considered, the parties will also comply with applicable requirements of the Listing Rules at the place where our Company is listed and the relevant Directors who are related to/connected with the Everbright Group will abstain from voting, and shall not vote on behalf of other Directors;
 - (b) The independent non-executive Directors of our Company shall give their independent opinions to the Shareholders on the relevant related party/connected transaction(s) pursuant to the Listing Rules at the place where our related party/Company is listed;
 - (c) Our Directors shall abstain from voting on any Board resolutions approving any contract or arrangement or any other proposal in which they or any of

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their close associates have a material interest. In such a situation, our Directors who do not have any ongoing role with the Everbright Group will vote and decide on such matters. In this context, a conflict, so far as our Company is concerned, will be taken to include any matter in which the Everbright Group has a direct or indirect interest;

- (d) Our Directors (including the independent non-executive Directors) will seek independent and professional opinions from external advisors at our Company's cost as and when appropriate in accordance with the *Code on Corporate Governance Practices and Corporate Governance Report* as set out in Appendix 14 to the Hong Kong Listing Rules;
- (e) Any transactions between our Company and its connected persons shall be in compliance with the relevant requirements of Chapter 14A of the Hong Kong Listing Rules, including the announcement, reporting and independent shareholders' approval requirements (if applicable) under the Rules; and
- (f) Our Company has appointed CMB International Capital Limited as our compliance adviser and will appoint a Hong Kong legal advisor by the Listing, which will provide advice and guidance to us in respect of compliance with the Hong Kong Listing Rules and applicable laws, rules, codes and guidelines, including but not limited to various requirements relating to Directors' duties and internal controls.

Based on the above, the Directors believe that our management team is independent from the Everbright Group, that our Company can operate its business independently from the Everbright Group, and that all of our Directors have relevant experience and ability to ensure proper and effective operation of the Board.

Operational independence

During the Track Record Period, we did not rely on our controlling shareholder for our business activities and development of our businesses. Although the controlling shareholder will retain a controlling interest in our Company after the Global Offering, we believe that we can operate our business independently from our controlling shareholder due to the following reasons:

- (i) We hold or enjoy the benefit of all relevant licenses necessary to operate our businesses;
- (ii) Although we benefit from synergies within the Everbright Group and its brand recognition, we have independent customer bases and an independent management team to engage in our respective business sectors, and do not rely on any referral of customers or businesses from the Everbright Group;
- (iii) We can make decisions and carry out our own business operations independently;

RELATIONSHIP WITH THE EVERBRIGHT GROUP

- (iv) We have our own organizational structure and departments independent from our controlling shareholder;
- (v) We also maintain a comprehensive set of internal control procedures for promoting efficient business operation. With reference to relevant laws, regulations and rules, we have developed sound corporate governance practice and have adopted our rules of procedure for general meeting, rules of procedure for board meeting, rules of procedure for supervisory committee meeting and connected transactions regulations;
- (vi) We own or have the right to use all the operational facilities relating to our business; and
- (vii) We have sufficient capital, facilities and employees to operate our business independently.

Financial independence

During the Track Record Period and up to the Latest Practicable Date, our Group had its own internal control, accounting and financial management systems and functions, independent treasury functions for cash receipts and payments and we made financial decisions according to our own business needs.

None of our financial staff works for our controlling shareholder and/or its associates. We are capable of making financial decisions independently, and our controlling shareholder will not intervene how we decide to use our funds. We have established an independent audit system, a standardized financial and accounting system and a comprehensive financial management system. In addition, we manage our bank accounts independently, and do not share any bank accounts with our controlling shareholder and/or its associates. We conduct our tax registration and pay taxes independently according to the PRC tax laws and regulations, rather than on a combined basis with our controlling shareholder or its associates.

In addition, our Group does not rely on our controlling shareholder and/or its close associates for provision of financial resources. Regarding the loans provided by the Everbright Group and its associates for the Group during the Track Record Period, the transactions were based on prevailing market price or rate in the ordinary and usual course of business and were conducted according to applicable and normal market usual practice and on normal commercial terms. There were no other outstanding guarantees and loans provided by our controlling shareholder to us as at the Latest Practicable Date. Our Directors believe that we are capable of obtaining financing from external sources without reliance on our controlling shareholder.

Historically, the revenue generated from the transactions between us and the Everbright Group and its associates accounted only for 4.04%, 3.12%, 2.24% and 2.23% of our total revenue for each of the three years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016, while the expenses incurred from the transactions between us and the Everbright Group and its associates accounted only for 1.34%, 1.28%, 0.97% and 0.85% of our total expenses for each of the three years ended December 31, 2013, 2014 and

RELATIONSHIP WITH THE EVERBRIGHT GROUP

2015 and the three months ended March 31, 2016. See “Connected Transactions — Non-exempt Continuing Connected Transactions — 2. Financial Products and Services Framework Agreement between our Company and the Everbright Group” for further details.

Based on the above, our Directors believe that we have the ability to conduct our business independently from our controlling shareholder and its close associates from a financial perspective and are able to maintain financial independence from our controlling shareholder and its close associates. Except as disclosed in “Directors, Supervisors and Senior Management”, our Directors confirm that they do not have any interest in a business which competes or is likely to compete, either directly or indirectly, with our business.

NON-COMPETITION ARRANGEMENT AND UNDERTAKINGS

In 2007, in preparation for the listing of the Company’s A Shares on the Shanghai Stock Exchange, the Everbright Group (then known as China Everbright Group Limited) gave a non-competition undertaking in favor of the Company. On November 30, 2015, the Everbright Group issued a letter to the Company, (a) confirming that there was no substantive competition between the business operated by it and the entities directly or indirectly controlled by it (excluding the Group) and our principal businesses that are engaged in by a securities firm as the primary operating entity and regulated by the relevant securities commission, and (b) re-iterating its non-competition undertaking, pursuant to which, it undertakes that:

- (i) it (being the Everbright Group itself) will not directly engage in operating any business which competes with our principal business; and
- (ii) it will, through legal procedures, ensure that its existing or future subsidiaries or other entities controlled by it will not, directly or indirectly, substantively compete with us in any business that is engaged in by a securities firm as the primary operating entity and regulated by the relevant securities commission, (the “Non-competition Undertaking”).

To ensure continued compliance with the Non-competition Undertaking, the Everbright Group has agreed with the Company that, after the Listing:

- at the end of each financial year, it will provide a written confirmation to the Company in respect of its compliance with the Non-competition Undertaking, its normally-operating, wholly-owned subsidiaries and other entities controlled by it, and will consent to the inclusion of such confirmation in our annual reports, interim reports, announcements or circulars;
- it shall, upon request of our independent non-executive Directors, provide our independent non-executive Directors with all information necessary for their annual review of the Everbright Group’s compliance and implementation of the Non-competition Undertaking or any such review conducted in accordance with requests of relevant regulatory authorities; and

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- if our independent non-executive Directors consider that the Everbright Group, any of its normally-operating, wholly-owned subsidiaries or an entity controlled by it, substantively competes or may substantively compete with us in any business that is engaged in by a securities firm as the primary operating entity and regulated by the relevant securities regulatory authority, the Everbright Group agrees to take appropriate measures to eliminate such substantive competition so that it will no longer constitute substantive competition or to prevent any such potential substantive competition.

In addition, the Company will adopt the following corporate governance measures to manage any potential conflicts of interest arising from competing business with the Everbright Group, its subsidiaries or entities controlled by it, and to safeguard the interests of our Shareholders:

- the Company's independent non-executive Directors will review, on an annual basis or as requested by relevant regulatory authorities, the compliance with the Non-competition Undertaking by the Everbright Group;
- the Company will disclose decisions and related basis on matters reviewed by the independent non-executive Directors relating to the compliance and implementation of the Non-competition Undertaking by the Everbright Group in the annual reports of the Company; and
- if our independent non-executive Directors consider that the Everbright Group, any of its subsidiaries or an entity controlled by it, substantively competes or may substantively compete with us in any business that is engaged in by a securities firm as the primary operating entity and regulated by the relevant securities commission, the Company will request the Everbright Group to take appropriate measures to eliminate such competition so that it will no longer constitute substantive competition or to prevent such potential substantive competition.

CONNECTED TRANSACTIONS

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We had entered into a number of transactions with entities that will become our connected persons (as defined under Chapter 14A of the Hong Kong Listing Rules) upon the Listing, and such transactions will continue after the Listing and will therefore constitute our continuing connected transactions under the Hong Kong Listing Rules.

Further, as our A Shares are listed on the Shanghai Stock Exchange, we will continue to be subject to and regulated by the Shanghai Listing Rules and other applicable laws and regulations in the PRC as long as our A Shares remain listed. However, the requirements of the Hong Kong Listing Rules in relation to connected transactions differ from those of the Shanghai Listing Rules. In particular, the definition of connected person (especially the definition of associate) under the Hong Kong Listing Rules is different from the definition of related party under the Shanghai Listing Rules. Therefore, a connected transaction pursuant to the Hong Kong Listing Rules may not constitute a related party transaction pursuant to the Shanghai Listing Rules, and vice versa.

CONNECTED PERSONS

The entities, which will be our connected persons for the purposes of the Hong Kong Listing Rules, include:

<u>Name</u>	<u>Connected Relationship</u>
Everbright Group and certain of its associates	Immediately following completion of the Global Offering, the Everbright Group will directly own approximately 25.28%, <u>and will own approximately 24.84%</u> of our total issued share capital through its subsidiary, Everbright Limited (assuming the Over-allotment Option is not exercised). The Everbright Group will therefore remain as a controlling shareholder of our Company, and hence, will be our connected person by virtue of Rule 14A.07(1) of the Hong Kong Listing Rules, and its associates will be our connected persons by virtue of Rule 14A.07(4) of the Hong Kong Listing Rules
Sun Hung Kai and certain of its associates	Immediately following completion of the Global Offering, Sun Hung Kai will own 30% of the total issued share capital of SHKFGL. Accordingly, Sun Hung Kai will be a substantial shareholder of our subsidiary and hence, our connected person by virtue of Rule 14A.07(1) of the Hong Kong Listing Rules and its associates will also be our connected persons by virtue of Rule 14A.07(4) of the Hong Kong Listing Rules

CONNECTED TRANSACTIONS

EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Trademark License Agreements

A. *Everbright Group*

Pursuant to trademark license agreements dated September 14, 2007, January 5, 2011, November 24, 2015 and November 25, 2015 entered into between the Everbright Group and our Company and certain of its PRC subsidiaries (the “Everbright PRC Trademark Agreements”), the Everbright Group granted to each of our Company and its PRC subsidiaries non-exclusive, non-transferable and royalty-free licenses to use the “光大”, “EE”, “E” and the “EVERBRIGHT” trademarks (the “PRC Trademarks”, each a “PRC Trademark”) in the PRC. Each license is valid for as long as the relevant PRC Trademark remains registered.

Pursuant to trademark licensing agreements dated November 24, 2015 entered into between the Everbright Group and our Company and certain of its subsidiaries in Hong Kong and BVI (the “Everbright HK Trademark Agreements”), the Everbright Group granted to our Company and certain of its subsidiaries in Hong Kong and BVI non-exclusive, non-transferable and royalty-free licenses to use the “中國光大”, “中国光大”, “EE” and “CHINA EVERBRIGHT” trademarks (the “HK Trademarks”) in Hong Kong. Each license is valid for as long as the relevant HK Trademark remains registered.

B. *Sun Hung Kai*

Pursuant to trademark license agreements dated June 12, 2009, July 7, 2009, January 3, 2012, May 15, 2014, May 21, 2014 and June 2, 2015 entered into between Sun Hung Kai on the one hand, and SHKFGL and/or certain of its subsidiaries on the other hand (the “SHK Trademark Agreements”), Sun Hung Kai granted to SHKFGL and certain of its subsidiaries exclusive (save and except as Sun Hung Kai), non-transferable and royalty-free licenses to use certain trademarks (the “SHK Trademarks”) and domain names (the “SHK Domain Names”) in Hong Kong, Macau, PRC and Australia. Details of the SHK Trademarks and SHK Domain Names are set out, respectively, in “Appendix VI — Statutory and General Information — B. Further Information about Our Business — 2. Intellectual Property Rights — Trademarks licensed to us by Sun Hung Kai” and “Appendix VI — Statutory and General Information — B. Further Information about Our Business — 2. Intellectual Property Rights — Domain Names licensed to us by Sun Hung Kai”. The licenses are valid until the earlier of June 1, 2018 and Sun Hung Kai ceasing to hold at least 10% of the total issued share capital of SHKFGL. SHKFGL is not permitted to sub-license the SHK Trademarks to any third party but is entitled to allow its subsidiaries to use the SHK Trademarks.

As the licenses to use the PRC Trademarks, HK Trademarks and SHK Trademarks are granted to us royalty-free, the transactions under the Everbright PRC Trademark Agreements, Everbright HK Trademark Agreements and SHK Trademark Agreements constitute *de minimis* transactions and are exempt from the reporting, announcement, independent shareholders’ approval and annual review requirements under Chapter 14A of the Hong Kong Listing Rules.

CONNECTED TRANSACTIONS

As required by Rule 14A.52 of the Hong Kong Listing Rules, the period for continuing connected transactions must not exceed three years, except in cases where the nature of the transaction requires the contract to be of a duration longer than three years. We are of the view that the Everbright PRC Trademark Agreements and Everbright HK Trademark Agreements were entered into on normal commercial terms and the PRC Trademarks and HK Trademarks granted under the Everbright PRC Trademark Agreements and Everbright HK Trademark Agreements are necessary for our business operations in the PRC and Hong Kong and a longer duration of the agreement will avoid any unnecessary business interruption and help ensure the long-term development and continuity of our business. The Joint Sponsors agree with our Company's reasons for requiring a longer term for the Everbright PRC Trademark Agreements and Everbright HK Trademark Agreements, and are of the view that entering into these agreements with a duration of over three years is in line with our normal business practice.

2. Provision of insurance brokerage, securities brokerage and other services to Sun Hung Kai and certain of its associates

In the ordinary and usual course of their business, certain subsidiaries of SHKFGL (the "SHKFGL Group"), including Sun Hung Kai Insurance Consultants Limited and Sun Hung Kai Investment Services Limited, provide insurance brokerage services, securities brokerage, commission and related services, customer referral and financial information to Sun Hung Kai and certain of its associates. It is expected that the SHKFGL Subsidiaries will continue to provide the insurance and securities brokerage services to Sun Hung Kai and its associates upon the Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Hong Kong Listing Rules.

With respect to the insurance brokerage services, Sun Hung Kai Insurance Consultants Limited, a subsidiary of SHKFGL, has entered into agreements with certain associates of Sun Hung Kai (collectively, the "SHK Insurance Brokerage Services Agreements"), pursuant to which SHK Insurance will provide packaged insurance brokerage services to Sun Hung Kai's associates by assisting such associates in procuring insurance policies to be taken out with third party insurers. Each of the SHK Insurance Brokerage Services Agreements lasts for a term of two years commencing from January 1, 2015 and expiring on December 31, 2016. The premium, consisting of the premium payable to third party insurers and insurance brokerage service fees payable to SHK Insurance, for any insurance policy proposed by SHK Insurance under the relevant SHK Insurance Brokerage Services Agreement shall be such premium as would be charged by SHK Insurance to an independent third party when dealing on an arm's length basis having regard to any other special circumstances such as arm's length negotiated volume discounts.

With respect to the securities brokerage, commission and related services, customer referral and financial information, SHKFGL will enter into framework agreements with Sun Hung Kai and certain of its associates (the "SHK Securities Services Framework Agreements") before completion of the Listing to regulate the provision of the securities brokerage services. Each of the SHK Securities Services Framework Agreements will be valid until December 31, 2018, unless terminated earlier in accordance with the agreement. The

CONNECTED TRANSACTIONS

transactions under the Securities Services Framework Agreements shall be conducted based on prevailing market rates determined by reference to the rates offered to independent third parties for similar transactions.

The terms of the transactions conducted under the SHK Insurance Brokerage Services Agreements and SHK Securities Services Framework Agreements are on normal commercial terms no less favorable than those offered to independent third parties. As the highest applicable percentage ratio (except the profit ratio) calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules is expected to be less than 1% on an annual basis and Sun Hung Kai and its associates are our connected persons at a subsidiary level, the transactions under the SHK Insurance Brokerage Services Agreements and SHK Securities Services Framework Agreements constitute *de minimis* transactions and will be exempted from the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Hong Kong Listing Rules.

3. Transitional Services Agreement

Pursuant to the Transitional Services Agreement dated June 2, 2015 entered into between Sun Hung Kai, SHKFL and EBSHK, Sun Hung Kai and SHKFL will provide certain services to each other. In particular, Sun Hung Kai and/or its subsidiaries will provide human resources, employees and access to the insurance policies concerning SHKFL and its subsidiaries, while SHKFL and/or its subsidiaries will provide sharing of office space and car park space, keeping of documents, cleaning services, security services, financial support services, technology systems, human resources, administrative and in-house legal resources to Sun Hung Kai and its subsidiaries. The relevant recipient will pay the charges as set out in the agreement for the relevant services to the relevant service supplier. The agreement will continue in force in respect of each service provided under the agreement for the period set out in the agreement.

The services provided under the Transitional Services Agreement are administrative services provided on a cost basis. We are of the view that the costs of these services are allocated to Sun Hung Kai and SHKFL on a fair and equitable basis. Therefore, the services provided under the Transitional Services Agreement are fully exempt continuing connected transactions under Rule 14A.98 of the Hong Kong Listing Rules and are exempt from the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Hong Kong Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Property Leasing Framework Agreement

Historically, we and our subsidiaries have leased certain properties in the PRC from the Everbright Group and its associates for our offices and business uses. On the other hand, the Everbright Group and its associates have leased certain properties from us mainly for their business operations.

To comply with the requirements of the Hong Kong Listing Rules, our Company and the Everbright Group will enter into a property leasing framework agreement (the "Everbright

CONNECTED TRANSACTIONS

Group Property Leasing Framework Agreement”) before completion of the Listing to regulate our property leasing. The Everbright Group Property Leasing Framework Agreement will be valid until December 31, 2018, unless terminated earlier in accordance with the agreement. The principal terms of the Everbright Group Property Leasing Framework Agreement are as follows:

- the rental shall be determined based on the market rent applicable to the leased property;
- we and the Everbright Group or its related associates shall enter into separate agreements to set out the specific terms and conditions in respect of the relevant leased property according to the principles, and within the parameters, provided for under the Everbright Group Property Leasing Framework Agreement;
- we and the Everbright Group and its associates are entitled to lease additional gross floor area from and among the available properties owned by the other party during the term of the Everbright Group Property Leasing Framework Agreement; and
- either party may, at any time before the Everbright Group Property Leasing Framework Agreement expires, by giving not less than three months’ written notice, to terminate any lease made pursuant to and contemplated under such agreement, and the rental will be reduced accordingly.

Historical figures

A breakdown of the approximate historical transaction figures in respect of the rent received from or paid to the Everbright Group and its associates by us for each of the three years ended December 31, 2015 and the three months ended March 31, 2016 is as follows:

Property Leasing	Historical figures			
	For the years ended December 31,			For the three months ended March 31,
	2013	2014	2015	2016
	(RMB in millions)			
Rental income received from lease of properties to Everbright Group and its associates	4.2	4.3	3.0	1.7
Rental expenses incurred for lease of properties from Everbright Group and its associates	24.3	22.0	24.5	6.9

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Annual caps

The Directors' estimate of the aggregate annual caps for the rent receivable from or payable to the Everbright Group and its associates by us under the Everbright Group Property Leasing Framework Agreement for the three financial years ending December 31, 2018 are as set out in the table below. These caps are inclusive of management fees relating to the relevant leased properties (if any):

Property Leasing	Annual Caps		
	For the years ended December 31,		
	2016	2017	2018
	(RMB in millions)		
Rental income to be received from lease of properties to Everbright Group and its associates	5.0	6.0	7.8
Rental expenses to be incurred for lease of properties from Everbright Group and its associates	32.0	40.0	52.0

When estimating the annual caps for the rental income to be received from the Everbright Group and its associates, the Directors have taken into account the above historical figures and also considered, among other things, the following key factors:

- The Everbright Group and its associates will continue to lease more gross floor area from us in the three financial years ending December 31, 2018, considering the potential expansion of the business of the Everbright Group and its associates in the PRC; and
- the potential increase in market rental for commercial properties for the three financial years ending December 31, 2018.

When estimating the annual caps for the rental expenses to be incurred by us, the Directors have taken into account the above historical figures and also considered, among other things, the following key factors:

- the potential demand for office spaces arising from potential expansion of our businesses in the PRC, Hong Kong and overseas. We expect that we will establish a large number of new brokerage branches in the three years ending December 31, 2018; and
- the potential increase in market rental for commercial properties for the three financial years ending December 31, 2018.

CONNECTED TRANSACTIONS

2. Financial Products and Services Framework Agreement between our Company and The Everbright Group

In the ordinary and usual course of our business, we regularly enter into securities and financial products transactions with, and provide securities and financial services to, the Everbright Group and its associates. Likewise, the Everbright Group and its associates also enter into securities and financial products transactions with, and provide securities and financial services to, us on normal commercial terms. To comply with the requirements of the Hong Kong Listing Rules, our Company will enter into a financial products and services framework agreement (the “Everbright Group Financial Products and Services Framework Agreement”) with the Everbright Group on or before the Listing. The Everbright Group Financial Products and Services Framework Agreement will be valid until December 31, 2018, unless terminated earlier in accordance with the agreement.

A. Securities and Financial Products Transactions

During the Track Record Period, we had entered into trust product and wealth management product transactions, and lending and repurchase transactions with the Everbright Group and its associates.

We expect to enter into the following securities and financial products transactions with the Everbright Group and its associates after the Listing:

- products with fixed income features — including bonds, funds, trust products, wealth management products and assets securitized products, convertible bonds and structured products with fixed income feature;
- fixed income related derivative products and equity-linked products — including interest rates, credit risk derivative products and equity derivatives;
- financing transactions — financing transactions among financial institutions with or without guarantees, including interbank lending, repurchase, interbank deposits and holding of debt certificates; and
- other related securities and financial products — including futures, foreign exchange and commodities trading.

Pricing basis

The market rates in respect of each of the securities and financial products above are generally transparent and standardized across the market. The commission rates and fees charged for these products or transactions shall be determined based on arm’s length negotiation with reference to the prevailing market rates or, in the case of financing transactions, market rates normally applicable to independent counterparties for products or transactions of a similar type.

CONNECTED TRANSACTIONS

Historical figures

The historical amounts of our securities and financial products transactions with the Everbright Group and its associates for each of the three years ended December 31, 2015 and the three months ended March 31, 2016 are as follows:

Securities and Financial Products Transactions	Historical Figures			
	For the years ended December 31,			For the three months ended March 31,
	2013	2014	2015	2016
	(RMB in millions)			
In ⁽¹⁾	47,143.7 ⁽³⁾	598,738.0	145,442.3 ⁽⁴⁾	19,839.0
Out ⁽²⁾	107,817.2 ⁽³⁾	100,727.1	164,671.6	20,569.6
Total Turnover	154,960.9	699,465.1	310,113.9	40,408.6

- (1) “In” means the total cash inflow to our Group arising from sale of fixed income products and equity-linked products, interest received from fixed income derivative products, and through borrowing/repurchase from financing transactions.
- (2) “Out” means the total cash outflow from our Group arising from purchase of fixed income products and equity-linked products, interest paid for fixed income derivative products, and through lending/reverse repurchase from financing transactions.
- (3) Includes payments made in Hong Kong dollars translated into RMB amounts using HK\$1.0000: RMB0.78623 (being the middle exchange rate set by the PBOC prevailing on December 31, 2013).
- (4) Includes payments made in Hong Kong dollars translated into RMB amounts using HK\$1.0000: RMB0.83778 (being the middle exchange rate set by the PBOC prevailing on December 31, 2015).

Annual caps

Due to the nature of the securities and financial products transactions as described below, we consider that it is impracticable to set a maximum aggregate annual value for each category of these transactions:

- the volume of the securities and financial products transactions is affected by various external factors, such as economic and market conditions. Fluctuations in the PRC and Hong Kong financial markets may cause fluctuations in the volume of these transactions. Accordingly, the volume of these transactions varies from time to time and from year to year, and reference to historical figures for these transactions may not be a fair indication of the expected aggregate value of the transactions for the next three years;
- each of the securities and financial products transactions is entered into at the prevailing market prices in the ordinary and usual course of our business with high frequency and is market-driven, which is based on, among others, the bidding price and timeliness of the bids. For example, we enter into interbank lending transactions and repurchase transactions with counterparties (including the Everbright Group and its associates) in open markets through the National Interbank Funding Center. The prices and process of these transactions are highly transparent. The rates for interbank lending are publicly published, while the

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interest rate for repurchases are determined in accordance with the benchmark repurchase rate. Our counterparties in these transactions are determined primarily by transaction prices and timeliness, instead of by our subjective consideration;

- most of these transactions are entered into in a very short time frame and are very sensitive to market prices. If an annual cap is set for each category of these transactions, it would cause significant delay to such transactions and harm to our existing operations and potential growth to the detriment of our Company and our Shareholders as a whole and restrict our overall competitiveness in a highly competitive securities industry. Strict adherence to the requirement of setting a maximum aggregate annual value for these transactions is impracticable to the Group;
- we play a relatively passive role in some of the securities and financial products transactions we enter into with the Everbright Group and its associates and as such, it is difficult for us to estimate the expected aggregate value of these transactions. For example, Everbright Bank invests in our asset management schemes with funds from its banking customers. In making such investment decisions, Everbright Bank is free to choose which asset management schemes to invest in, just like any other investors in the market. As a listed company, Everbright Bank exercises independent judgment when making such investment decisions and has adopted internal control measures to monitor its investment decision making. We have no control over which asset management schemes or financial products Everbright Bank chooses to invest in, as well as the amount of its investments; and
- all such transactions will continue to be entered into at the prevailing market prices in an open market in the ordinary and usual course of our business.

Based on the above reasons, we consider that it is more practicable to set annual caps for the total inflow and outflow of the securities and financial products transactions instead.

The Directors estimate that the annual caps of the total inflow and outflow of the securities and financial products transactions with the Everbright Group and its associates for each of the three years ending December 31, 2018 are as follows:

Securities and Financial Products Transactions	Annual Caps		
	For the year ended December 31,		
	2016	2017	2018
		(RMB in millions)	
In ⁽¹⁾	133,250.0	160,650.0	192,750.0
Out ⁽²⁾	169,700.0	204,650.0	245,750.0
Total Turnover	302,950.0	365,300.0	438,500.0

(1) “In” means the total cash inflow to our Group arising from sale of fixed income products and equity-linked products, interest received from fixed income derivative products, and through borrowing/repurchase from financing transactions.

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- (2) “Out” means the total cash outflow from our Group arising from purchase of fixed income products and equity-linked products, interest paid for fixed income derivative products, and through lending/reverse repurchase from financing transactions.

When estimating the annual caps for the inflow and outflow of these transactions, the Directors have taken into account, among others, the following factors:

- (a) the annual caps for the year ending December 31, 2016 are estimated having taken into consideration the following:
- (i) the historical amounts for those securities and financial products transactions which the Group had entered into with the Everbright Group and its associates during the Track Record Period, in particular the transactions in 2015 and the six months ended June 30, 2016, and the fluctuations in the volume of these transactions during the Track Record Period;
 - (ii) the potential for new types of securities and financial products transactions to be entered into between the Group and the Everbright Group and its associates, and their lower initial volume compared to that of the more established businesses. It is expected that these businesses will expand rapidly in the three years ending December 31, 2018;
- (b) an expected annual growth rate of 20-30% in each of the years ending December 31, 2017 and 2018;
- (c) the potential growth in these businesses brought by increasing cooperation between the Group and the Everbright Group and its associates as a result of the growing business of the Everbright Group’s associates for the three years ending December 31, 2018; and
- (d) the nature of the securities and financial products transactions further elaborated in above, including their market-sensitivity and timeliness, and the Group’s limited control over its counterparties in these transactions, as well as the volatility and unpredictableness of the financial markets in general.

B. Securities and Financial Services

Apart from the securities and financial products transactions with the Everbright Group and its associates as mentioned in paragraph 2A above, the Group and the Everbright Group and its associates also provide securities and financial services to each other during the normal course of our and their respective business.

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The mutual provision of securities and financial services between the Everbright Group and its associates and us under the Everbright Group Financial Products and Services Framework Agreement includes the following:

Our services provided to the Everbright Group and its associates:

- underwriting and sponsorship services — including underwriting and sponsorship services for equity securities, fixed income products, structured products and other derivative products;
- other investment banking services — including corporate restructuring, mergers and acquisition advisory services;
- brokerage services — including securities brokerage and related financial products brokerage services;
- financial products sale services — including provision of agency sale services;
- entrusted asset management services — including asset management services for assets entrusted by customers; and
- other miscellaneous securities and financial advisory and consulting services.

Services provided by the Everbright Group and its associates to us:

- deposit services — including (a) deposits of cash balances arising from our business operations including our daily operations, proceeds from our fund raising activities such as equity and bond issues; (b) cash deposits from our customers; and (c) other deposits;
- financial products sale services — including provision of agency sale services for our financial products;
- client deposits management services — including management services provided by the Everbright Group and its associates for managing the deposits of our non-financial institution customers, which are required by the relevant PRC laws and regulations to be deposited into our account with a PRC bank;
- loan services — including loans as our working capital provided by the Everbright Group and its associates; and
- other miscellaneous securities and financial advisory and consulting services and monetary brokerage services.

In respect of the deposit services provided by the Everbright Group and its associates to us, we receive interest on such deposits and there is no expense incurred by us for such services. In respect of the client deposits management services provided by the Everbright Group and its associates to us, we have to pay out the interest received from the Everbright

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Group and its associates to our customers, and pay service fees to the Everbright Group and its associates. In respect of other securities and financial services provided by the Everbright Group and its associates to us, we have to pay service fees for the services provided.

Pricing basis

The pricing principles for various securities and financial services under the Everbright Group Financial Products and Services Framework Agreement are as follows:

- underwriting and sponsorship services — the securities underwriting and sponsorship services market is highly competitive and the commission rates and fees have become generally transparent and standardized across the market. The commission rates and fees charged to the Everbright Group and its associates by us are determined based on arm's length negotiation with reference to factors including the prevailing market rates for offerings of a similar type and the amount of proceeds raised from the offering;
- securities brokerage services — the commission rates for these services have become generally transparent and standardized across the market. The commission rates are determined based on arm's length negotiation with reference to the prevailing market rates for securities, which, for trading in the Shanghai A share and Shenzhen B share markets, cannot exceed 0.3% of the amount of the relevant securities trade or lower than the relevant fees paid to the relevant securities exchange, or futures sales or trades of a similar type and the amount of the sale or trade;
- financial products sale services and entrusted asset management services — the commission fees charged for financial products sale services are determined with reference to the prevailing market rates, the type of products being sold and the frequency the particular investor engages in transactions with us, while the distribution fees for financial products sale services are determined with reference to market rates for distribution of similar products by banks and other financial institutions, which range from 0.2% to 1%. The fees charged for entrusted asset management services are determined based on arm's length negotiation with reference to factors including the prevailing market rates, the amount of the products being sold or the size of the assets entrusted and the complexity of the particular service provided. The market rates for these services are generally transparent across the market;
- advisory and consulting services — fees for such services are determined based on arm's length negotiation with reference to the prevailing market rates for transactions of similar type and size;
- interest rates on deposits — interest rates for our deposits shall not be lower than the interest rates authorized by the PBOC for the same type of deposits offered by the commercial banks in the PRC during the same period and shall not be lower than the interest rates for the same type of deposits by other customers of Everbright Bank;

CONNECTED TRANSACTIONS

- client deposits management services — fees for such services are determined based on arm’s length negotiation with reference to the prevailing market rates; and
- loan services — fees for loan services are determined based on the loan interest published by the PBOC for the same period.

To ensure that the transactions under the Everbright Group Financial Products and Services Framework Agreement above are conducted on normal commercial terms, or on terms no less favorable than terms available to independent third parties, the Group has adopted the following additional procedures to determine the price and terms of the transactions. Before confirming the pricing of products or services offered to or quoted by the Everbright Group or its associates, the Group would refer to the pricing offered to or quoted by two or more independent third parties for contemporaneous transactions in similar quantities to determine if the prices and terms offered to or quoted by the Everbright Group or its associates are fair, reasonable and no less favorable than those quoted by independent third parties to us or no more favorable than those offered by us to independent third parties, as the case may be. The transactions above are also subject to other internal approval and monitoring procedures as set out in the section “— Measures to Safeguard the Shareholders’ Interests”.

Historical figures

A breakdown of the approximate historical transaction figures in respect of the mutual provision of securities and financial services between the Everbright Group and its associates and us for each of the three years ended December 31, 2015 and the three months ended March 31, 2016 is as follows:

<u>Securities and Financial Services</u>	Historical Figures			
	For the years ended December 31,			For the three months ended March 31,
	2013	2014	2015	2016
	(RMB in millions)			
Our revenue gained from providing securities and financial services to Everbright Group and its associates				
Underwriting and sponsorship services	38.8	5.6	10.5	–
Other investment banking services	4.8	5.9	14.1	0.6
Securities brokerage services . .	–	0.2	1.2	0.2
Financial products sale services	–	–	–	–
Entrusted asset management services	38.7	130.3	162.4	4.1
Interest on deposits	122.8	120.5	329.4	65.1
Total	205.1	262.5	517.6	70.0

CONNECTED TRANSACTIONS

Securities and Financial Services	Historical Figures			
	For the years ended December 31,			For the three months ended March 31,
	2013	2014	2015	2016
	(RMB in millions)			
Fees paid by us to Everbright Group and its associates for their provision of securities and financial services				
Financial products sale services	22.0	34.1	72.1	8.2
Entrusted asset management services	–	0.5	1.8	0.7
Client deposits management services	5.3	5.8	17.1	3.8
Other investment banking services	–	0.2	0.2	1.1
Loan services	0.1	–	5.8	–
Insurance services	11.8	11.4	9.5	0.1
Total	39.2	52.0	106.5	13.9

Annual caps

The Directors estimate the annual caps for the continuing connected transactions in respect of the mutual provision of securities and financial services between the Everbright Group and its associates and us for the three financial years ending December 31, 2018 as follows:

Securities and Financial Services	Annual Caps		
	For the years ending December 31,		
	2016	2017	2018
	(RMB in millions)		
Our revenue gained from providing securities and financial services to Everbright Group and its associates	588.5	792.4	1,048.6
Fees paid by us to Everbright Group and its associates for their provision of securities and financial services	121.0	146.0	176.0

CONNECTED TRANSACTIONS

When estimating the annual caps for the revenue to be received from provision of securities and financial services to the Everbright Group and its associates, the Directors have based the estimates on the historical figures for the three financial years ended December 31, 2015. In addition, the Directors have considered, among other things, the following key factors:

- the potential growth in the securities brokerage services, financial products sale services and entrusted asset management services, associated with increasing cooperation between us, the Everbright Group and its associates as a result of the Everbright Group's and its associates' growing business for the three years ending December 31, 2018, as well as our plan to expand these services. Considering that our revenue derived from such services increased significantly in the three financial years ended December 31, 2015, it is expected that such revenue will grow approximately 20% to 50% annually in the three years ending December 31, 2018;
- the expected increase in underwriting commissions and other service fees associated with the growth in the issuance of equity and debt financing instruments of the Everbright Group and its associates for the three years ending December 31, 2018. It is expected that our revenue derived from such services will grow 20% to 30% annually in the three years ending December 31, 2018;
- the expected increase in consulting services provided to the Everbright Group and its associates in areas such as mergers, acquisitions and restructuring as a result of expansion of their business in the three years ending December 31, 2018. It is expected that our consulting services fees will increase by approximately RMB3 million to RMB5 million annually for the three years ending December 31, 2018;
- the expected fees in connection with the sale of financial products of Sun Life Everbright beginning in the second half of 2015; and
- in respect of the interest on deposits, the expected continuous increase in the amounts of client deposits following a steady growth which has approximately tripled since 2012, and proceeds from the A Share Placing and the H Share Listing. It is expected that the interest received from client deposits will increase by approximately 20% annually for the three years ending December 31, 2018.

When estimating the annual caps for the fees paid to the Everbright Group and its associates for provision of securities and financial services, the Directors have based the estimates on the historical figures for the three financial years ended December 31, 2015. In addition, the Directors have considered, among other things, the following key factors:

- the potential growth in financial products sale services, entrusted asset management services and other investment banking services provided to us as a result of expansion of our asset management business, securities business and financial and securities consulting services in connection with the expansion of our overseas business, and the increasing level of cooperation between the Everbright Group, its associates and us in the three years ending December 31, 2018. In particular, our financial products sale services (with an annual rate of approximately 50%) and entrusted asset management services (with an annual rate exceeding 200%) have

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grown significantly in the three financial years ended December 31, 2015 and it is expected that such services will continue to grow at a similar rate in the three years ending December 31, 2018;

- the potential increase in client deposits management services arising from our business growth in the PRC — the size of our client deposits has almost tripled since 2012 and continued to grow at a steady rate in the three financial years ended December 31, 2015. It is expected that our client deposits will continue to grow at a similar rate in the three years ending December 31, 2018;
- the potential increase in interest expenses arising from loan facilities provided to the Everbright Group and/or its associates to facilitate their business expansion in the three years ending December 31, 2018. It is expected that we will lend approximately RMB788.6 million to the Everbright Group and its associates in the three years ending December 31, 2018 and the interest payment made in connection with such loan is expected to increase accordingly; and
- the expected increase in fees for insurance services in connection with the increase in the number of our employees as a result of expansion of our business for the three years ending December 31, 2018. It is expected that the fees paid to the Everbright Group and its associates for such insurance services will increase by approximately 25% each year in the three years ending December 31, 2018.

In addition, the proposed annual caps have taken into account the inflation factor and on the principal assumptions that, for the duration of the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect our businesses and those of the Everbright Group and its associates during the term of the Everbright Group Financial Products and Services Framework Agreement.

IMPLICATIONS UNDER THE HONG KONG LISTING RULES

Everbright Group Property Leasing Framework Agreement

As the highest applicable percentage ratio as set out in the Hong Kong Listing Rules based on the relevant annual caps set out above for the transactions described in paragraph 1 of the section “— Non-exempt Continuing Connected Transactions” above are expected to be between 0.1% and 5% on an annual basis, these transactions are subject to the announcement, reporting and annual review requirements but are exempt from the independent shareholders’ approval requirement under Chapter 14A of the Hong Kong Listing Rules.

Everbright Group Financial Products and Services Framework Agreement

As the highest applicable percentage ratio as set out in the Hong Kong Listing Rules based on the relevant annual caps set out above for the transactions described in paragraph 2 of the section “— Non-exempt Continuing Connected Transactions” are expected to be 5% or

CONNECTED TRANSACTIONS

more on an annual basis, these transactions are subject to the announcement, reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

WAIVER APPLICATION

We have applied to the Hong Kong Stock Exchange pursuant to Rule 14A.105 of the Hong Kong Listing Rules for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the announcement requirement set out in Rule 14A.35 of the Hong Kong Listing Rules in respect of the transactions described in paragraph 1 of the section “— Non-exempt Continuing Connected Transactions” above .

We have applied to the Hong Kong Stock Exchange pursuant to Rule 14A.105 of the Hong Kong Listing Rules for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the announcement and independent shareholders' approval requirements set out in Rules 14A.35 and 14A.36 of the Hong Kong Listing Rules in respect of the transactions described in paragraph 2 of the section “— Non-exempt Continuing Connected Transactions” above.

Pursuant to the Hong Kong Listing Rules, we are required to set a maximum daily deposit balance limit on the deposits of our proprietary funds and our customers' funds placed with Everbright Bank (as referred to in paragraph 2B of the section “— Non-exempt Continuing Connected Transactions” above). We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the maximum daily balance requirements set out in Rule 14A.53 of the Hong Kong Listing Rules on the basis (but not limited to) of the following:

- the deposits of our proprietary funds and our customers' funds with Everbright Bank are placed at interest rates not lower than the interest rates authorized by the PBOC and in the ordinary and usual course of our business and the business of Everbright Bank;
- pursuant to the *Notices in relation to Management of Third-party Depository Accounts by Securities Companies* issued by the CSRC to local securities regulatory bureaus in 2006 and 2007, all our customers' transaction settlement funds must be deposited with commercial banks qualified to engage in the third-party depository services and be managed with separately opened accounts. Once a customer has decided on a particular bank, we have no control over the amounts of such deposits and withdrawals, which are entirely at the discretion of the customer in accordance with his own trading requirements and we must act upon such instruction accordingly. In light of this, it would be extremely onerous and impracticable for us to estimate and set a maximum daily balance limit for such deposits;
- as we have no control over the maximum balance of our customers' deposits, we will not be in a position to comply with the limit, and therefore should not be required to set a limit which we will not be in a position to comply with any such limit;

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- in relation to our proprietary funds deposited with Everbright Bank, it is difficult for us to estimate the amount of incoming funds to be received by us on a daily basis, given that the financial and securities businesses in which we are engaged are highly responsive to the market. In addition, we may from time to time liquidate some of our proprietary financial products and portfolios in order to realize funds, the amount of which however is highly uncertain and can be very substantial. Therefore, imposing a maximum daily deposit balance limit would not only cause undue administrative inconvenience to us but would also cause undue disruption to our operations and hamper our ability to respond quickly to changes in the highly volatile financial market;
- during the Track Record Period, we placed our proprietary funds with various large PRC commercial banks, which are all highly regulated by the CBRC and PBOC. In choosing which bank we should place our deposits with, we will consider various factors such as the deposit rate offered by the banks, the geographical convenience of the branches located both domestically and overseas and other favorable terms offered by the banks. The decision made by us in choosing the most appropriate bank to place our deposits with is entirely commercial-driven and the deposit arrangements between us and Everbright Bank are also conducted based on normal commercial terms. As such, the Group does not impose any limit on the amount of deposit with a specific bank, nor does it maintain a system to monitor the daily balance of deposit placed in each bank; and
- if a maximum daily balance is set for such deposits, it would be unduly burdensome to our existing operations and unduly restrictive to our potential growth to the detriment of our Company and our Shareholders as a whole.

MEASURES TO SAFEGUARD THE SHAREHOLDERS' INTERESTS

To further safeguard the interests of our Shareholders as whole, including the minority Shareholders, we have implemented internal approval and monitoring procedures relating to our connected transactions, including the following:

- before confirming the pricing of transactions with our connected persons, we will refer to the pricing offered to or quoted by two or more independent third parties for contemporaneous transactions in similar quantities to determine if the pricing and terms for the relevant transaction are fair, reasonable and no less favorable than those quoted by independent third parties to us or no more favorable than those offered by us to independent third parties, as the case may be. If the aforesaid pricing quoted by or offered to independent third parties cannot be obtained for a particular transaction, the relevant connected transaction will need to be separately considered and approved by the head of the relevant business to ensure that the pricing will be fair and reasonable to the Group;
- for offer or sale of securities or financial products to ten or more customers, including no more than two who are our connected persons, we shall ensure all connected and non-connected parties are offered the same pricing terms;

CONNECTED TRANSACTIONS

- additional approval required for transactions exceeding certain amounts; and
- any documents and records with respect to connected transactions are required to be maintained and kept properly.

The independent non-executive Directors will also conduct an annual review of the transactions described in paragraph 2 of the section “— Non-exempt Continuing Connected Transactions” above and submit their views to the Board.

CONFIRMATION FROM THE DIRECTORS

Our Directors (including the independent non-executive Directors) consider that (i) it is in our interests to continue the non-exempt continuing connected transactions with the Everbright Group and its associates after the Listing of our H Shares, (ii) all such continuing connected transactions have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms that are fair and reasonable and in the interests of our Shareholders as a whole, (iii) such transactions and the proposed annual caps (where applicable) set for these transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and (iv) in light of the measures set out in the section “— Measures to Safeguard the Shareholders’ Interests” above, not setting a maximum daily deposit balance limit on our deposits (including our proprietary funds and our customers’ funds) with Everbright Bank described in “— Non-exempt Continuing Connected Transactions” above will not be prejudicial to the interest of the Shareholders as a whole, including the interests of the minority Shareholders.

In addition, we will comply with the reporting requirements and disclose the details of all continuing connected transactions described in paragraphs 1 and 2 of the section “— Non-exempt Continuing Connected Transactions” above in our subsequent annual reports for the three financial years ending December 31, 2018 pursuant to Rules 14A.49 and 14A.71 of the Hong Kong Listing Rules. Upon expiry of the waiver after December 31, 2018, we shall re-comply with the applicable provisions of Chapter 14A of the Hong Kong Listing Rules as amended from time to time.

The Directors also consider that the pricing policies under the Everbright Group Financial Products and Services Framework Agreement comply with the Hong Kong Stock Exchange’s Guidance Letter HKEx-GL73-14.

JOINT SPONSORS’ CONFIRMATION

The Joint Sponsors are of the view that our continuing connected transactions described in “— Non-exempt Continuing Connected Transactions” above are entered into in the ordinary and usual course of our business, on normal commercial terms, are fair and reasonable and in the interests of our Company and its Shareholders as a whole, the proposed annual caps (where applicable) for these continuing connected transactions referred to above are fair and reasonable and in the interests of our Company and its Shareholders as a whole and that not setting a maximum daily deposit balance limit on our deposits (including our proprietary funds and our customers’ funds) with Everbright Bank described in “— Non-exempt Continuing Connected Transactions” above will not be prejudicial to the interest of the Shareholders as a whole.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

OVERVIEW

As at the Latest Practicable Date, the Board consisted of eleven⁽¹⁾ Directors, including one executive Director, six non-executive Directors and four⁽¹⁾ independent non-executive Directors. Directors are elected at general meetings for a term of office of three years and may be re-elected. The accumulated term of office of independent non-executive Directors may not exceed six years.

As at the Latest Practicable Date, the Supervisory Committee consisted of eight Supervisors, including three shareholder representative Supervisors, two external Supervisors and three employee representative Supervisors. Shareholder representative Supervisors and external Supervisors are appointed by our Shareholders and employee representative Supervisors are elected by employee representatives. Supervisors serve for a term of three years and may be re-elected.

DIRECTORS AND SUPERVISORS

Information regarding our Directors and Supervisors is set out in the following table. All Directors and Supervisors are qualified for their respective positions under PRC laws and regulations.

Directors

Name	Age	Position	Date of Joining our Company	Date of Appointment in Current Term of Office	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. GUO Xinshuang	52	Chairman, non-executive Director	September 15, 2014	September 15, 2014	Overseeing the affairs of the Board and supervising the implementation of Board resolutions	None

(1) According to the Articles of Association that will become effective on the Listing Date, the Board will consist of thirteen Directors. The Company will appoint Mr. Au Sing Kun as our independent non-executive Director with effect from the Listing Date. Therefore, The Board will have twelve Directors on the Listing Date. As advised by King & Wood Mallesons, our PRC legal advisors, the composition of the Board on the Listing Date will be in compliance with the Articles of Association. The Company is in the process of selecting the 13th Director and will make the appointment as soon as practical after the Listing.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of Joining our Company	Date of Appointment in Current Term of Office	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. XUE Feng	48	Vice chairman, executive Director President	November 9, 2011	September 15, 2014 January 22, 2014	Assisting the chairman in overseeing the daily work of the Board and supervising the implementation of Board resolutions; overseeing our daily operations and management; overseeing the head office, the Board office (supervisory committee office), the strategy development department (innovation office), the investment and financing system for SMEs and Everbright Futures, the Internet finance department, ESIL, the retail trading business division, the wealth management center, all branches and business departments, the investment banking system and the fixed income division	None
Mr. TANG Shuangning	61	Non-executive Director	September 10, 2007	September 15, 2014	Participating in our Company's decision making on major matters, such as operational strategies	None
Mr. GAO Yunlong	57	Non-executive Director	September 15, 2014	September 15, 2014	Participating in our Company's decision making on major matters, such as operational strategies	None
Mr. YIN Lianchen	50	Non-executive Director	September 15, 2014	September 15, 2014	Participating in our Company's decision making on major matters, such as operational strategies	None
Mr. CHAN Ming Kin	46	Non-executive Director	July 31, 2008	November 13, 2014	Participating in our Company's decision making on major matters, such as operational strategies	None
Mr. YANG Guoping	60	Non-executive Director	September 16, 2009	September 15, 2014	Participating in our Company's decision making on major matters, such as operational strategies	None
Mr. ZHU Ning	42	Independent non-executive Director	February 19, 2013	September 15, 2014	Participating in our Company's decision making on major matters, such as operational strategies, and delivering independent opinions on major matters involving minority Shareholder interests	None

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of Joining our Company	Date of Appointment in Current Term of Office	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. XU Jingchang	50	Independent non-executive Director	September 15, 2014	September 15, 2014	Participating in our Company's decision making on major matters, such as operational strategies, and delivering independent opinions on major matters involving minority Shareholder interests	None
Mr. XIONG Yan	59	Independent non-executive Director	September 18, 2014	September 18, 2014	Participating in our Company's decision making on major matters, such as operational strategies, and delivering independent opinions on major matters involving minority Shareholder interests	None
Mr. LI Zheping	51	Independent non-executive Director	November 13, 2014	November 13, 2014	Participating in our Company's decision making on major matters, such as operational strategies, and delivering independent opinions on major matters involving minority Shareholder interests	None
Mr. AU Sing Kun	64	Independent non-executive Director	August 18, 2016	August 18, 2016 (his appointment as a Director to be effective from the Listing Date)	Participating in our Company's decision making on major matters, such as operational strategies, and delivering independent opinions on major matters involving minority Shareholder interests	None

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Supervisors

Supervisors are responsible for supervising our operations and financial activities and the Board and senior management in the performance of their respective duties.

Name	Age	Position	Date of Joining our Company	Date of Appointment in Current Term of Office	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. LIU Jiping	51	Chief Supervisor	September 20, 2002	September 15, 2014	Overseeing Supervisory Committee affairs; supervising our operations and financial activities; supervising Directors and senior management in the performance of their duties	None
Ms. JIANG Bo	60	Supervisor	September 15, 2014	September 15, 2014	Supervising our operations and financial activities; supervising Directors and senior management in the performance of their duties	None
Mr. NIE Ting Ming	52	Supervisor	February 2, 2016	February 2, 2016	Supervising our operations and financial activities; supervising Directors and senior management in the performance of their duties	None
Mr. ZHU Wuxiang	51	External Supervisor	September 15, 2014	September 15, 2014	Supervising our operations and financial activities; supervising Directors and senior management in the performance of their duties	None
Mr. ZHANG Limin	61	External Supervisor	September 15, 2014	September 15, 2014	Supervising our operations and financial activities; supervising Directors and senior management in the performance of their duties	None
Ms. WANG Wenyi	50	Employee Supervisor	July 1, 2004	September 15, 2014	Supervising our operations and financial activities; supervising Directors and senior management in the performance of their duties	None
Mr. LI Bingtao	39	Employee Supervisor	March 19, 2014	September 15, 2014	Supervising our operations and financial activities; supervising Directors and senior management in the performance of their duties	None
Ms. HUANG Qin	40	Employee Supervisor	May 1997	September 23, 2014	Supervising our operations and financial activities; supervising Directors and senior management in the performance of their duties	None

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Senior Management

All members of senior management have the qualifications for their respective positions under PRC laws and regulations. Senior management is responsible for the daily management of our business. Information regarding senior management is set out in the following table:

Name	Age	Position	Date of Joining our Company	Date of Appointment of Senior Management	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. XUE Feng	48	Vice chairman, executive Director President	November 9, 2011	September 15, 2014 January 22, 2014	Assisting the chairman in overseeing the daily work of the Board and supervising the implementation of Board resolutions; overseeing our daily operations and management; overseeing the head office, the Board office (supervisory committee office), the strategy development department (innovation office) and the investment and financing system for SMEs and Everbright Futures, the internet finance department, ESIL, the retail trading business division, the wealth management center, all branches and business departments, the investment banking system and the fixed income division	None
Mr. WANG Weimin	57	Vice president	May 25, 2005	May 30, 2005	Overseeing the human resources division (party committee promotion department), the credit business management division, and Everbright Capital	None
Mr. WANG Baoqing	58	Vice president	July 4, 1997	May 25, 2006	Overseeing the disciplinary inspection and supervision department, the operations and management division, the asset custody department and the audit department	None
Mr. XIONG Guobing	48	Vice president	November 8, 2004	September 14, 2007	Overseeing Everbright Asset Management; assisting in managing the investment and financing system for SMEs	None
Ms. WANG Cuiting	50	Vice president, chairman of the trade union	March 1, 2004	May 30, 2005	Overseeing the research institute, the sales and trading division and the office of the trade union	None

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of Joining our Company	Date of Appointment of Senior Management	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. WANG Zhong	43	Vice president	October 25, 2005, December 11, 2014 ⁽¹⁾	March 12, 2015	Overseeing the financial marketing division, Everbright Fortune and the derivative products department	None
Ms. CHEN Lan	46	Chief compliance officer	December 1, 2008	December 29, 2008	Overseeing the legal compliance department	None
Mr. WANG Yong	52	Chief risk management officer	April 28, 2014	August 5, 2014	Overseeing the risk management department, the planning and finance department and the IT department	None

DIRECTORS

Executive Directors

Mr. Xue Feng has been our president since January 2014 and our vice chairman since September 2014. Mr. Xue joined our Company in November 2011 and served as deputy secretary of the party committee from November 2011 to January 2014, vice president from June 2012 to January 2014 and has been secretary of the party committee since January 2014. He served as the chairman of Everbright Fortune from April 2014 to June 2015 and the chairman of Everbright Cloud Pay from April 2015 to May 2016. Mr. Xue has been the chairman of EBSHK since June 2014. Mr. Xue has been a Director of SHKFGL since June 2015 and served as the chairman of SHKFGL since July 2015. Mr. Xue has been the chairman of Everbright Yichuang Network Technology Co., Ltd. since August 2015. Mr. Xue held various positions with the PBOC from April 1990 to October 2003, including serving as deputy office supervisor of the Dalian branch, chief liaison for the Financial Times with the Dalian Journalist Station, deputy branch director of the Dalian Development Zone branch and vice director of Dalian Development Zone branch of the SAFE. He served as general office director and deputy director of the Dalian Office of CBRC from October 2003 to June 2009 and deputy director of the general office of the Everbright Group from June 2009 to November 2011. He also served as vice mayor of Jingmen City, Hubei Province from June 2010 to June 2011. Mr. Xue received a bachelor's degree in literature from Shandong University in July 1989 and a master's degree and a doctorate in economics from Dongbei University of Finance and Economics in December 2007 and June 2011, respectively.

Non-executive Directors

Mr. Guo Xinshuang has been our chairman since joining our Company in September 2014. Mr. Guo has been a deputy general manager of the Everbright Group since June 2014. Mr. Guo worked as a cadre of the Ministry of Nuclear Industry of the PRC, the Ministry of Energy of the PRC and the State Development Planning Commission from July 1986 to May

(1) Mr. WANG Zhong joined our Company in May 2005. He left our Company from July 2009 to December 2014 to work for Everbright Financial Holding Asset Management and then rejoined us in December 2014.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1994. He held various positions with China Development Bank from May 1994 to November 2010, including department head and vice director of the personnel bureau, manager of the Jilin Province branch, head of the comprehensive planning bureau, director of the planning bureau and executive vice director of the planning institute. Mr. Guo later served as head of the loan management department of China Development Bank from November 2013 to May 2014, during which period, he also served as deputy county chief of Rongshui County, Guangxi Province from May 1999 to May 2000 and was a visiting scholar at the University of Illinois from August 2005 to May 2006. Mr. Guo served as deputy mayor, acting mayor and mayor of Qitaihe City, Heilongjiang Province from November 2010 to June 2012 and as deputy mayor, acting mayor and mayor of Qiqihar City, Heilongjiang Province from June 2012 to November 2013. Mr. Guo served as an executive director of the Everbright Group from June 2014 to December 2014 and as director and chairman of China Everbright Industrial (Group) Company Ltd. from January 2015 to April 2015. Mr. Guo was a representative of the 12th NPC. He received a degree in economics from Jilin University in July 1986 and a doctorate in economics from Jilin University in June 2005.

Mr. Tang Shuangning has been a Director since joining our Company in September 2007 and served as our chairman from February 2008 to June 2011. Mr. Tang is currently chairman of the Everbright Group, chairman of China Everbright Holdings, chairman of the Everbright Bank, chairman of the board of directors of Everbright Limited, chairman of the board of directors of China Everbright International Limited (a company listed on the Hong Kong Stock Exchange, stock code: 00257) and a director of Sun Life Everbright. From August 1982 to August 1989, Mr. Tang was deputy director of the general office of the Liaoning Province branch and executive vice president of the Shenyang branch of the People's Construction Bank of China. He was deputy president of Shenyang branch of the PBOC and deputy director of Shenyang bureau of the SAFE from August 1989 to February 1994. He was also president of Shenyang branch of the PBOC and director of Shenyang bureau of the SAFE from February 1994 to May 1997. Mr. Tang was director of the credit management division, director of the bureau for currency, gold and silver, and director of the first bank supervision division of the PBOC from May 1997 to April 2003. Mr. Tang was vice chairman of the CBRC from April 2003 to June 2007, during which period he was also deputy chairman of the China Finance Association and a consultant of the China Investment Association. Mr. Tang is senior economist recognized by the PBOC and was a member of the 11th Chinese People's Political Consultative Conference ("CPPCC"), a representative of the 18th National Congress of the Communist Party of China, a representative of the 12th NPC and vice chairman of the Agriculture and Countryside Committee of the NPC. He has also been awarded a State Council Special Allowance. Mr. Tang received a bachelor's degree in infrastructure, finance and credit in 1982 and a master's degree in economics from Dongbei University of Finance and Economics in 1997.

Mr. Gao Yunlong has been a Director since he joined our Company in September 2014. Mr. Gao has served as the vice chairman and general manager of the Everbright Group since July 2014, a director of Sun Life Everbright since October 2014 and the vice chairman of Everbright Bank since December 2014 and a master supervisor of the Wudaokou Finance Institute of Tsinghua University since April 2014. Mr. Gao previously worked as a chemical engineering teacher at the Qingdao Institute of Chemical Technology (currently known as the Qingdao University of Science & Technology) from May 1985 to February 1986, an engineer and senior engineer at State Raw Material Investment Company from October 1989 to March

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1994, a deputy director and director of China Development Bank from March 1994 to December 2003 and the deputy mayor of Baise City of the Guangxi Autonomous Region from October 2002 to May 2007. He also served as the vice chairman and chairman of the Guangxi Autonomous Region regional committee of the China Democratic National Construction Association from September 2004 to December 2007, vice governor of Qinghai Province from December 2007 to November 2013 and chairman of the Qinghai provincial committee of the China Democratic National Construction Association from April 2009 to December 2014. He later served as an executive director and deputy general manager of the Everbright Group from November 2013 to July 2014 and the chairman of China Everbright Industrial (Group) Company Ltd. from January 2014 to January 2015. Mr. Gao was a member of the 11th and 12th CPPCCs. He received a chemical engineering degree from East China Chemical Engineering Institute (currently known as East China University of Science and Technology) in Shanghai in July 1982, a master's degree in engineering from East China Chemical Engineering Institute in June 1985 and a doctorate in engineering from Tsinghua University in Beijing in December 1989.

Mr. Yin Lianchen has been a Director since he joined our Company in September 2014. Mr. Yin has been the chief investment officer and a member of the management decision committee of Everbright Limited since April 2012 and a supervisor of Everbright Bank since December 2014. Mr. Yin worked in various departments of the headquarters of the PBOC from August 1990 to February 2002. He previously served as general manager of the human resources and general administrative department, director of the corporate planning and communications department, general manager of the insurance agency department and general manager of the corporate planning and communications department of Everbright Limited from April 2002 to May 2006. Mr. Yin worked as chief representative of America Moody KMV Company (China) from June 2006 to November 2007, vice president of Beijing Yangde Investment Co., Ltd. from November 2007 to April 2009, director of the general division of the general office of the Everbright Group from April 2009 to March 2011 and assistant general manager and member of the management committee of Everbright Limited from March 2011 to March 2012. Mr. Yin received a bachelor's and master's degree in economics from Nankai University in July 1987 and June 1990, respectively.

Mr. Chan Ming Kin has been a Director since November 2014. Mr. Chan joined our Company in July 2008 and served as a Supervisor from July 2008 to October 2014. Mr. Chan has also worked at Everbright Limited since December 2007 and now serves as its chief legal counsel and company secretary and is a member of its investment decision committee. Mr. Chan is a Hong Kong lawyer with over 20 years of experience in private practice and as an in-house lawyer. Mr. Chan is also a fellow of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. Mr. Chan received a bachelor's degree in law and Postgraduate Certificate in Laws from The University of Hong Kong in December 1992 and June 1993, respectively, and a master's degree in corporate governance from The Hong Kong Polytechnic University in October 2008.

Mr. Yang Guoping has been a Director since he joined our Company in September 2009. Mr. Yang has been the general manager of Dazhong Transportation (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600611) since October 1988 (and its chairman since April 2006), chairman of Shanghai Dazhong Public Utilities (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600635) since January

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1992, executive vice chairman of Shanghai Jiaoda Onlly Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600530) from December 1997 to October 2007 (and its chairman since October 2007) and chairman of Shanghai Dazhong Gas Co., Ltd. since August 2001. Mr Yang has also served as a director of Shanghai Jiao Yun Group Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600676) since September 2003, a director of Shanghai Songz Automobile Air Conditioning Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002454) since May 2008, vice chairman of Shenzhen Capital Group Co., Ltd. since April 2009 and a director of NanJing Public Utilities Development Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000421) since May 2011. He has also been an independent director, chairman of the audit committee and member of the risk management committee of HFT Investment Management Co., Ltd. since March 2013, an independent director of Shanghai Shentong Metro Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600834) since May 2014, and an independent director of Bright Red Estate Group Co., Limited (a company listed on the Shanghai Stock Exchange, stock code: 600708) since August 2015. Mr. Yang has served as vice chairman of the Shanghai Association for Public Companies since May 2011 and chairman of the Shanghai Association of Micro-Credit since September 2012. Mr. Yang received a master's degree in business administration from Shanghai Jiao Tong University in July 1997.

Independent Non-executive Directors

Mr. Zhu Ning has been an independent non-executive Director since he joined our Company in February 2013. He has been the vice president and a finance professor of the Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University since July 2009. Mr. Zhu has been an independent director of Leshi Internet Information and Technology Corp., Beijing (a company listed on the Shenzhen Stock Exchange, stock code: 300104) since October 2015 and an independent director of Industrial Securities Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 601377) since February 2016. Mr. Zhu previously taught at the University of California, Davis from 2003 to 2010, where he was granted tenure in 2008. Mr. Zhu received a bachelor's degree in economics from Peking University in July 1997, a master's degree in science from Cornell University May 1999 and a doctoral degree in philosophy from Yale University in December 2003.

Mr. Xu Jingchang has been an independent non-executive Director since he joined our Company in September 2014. He began working at the Renmin University of China in July 1997 and now serves as dean, professor and doctoral tutor of the accounting department of the School of Business. He was previously deputy dean of the accounting department of the Business School of Renmin University of China from September 2001 to June 2010, director of the MPAcc Center from February 2004 to June 2006 and director of the EMBA Center from July 2006 to June 2007. He has been a member of the Acquisition and Reorganization Review Committee of the CSRC from May 2012 to June 2016. Mr. Xu was an independent director of Beijing New Building Material (Group) Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000786) from July 2008 to November 2014, Beijing Urban Construction Investment Development Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600266) from June 2011 to June 2015, China Minmetals Rare Earth Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000831) from November 2013 to present, Sinochem International Corporation (a company listed on the Shanghai Stock Exchange, stock code: 600500) from May 2014 to present and Neoglory

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Prosperity Inc. (a company listed on the Shenzhen Stock Exchange, stock code: 002147) from May 2016 to present. Mr. Xu has been an executive member of the council of the Banking Accounting Society of China since May 2013 and a member of the council of the Accounting Society of China since January 2014. He received a bachelor's and master's degree in economics from Anhui Commerce Institute (currently known as Anhui University of Finance) in July 1987 and January 1992, respectively, and a doctorate in economics from the Renmin University of China in June 1997.

Mr. Xiong Yan has been an independent non-executive Director since he joined our Company in September 2014. He has been an independent director of Beijing Watertek Information Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300324) since June 2010, vice chairman of the 3rd council of China Mergers and Acquisitions Association since September 2012, chairman of Zhongguancun Asia America Multi-Technology Association (AAMA) since June 2014 and chairman of Beijing Guofu Capital Co., Ltd. since April 2015. Mr. Xiong served as director, president and chairman of Beijing Property Rights Exchange Co., Ltd. from February 2004 to December 2013, an executive member of the first council of China Mergers and Acquisitions Association from September 2004 to November 2007 and the third chairman and an executive member of the 2nd council of China Mergers and Acquisitions Association from June 2007 to June 2008 and from November 2007 to September 2012, respectively. He also served as chairman of Beijing Environment Exchange from August 2008 to January 2011, an independent director of Cachet Pharmaceutical Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002462) from September 2008 to September 2014, chairman of China Technology Exchange from August 2009 to June 2015 and chairman and president of Beijing Financial Assets Exchange from August 2010 to March 2015. He graduated with a major in radio engineering and received a master's degree in engineering from Harbin Institute of Technology in July 1982 and December 1988, respectively.

Mr. Li Zheping has been an independent non-executive Director since he joined our Company in November 2014. He has been editor-in-chief of the magazine "Modern Bankers" since August 2007 and an independent director of UBS SDIC Fund Management Co., Ltd. since August 2008. Mr. Li has also been an independent director of AVIC Securities Co., Ltd. since October 2009 and an independent director of Guangdong Nanyue Bank Co., Ltd. since July 2014. Mr. Li previously served as editor-in-chief of the theory edition of the "China Securities Journal" from April 1993 to August 1995, chairman of Tongxin Assets Appraisal Co., Ltd. from August 1995 to January 2005, and an independent director of China Citic Bank (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange respectively, stock codes: 998 and 601998) from January 2009 to June 2016. He received a bachelor's degree in economics from Shanxi Finance and Economics Institute (currently known as Shanxi University of Finance and Economics) in July 1986 and graduated from the monetary banking department of the Finance Institute of the PBOC in January 1989.

Mr. Au Sing Kun will be appointed as our independent non-executive Director with effect from the Listing Date. He has been a director of Nice International Investments Limited since December 2009 and an independent director of Shenzhen Expressway Company Limited (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, stock codes: 600548 and 548) since January 2012. Mr. Au has many years of experience in international banking and risk management. He served as regional manager and manager of

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the credit department of HSBC (Hong Kong), president of Des Voeux Road West Branch, HSBC, Hong Kong, chief operating officer of HSBC (China), president of HSBC, Shenzhen Branch, and chief executive officer of HSBC (Macau) from 1978 to 2009, chairman of the Association of Shenzhen Foreign Financial Institutions from January 2002 to March 2005 and vice chairman of the Macau Association of Banks from January 2006 to August 2009. Mr. Au received a bachelor's degree in May 1975 from the University of Waterloo in Canada in science and a master's degree in business administration from the University of Toronto in Canada in June 1977, respectively.

SUPERVISORS

Mr. Liu Jiping has been our chief Supervisor since June 2005 and served as a director from when he joined the Company in September 2002 to June 2005. Mr. Liu served as a teaching assistant at the Beijing Coal Mining Management Institute from July 1986 to September 1989 and a cadre and deputy director of the department of personnel and education of the National Audit Office of the PRC from September 1989 to January 1997. During the same period, he studied at the National Audit Office of England from March 1996 to September 1996. He also served as deputy director and director of the investment and audit division of the State Auditing Administration from February 1997 to September 2000 and the audit manager of the finance department of the Beijing branch of Ping An Insurance Company of China from December 2001 to February 2002. He previously served as deputy director of the Audit Department of the Everbright Group from February 2002 to May 2008, a director of the Everbright Group from June 2002 to December 2014, a supervisor of Everbright Investment and Assets Management from December 2003 to July 2014, chief supervisor of Shanghai Everbright Convention & Exhibition Center Co., Ltd. from December 2004 to October 2006, head of the audit department of the Everbright Group from May 2008 to May 2014 and a director of Everbright Financial Holding Asset Management from September 2011 to July 2014. Mr. Liu received a bachelor's degree in engineering from Huainan Mining Institute (currently known as Anhui University of Science and Technology) in July 1986, a master's degree in economics from Nankai University in January 1997 and a master's degree in science from the University of Strathclyde in November 2001. Mr. Liu was certified as a Certified Information Systems Auditor (CISA) in November 2002, Chief Internal Auditor (CIA) in November 2003 and senior auditor in December 2003.

Ms. Jiang Bo has been a Supervisor since she joined our Company in September 2014. She has been the chief financial officer, vice chairman of the trade union, executive vice chairman and chairman of the Everbright Group since August 2009 and a director of Everbright Financial Holding Asset Management since April 2010. She has also served as a director of China Everbright Holdings since August 2014, a director of Sun Life Everbright since October 2014 and a director of Shenwan Hongyuan Securities Co., Ltd. since January 2015. Ms. Jiang held various positions in the general office, audit department and international business department of Agricultural Bank of China (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, stock codes: 601288 and 1288) from August 1983 to July 1992. She was the general manager of the international department, executive director, vice president and chief controller of Everbright Bank from August 1992 to August 2009 and a director of Shenyin & Wanguo Securities Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000166) from December 2010 to February 2015.

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Ms. Jiang received a finance degree from Jilin College of Finance and Trade (currently known as Jilin University of Finance & Economics) in July 1983 and a doctorate in finance from Renmin University of China in Beijing in June 2004.

Mr. Nie Ting Ming was appointed as a Supervisor in February 2016. Mr. Nie served as the vice president and president of the Shanghai branch of Bank of East Asia (China) Ltd. from May 2006 to April 2013 and president of the Hangzhou branch of Bank of East Asia (China) Ltd. from May 2013 to June 2015. He has been the managing director and department head of the investment management department of Everbright Limited since August 2015. Mr. Nie graduated from Shanghai University with a major in Japanese in July 1984 and completed an EMBA (International President Program) in Shanghai Jiao Tong University in October 2009.

Mr. Zhu Wuxiang has been an external Supervisor since he joined our Company in September 2014. He served as the chairman of the board of supervisors of Unisplender Corporation Limited (a company listed on the Shenzhen Stock Exchange, stock code: 000938) from May 2002 to May 2015 and as a supervisor since May 2015. He has also served as a professor and doctoral tutor of the department of finance of the School of Economics and Management of Tsinghua University since December 2002, an independent non-executive director of Beijing Properties (Holdings) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0925) since January 2011, an independent director of China Fortune Land Development Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600340) since December 2013, an independent non-executive director of Dong Xing Securities Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 601198) since May 2014, an independent non-executive director of ZTE Corporation (a company listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, Stock codes: 000063 and 763, respectively) since March 2016. He served as an independent director of Rongxin Power Electronic Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002123) from June 2013 to December 2015, and an independent director of Offshore Oil Engineering Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600583) from January 2014 to May 2016. Mr. Zhu received a bachelor's and a master's degree in engineering and a doctoral degree in economics from the School of Economics and Management of Tsinghua University in July 1987, December 1989 and January 2003, respectively.

Mr. Zhang Limin has been an external Supervisor since he joined our Company in September 2014. He has been an accounting professor at Beijing Jiaotong University since February 2009 and a member of the disciplinary committee of the Chinese Institute of Certified Public Accountants since December 2010. Mr. Zhang has been an independent director of Shenzhen Centralcon Investment Holdings Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000042) since October 2013, an independent director of Golden (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600383) since April 2014 and an executive member of the China Audit Society since December 2014. Mr. Zhang was a professor at the Management School of Sun Yat-sen University from September 2001 to February 2009, vice chairman of the China Audit Society from January 2005 to December 2014, an independent director of Shenzhen Expressway Company Limited (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, stock codes: 600548 and 548) from January 2009 to December 2014, an independent director of Tianjin Benefo Tejing Electric Co., Ltd. (a company listed on the Shanghai Stock Exchange,

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stock code: 600468) from April 2009 to March 2015 and an independent director of Guangzhou Hangxin Aviation Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300424) from April 2015 to January 2016. He received a bachelor's degree in finance, a master's degree in economics and a doctorate in economics from Tianjin Institute of Finance and Economics (currently known as Tianjin University of Finance and Economics) in July 1979, December 1982 and July 1992, respectively.

Ms. Wang Wenyi has been an employee representative Supervisor since November 2011. Ms. Wang joined our Company in July 2004 and was the general manager of our brokerage branch in Urumqi from July 2004 to June 2007. She has been the general manager of our Beijing branch since May 2011. Ms. Wang previously worked at the supply and marketing cooperatives of Xinjiang Autonomous Region from August 1988 to February 1996, as the manager and deputy general manager of the Business Import and Export Corporation of Xinjiang Foreign Trade Department from February 1996 to November 1998, the general manager of the Xinjiang Securities Company brokerage branch at Xinhua South Road from November 1998 to July 2004 and the general manager of our brokerage branch in Yuetan North Street, Beijing from June 2007 to March 2016. Ms. Wang received a bachelor's degree in economics from Tianjin Institute of Finance and Economics in July 1988 and completed a graduate program in finance at the Capital University of Economics and Business in July 1999.

Mr. Li Bingtao has been an employee representative Supervisor since September 2014. Mr. Li joined our Company in March 2014 and was the director of our party committee office from April 2014 to September 2014. He has also been a director of Everbright Capital since June 2014, an executive director and the chief executive of ESIL and China Everbright Securities International Limited since September 2014 and a director of SHKFGL since June 2015. Mr. Li previously worked for United Securities Co., Ltd. from March 2001 to May 2003, Washington Mutual Inc. as an investment analyst from August 2005 to September 2008 and JP Morgan Chase & Co. from September 2008 to April 2009. He also worked for the Planning and Development Committee of the CSRC from May 2009 to July 2010, the institutional supervision department of the CSRC from July 2010 to March 2014 and the general office of the Everbright Group from March 2014 to April 2014. Mr. Li graduated from Shandong University with a major in international economics in July 1998 and received a master's degree in economics from Shanghai University of Finance and Economics in January 2001 and a master of arts degree from New York University in January 2005. Mr. Li is certified as a Financial Risk Manager (FRM) and Chartered Financial Analyst (CFA).

Ms. Huang Qin has been an employee representative Supervisor since September 2014 and the general manager of our risk management department since March 2016. Ms. Huang joined our Company in May 1997 and was the manager of our brokerage branch in Wuhan from May 1997 to January 2003. She worked in our brokerage business division from February 2003 to June 2005. She successively served as assistant to the general manager, deputy general manager and general manager of our audit department from July 2005 to March 2016. Ms. Huang was a staff member of the securities department of the Wuhan branch of the Bank of China from July 1994 to April 1997. Ms. Huang received a bachelor's degree in economics from Zhongnan University of Economics and Law in October 2001 and a master's degree in executive master of business administration from Shanghai University of Finance and Economics in January 2010.

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SENIOR MANAGEMENT

Mr. Xue Feng is our vice chairman, president and executive Director. See “— Directors” for his biography.

Mr. Wang Weimin has been a vice president since he joined our Company in May 2005. Mr. Wang was a director of Everbright Capital from August 2008 to June 2014 and has been chairman of Everbright Capital since June 2014. He served as a director of EBSHK from November 2010 to June 2014, chairman of ESIL and China Everbright Securities International Limited from May 2011 to September 2014 and chairman of Everbright Asset Management from February 2012 to July 2014. He has also been a non-executive director of Everbright Limited since June 2008. Mr. Wang previously served as deputy director of the securities office of the Chengdu branch of the Bank of Communications (a company listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange, stock code: 601328 and 3328) from December 1994 to March 1996. He also worked for Haitong Securities Company Limited (a company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, stock codes: 600837 and 6837) (“Haitong Securities”) from March 1996 to April 2005 as deputy general manager and general manager of the securities trading division in Chengdu, manager of the human resources development department and party committee organization department and general manager of the trading division. Mr. Wang graduated from Chongqing Industrial School in January 1981 with a major in machinery production, from Chengdu College of Education in June 1989 with a major in Chinese language and literature and received an MBA from Shanghai Jiao Tong University in April 2005.

Mr. Wang Baoqing has been a vice president since May 2010. Mr. Wang joined our Company in July 1997 and until May 2010, he has served as general manager of our brokerage branch in Dongguan, brokerage business division and human resources department, manager of our organization department and assistant to the president. He previously served as deputy head of the political division of Shaanxi Hanzhong Grain and Oil Company from December 1977 to July 1988 and section officer of the Economic Committee of Shaanxi Hanzhong Politics Office and Shenzhen Branch from August 1988 to February 1993, and deputy general manager of Shenzhen Tian Long Industry Development Limited from March 1993 to May 1997. Mr. Wang graduated from Shaanxi University of Radio and Television in July 1986 with a major in commercial enterprise management and the Party School of Guangdong Provincial Committee of CPC in July 1998 with a master’s degree in economics and also received a master’s degree in business administration (international) from The University of Hong Kong in December 2004.

Mr. Xiong Guobing has been a vice president since May 2010. Mr. Xiong joined our Company in November 2004 and until July 2010, he has served in various positions, including deputy general manager and general manager of our audit department and general manager of our risk management department (legal affairs department). Mr. Xiong was a director of Everbright Capital from August 2008 to June 2014 and has been chairman of Everbright Asset Management since July 2014. Mr. Xiong previously served as a clerk, deputy section officer, section officer and deputy head of the Jiangxi Audit Office from July 1991 to October 2004. He received a bachelor’s, master’s and doctoral degree in economics from Jiangxi Institute of Finance and Economics (currently known as Jiangxi University of Finance and Economics) in July 1991, June 1999 and June 2004, respectively.

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Ms. Wang Cuiting has been a vice president since December 2014. Ms. Wang joined our Company in March 2004 and was secretary to the board of Everbright Pramerica from March 2004 to July 2006. From March 2004 to April 2014, she served in various positions, such as deputy director of our president's office, secretary to our Board, director of our Board office, general manager of our human resources department and manager of our organization department. She has been the chairman of our labor union since February 2007. Ms. Wang also served as a director of Everbright Asset Management from January 2012 to June 2014, a director of Everbright Capital from December 2011 to June 2014 and a director of Everbright Fortune from May 2012 to April 2014. Ms. Wang was a lecturer at the economic teaching and research office of Shanghai Instrument Electronics Staff and Workers University (party school and training center) from July 1988 to December 1994. She also served as editor, associate chief editor, executive deputy editor and deputy director of the scientific research achievements office of the development research department of the Bank of Communications headquarters from December 1994 to May 2003. She was vice president of the Xuhui sub-branch of the Shanghai branch of the Bank of Communications from August 2003 to March 2004. Ms. Wang obtained a master's degree in science from East China Normal University in Shanghai in July 1988 and obtained an EMBA from China Europe International Business School in October 2011.

Mr. Wang Zhong has been our vice president since March 2015. Mr. Wang joined our Company in October 2005 and served as deputy general manager of our fixed income division until July 2009. He was a technician at Changzhou Haohua Aerosol Company Limited (常州豪華氣霧製品有限公司) from August 1993 to July 1996, senior manager of Jun An Securities and business director of Guotai Jun An Securities Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 601211) from April 1998 to June 2002 and manager of the secondary securities investment department of Haitong Securities from June 2002 to October 2005. Mr. Wang served as assistant president and vice president of Everbright Financial Holding Asset Management from July 2009 to December 2014. Mr. Wang received a bachelor's degree in engineering from Huainan Institute of Mining Technology (currently known as Anhui University of Science and Technology) in July 1993 and a master's degree in economics from Shanghai University of Finance and Economics in January 1999.

Ms. Chen Lan has been our chief compliance officer since she joined our Company in December 2008 and served as general manager of our legal compliance department from December 2008 to September 2014. She has also been a supervisor of Everbright Capital since June 2014. Ms. Chen worked in the general office of the CSRC from April 1999 to December 2000 and served as a staff member, deputy director and director of the CSRC legal department from January 2001 to October 2006. She also served as director of the CSRC Administrative Penalty Committee from October 2006 to November 2008. She received a bachelor's, master's and doctoral degree in law from Wuhan University in July 1991, August 1994 and June 1999, respectively.

Mr. Wang Yong has been our chief risk management officer since August 2014. Mr. Wang joined our Company in April 2014 and has been a director of Everbright Asset Management and Everbright Capital since June 2014. Mr. Wang worked for the Royal Bank of Canada from November 1994 to April 2014 and ultimately served as vice president and managing director of the quantitative risk analysis department. Mr. Wang is a certified Chartered Financial Analyst (CFA) and Financial Risk Manager (FRM). He was named an expert in the "Shanghai

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Thousand Experts Program” in February 2015 and in the “National Thousand Experts Program” in June 2015. Mr. Wang received a bachelor’s degree in numerical mathematics from Xi’an Jiaotong University in July 1985, a master’s degree in science from the University of Saskatchewan in Canada in May 1992 and a doctoral degree from Dalhousie University in Canada in October 1994.

Save as disclosed above, none of the Directors has an interest in any business that is or may be in direct or indirect competition with our business.

Save as disclosed above, none of our Directors, Supervisors and senior management has any relationship with other Directors, Supervisors and senior management.

Save as disclosed above, none of our Directors, Supervisors and senior management held any directorship in any listed company whose securities are listed on Hong Kong or overseas stock exchanges in the three years immediately preceding the date of this prospectus.

Save as disclosed in this section, there is no other information that needs to be brought to the attention of Shareholders pursuant to Rule 13.51(2) of the Hong Kong Listing Rules.

COMPANY SECRETARY

Mr. Ngai Wai Fung was appointed as our company secretary in August 2015, which will take effect from the Listing Date. Mr. Ngai is currently a director and the chief executive officer of SW Corporate Services Group Limited and had served as the president of the Hong Kong Institute of Chartered Secretaries from 2014 to 2015. Mr. Ngai has substantial company secretarial experience. Mr. Ngai became a fellow member of the Hong Kong Institute of Chartered Secretaries in November 2000, a fellow member of the Institute of Chartered Secretaries and Administrators in November 2000, a member of the Hong Kong Institute of Certified Public Accountants in July 2007 and a fellow member of the Association of Chartered Certified Accountants in March 2012. Mr. Ngai was appointed a member of the Working Group on Professional Services of the Economic Development Commission by the Chief Executive of the Hong Kong Special Administrative Region and a member of the Qualifications and Examinations Board by the Hong Kong Institute of Certified Public Accountants in January 2013. Mr. Ngai has been an adjunct professor of law at Hong Kong Shue Yan University since September 2012, and was appointed as a Finance Expert Consultant of Ministry of Finance of the PRC in June 2016. Mr. Ngai received a master’s degree in business administration from Andrews University of Michigan in August 1992, a bachelor’s degree (with honors) in law from the University of Wolverhampton in the United Kingdom in October 1994, a master’s degree in corporate finance from the Hong Kong Polytechnic University in November 2002 and a doctorate degree in finance from the Shanghai University of Finance and Economics in June 2011.

CORPORATE GOVERNANCE

We strive for high-quality corporate governance to protect shareholders’ equity. Therefore, we will comply with the Corporate Governance Code under Appendix XIV of the Hong Kong Listing Rules after the Listing.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

Our Board delegates certain responsibilities to committees. In accordance with PRC laws, our Articles of Association and the Hong Kong Listing Rules, we have formed four Board committees, namely the Remuneration, Nomination and Credentials Committee, Strategies and Development Committee, Audit Committee and Risk Management Committee.

Remuneration, Nomination and Credentials Committee

Our Remuneration, Nomination and Credentials Committee consists of one executive Director, one non-executive Director and three independent non-executive Directors. The executive Director is Mr. Xue Feng, the non-executive Director is Mr. Guo Xinshuang and the three independent non-executive Directors are Mr. Zhu Ning, Mr. Xu Jingchang and Mr. Xiong Yan. Mr. Xiong Yan is the chairman of the committee.

The principal responsibilities of the Remuneration, Nomination and Credentials Committee include:

- preparing a remuneration plan for Directors, presidents and other senior management based on the scope, responsibilities and importance of the position and the remuneration for similar positions at similar companies;
- evaluating the performance of duties by the Directors (non-independent Directors), presidents and other senior management of our Company and conducting annual performance appraisals;
- making annual recommendations on the size and composition of the Board (including expertise, know-how and experience) based on our business activities, assets and shareholding structure and making recommendations on aligning the Board composition with our strategies;
- examining and nominating candidates for Director and other senior management;
- assessing the independence of independent Directors;
- ensuring that neither Directors nor their associates take part in determining their own remuneration; and
- other matters as authorized by the Board.

Strategies and Development Committee

Our Strategies and Development Committee consists of one executive Director, two non-executive Directors and two independent non-executive Directors. The executive Director is Mr. Xue Feng, the two non-executive Directors are Mr. Guo Xinshuang and Mr. Chen Mingjian and the two independent non-executive Directors are Mr. Zhu Ning and Mr. Xiong Yan. Mr. Guo Xinshuang is chairman of the committee.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The principal responsibilities of the Strategies and Development Committee include:

- evaluating and making recommendations on long-term development strategies and plans;
- evaluating and making recommendations on major financing proposals where Board approval is required by our Articles of Association;
- evaluating and making recommendations on major capital expenditures or investments where Board approval is required by our Articles of Association;
- evaluating and making recommendations on other key matters that may affect the development of our Company;
- reviewing the implementation of the matters described above; and
- other matters as authorized by the Board.

Audit Committee

Our Audit Committee consists of two non-executive Directors and three independent non-executive Directors. The two non-executive Directors are Mr. Chen Mingjian and Mr. Yang Guoping and the three independent non-executive Directors are Mr. Xu Jingchang, Mr. Xiong Yan and Mr. Li Zheping. Mr. Xu Jingchang is the chairman of the committee.

The principal responsibilities of the Audit Committee include:

- recommending the engagement or removal of external auditors, including making recommendations on the appointment and removal of external auditors to the Board, approving the remuneration and engagement terms of external auditors and dealing with the resignation or removal of such external auditors;
- supervising the performance of external auditors, reviewing and monitoring the independence and objectivity of external auditors and the effectiveness of audit procedures;
- supervising our internal audit system and internal audit functions;
- establishing and implementing policies on the provision of non-audit services by external auditors;
- examining our financial information and any disclosures thereof, monitoring annual audits, making judgments on the truthfulness, accuracy and completeness of audited financial reports and information and submitting them to the Board for consideration;
- reviewing our internal control system and conducting audits on major connected transactions;

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- conducting research on the results of important investigations involving risk management and internal control and on management responses to investigation results;
- ensuring sufficient resources are allocated to the implementation and evaluation of internal controls;
- reviewing our financial and accounting policies and practices;
- evaluating the effectiveness of procedures for whistle-blowing, investigations into reported issues and remedial actions; and
- other matters as authorized by of the Board.

Risk Management Committee

Our Risk Management Committee consists of two non-executive Directors and three independent non-executive Directors. The two non-executive Directors are Mr. Yin Lianchen and Mr. Yang Guoping and the three independent non-executive Directors are Mr. Zhu Ning, Mr. Xu Jingchang and Mr. Li Zheping. Mr. Zhu Ning is the convenor of the committee.

The principal responsibilities of the Risk Management Committee include:

- evaluating and making recommendations on the goals and policies of compliance and risk management;
- evaluating and making recommendations on the establishment and duties of the compliance and risk management departments;
- evaluating and making recommendations on the risks of major Board decisions and measures to reduce these risk;
- evaluating and making recommendations on compliance reports and risk evaluation reports requiring Board approval;
- reviewing risk management and internal control duties and the internal audit function; and
- other duties as set forth in our Articles of Association.

Remuneration of Directors, Supervisors and Senior Management

Our independent non-executive directors and external supervisors receive fees in accordance with our Company's relevant system. Meanwhile, directors and supervisors who are also employees receive remuneration in the form of salary, discretionary bonuses, social insurance and other benefits.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016, the total pre-tax remuneration of Directors was approximately RMB3.00 million, RMB4.36 million, RMB4.17 million and 0.79 million, respectively.

For the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016, the total pre-tax remuneration of our Supervisors was approximately RMB4.46 million, RMB7.22 million, RMB9.43 million and 4.56 million, respectively. For the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016, the total pre-tax remuneration of senior management (excluding the senior management which are also Directors or Supervisors) was approximately RMB22.56 million, RMB26.46 million and RMB25.23 million and 3.97 million, respectively.

As of December 31, 2013, the five persons with the highest remuneration included five persons who were not Directors, Supervisors or senior managers. As of December 31, 2014, the five persons with the highest remuneration included four persons who were not Directors, Supervisors or senior managers. As of December 31, 2015, the five persons with the highest remuneration included four persons who were not Directors, Supervisors or senior managers. For the three months ended March 31, 2016, the five persons with the highest remuneration included five persons who were not Directors, Supervisors or senior management. For the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016, the total pre-tax remuneration of the remaining five, four, four and five persons with the highest remuneration was approximately RMB19.08 million, RMB13.13 million, RMB19.39 million and RMB23.19 million, respectively.

For the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016, we paid no remuneration to Directors or the five persons with the highest remuneration as a bonus when they joined us or as compensation when they left office.

Under arrangements currently in force, we estimate that as of December 31, 2016, the total pre-tax fixed remuneration payable to Directors, Supervisors and senior management will be approximately RMB2.61 million, RMB4.58 million and RMB15.41 million, respectively.

Compliance Advisor

We have engaged CMB International Capital Limited as our compliance advisor under Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. The key terms of the engagement are as follows:

- the term will be from the Listing Date to the date when the annual report of the first complete financial year after the Listing Date is issued, or the termination date of the agreement, whichever is earlier;
- the compliance advisor will provide services, including guidance and advice as to compliance with the Hong Kong Listing Rules and applicable laws, rules, codes, and guidelines, and advice on the continuing requirements under the Hong Kong Listing Rules and applicable laws, rules, codes and guidelines;

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- the compliance advisor will, as soon as practicable, inform us of any amendment or supplement to the Hong Kong Listing Rules announced by the Hong Kong Stock Exchange, and of new applicable laws, rules, codes and guidelines or amendments to the same; and
- the compliance advisor will be the communication channel between us and the Hong Kong Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, the following persons directly or indirectly controlled, or were entitled to exercise the control of 5% or more interests in our A Shares:

Name of Shareholder	Nature of interest	Class	Number of Shares directly or indirectly held	Approximate percentage of shareholding (%)
Huijin	Interests of controlled corporation ⁽¹⁾	A Shares	37,568,900	0.96
		A Shares	2,298,706,183	58.84
	Interests of controlled corporation ⁽²⁾	A Shares	<u>2,336,275,083</u>	<u>59.80</u>
Central Huijin Asset Management Ltd.	Beneficial Owner	A Shares	37,568,900	0.96
China Everbright Group Corporation Limited	Beneficial Owner	A Shares	1,159,456,183	29.68
		Interests of controlled corporation ⁽³⁾	A Shares	1,139,250,000
		A Shares	<u>2,298,706,183</u>	<u>58.84</u>
China Everbright Holdings .	Interests of controlled corporation ⁽³⁾	A Shares	1,139,250,000	29.16
Datten Investments Limited .	Interests of controlled corporation ⁽³⁾	A Shares	1,139,250,000	29.16
Honorich Holdings Limited .	Interests of controlled corporation ⁽³⁾	A Shares	1,139,250,000	29.16
China Everbright Limited . .	Beneficial Owner	A Shares	1,139,250,000	29.16

So far as our Directors are aware, immediately following the completion of the Global Offering, the following persons will have an interest or a short position in Shares or underlying shares of our Company which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of interest	Class	Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option)			Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option)		
			Number of Shares directly or indirectly held	Approximate % of interest in our Company	Approximate % of the relevant class of Shares of our Company	Number of Shares directly or indirectly held	Approximate % of interest in our Company	Approximate % of the relevant class of Shares of our Company
Huijin	Interests of controlled corporation ⁽¹⁾	A Shares	37,568,900	0.82	0.96	37,568,900	0.80	0.96
		A Shares	2,298,706,183	50.12	58.84	2,298,706,183	49.05	58.84
	Interests of controlled corporation ⁽²⁾	A Shares	2,336,275,083	50.94	59.80	2,336,275,083	49.85	59.80
Central Huijin Asset Management Ltd.	Beneficial Owner	A Shares	37,568,900	0.82	0.96	37,568,900	0.80	0.96
China Everbright Group Corporation Limited	Beneficial Owner	A Shares	1,159,456,183	25.28	29.68	1,159,456,183	24.74	29.68
		Interests of controlled corporation ⁽³⁾	A Shares	1,139,250,000	24.84	29.16	1,139,250,000	24.31
		A Shares	2,298,706,183	50.12	58.84	2,298,706,183	49.05	58.84
China Everbright Holdings	Interests of controlled corporation ⁽³⁾	A Shares	1,139,250,000	24.84	29.16	1,139,250,000	24.31	29.16

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Nature of interest	Class	Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option)			Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option)		
			Number of Shares directly or indirectly held	Approximate % of interest in our Company	Approximate % of the relevant class of Shares of our Company	Number of Shares directly or indirectly held	Approximate % of interest in our Company	Approximate % of the relevant class of Shares of our Company
Datten Investments Limited	Interests of controlled corporation ⁽³⁾	A Shares	1,139,250,000	24.84	29.16	1,139,250,000	24.31	29.16
Honorich Holdings Limited	Interests of controlled corporation ⁽³⁾	A Shares	1,139,250,000	24.84	29.16	1,139,250,000	24.31	29.16
China Everbright Limited	Beneficial Owner	A Shares	1,139,250,000	24.84	29.16	1,139,250,000	24.31	29.16

Except as disclosed in this prospectus, as of the Latest Practicable Date, we were not aware of any arrangement which might on a subsequent date result in a change of control of our Company.

- (1) As of the Latest Practicable Date, Huijin held 100% of the total issued share capital in Central Huijin Asset Management Ltd.. Accordingly, Huijin is deemed to be interested in Central Huijin Asset Management Ltd.'s interest in our Company under the SFO.
- (2) As of the Latest Practicable Date, Huijin held a 55.67% interest in the China Everbright Group Corporation Limited. Accordingly, Huijin is deemed to be interested in the China Everbright Group Corporation Limited's interest in our Company under the SFO.
- (3) As of the Latest Practicable Date, Honorich Holdings Limited and Everbright Investment and Management Limited held 49.386% and 0.358% of the total issued share capital in China Everbright Limited, respectively; Datten Investments Limited held 100% of the total issued share capital in Honorich Holdings Limited; China Everbright Holdings held 100% of the total issued share capital in Datten Investments Limited and Everbright Investment and Management Limited; the China Everbright Group Corporation Limited held 100% of the total issued share capital in China Everbright Holdings. Accordingly, each of the China Everbright Group Corporation Limited, China Everbright Holdings, Datten Investments Limited and Honorich Holdings Limited is deemed to be interested in China Everbright Limited's interest in our Company under the SFO.

SHARE CAPITAL

OUR SHARES

(1) Before the Global Offering

As of the Latest Practicable Date, our registered share capital was RMB3,906,698,839, comprising 3,906,698,839 A Shares of nominal value of RMB1.00 each, all of which are listed on the Shanghai Stock Exchange.

Description of Shares	Number of shares	Percentage of issued share capital
A Shares in issue	3,906,698,839	100.00%

(2) Upon Completion of the Global Offering

Immediately following completion of the Global Offering, assuming that the Over-allotment Option is not exercised, our share capital is as follows:

Description of Shares	Number of shares	Approximate percentage of issued share capital
A Shares in issue	3,906,698,839	85.17%
H Shares issued pursuant to the Global Offering	680,000,000	14.83%
Total	4,586,698,839	100.00%

Immediately following completion of the Global Offering and assuming that the Over-allotment Option is fully exercised, our share capital is as follows:

Description of Shares	Number of shares	Approximate percentage of issued share capital
A Shares in issue	3,906,698,839	83.36%
H Shares issued pursuant to the Global Offering	780,000,000	16.64%
Total	4,686,698,839	100.00%

We have two classes of Shares, namely, domestic shares and overseas shares. Domestic shares refer to our A Shares (Shares issued and subscribed for in RMB to investors within the PRC and listed in the PRC); and overseas shares refer to our H Shares (Shares to be issued and subscribed for in Hong Kong dollars to overseas investors and listed in Hong Kong). A Shares and H Shares are all ordinary Shares. H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC, except for certain QDIIs. A Shares may be subscribed for by and traded between legal or natural persons of the PRC, QFIIs or qualified foreign strategic investors approved by CSRC or the Hong Kong and overseas investors under the Shanghai-Hong Kong Stock Connect and must be traded in RMB, and residents in Hong Kong, Macau and Taiwan also can open A share accounts from April 2013.

SHARE CAPITAL

Pursuant to the requirements of PRC laws, regulations, rules and exchange guidelines, such as PRC Securities Law, securities practitioners shall not hold and trade securities directly or do so with an alias or in the name of others. As of the Latest Practicable Date, none of our Directors, Supervisors or senior management held any Shares in our Company.

According to our Articles of Association, A Shares and H Shares are considered different classes of shares and their holders are different classes of Shareholders. We therefore have two classes of Shareholders, namely holders of A Shares and holders of H Shares. The rights conferred on any class of Shareholders may not be varied or abrogated without approval by a special resolution of the Shareholders at a general meeting and by holders of Shares of that class at a separate meeting. See “Appendix V — Summary of the Articles of Association” lists the circumstances that would be deemed variation or abrogation of the rights of a class of Shares. However, the requirement of approval made separately by classes of Shareholders does not apply: (i) if we issue not more than 20% (excluding the Over-allotment Option) of each of our then existing issued A Shares and H Shares with the approval of a special resolution of the Shareholders at a general meeting, either separately or concurrently, once every twelve months, (ii) where our plan to issue A Shares at the time of our establishment and our plan to issue H Shares is implemented within fifteen months from the date of approval of CSRC, and (iii) has been approved by the securities regulatory authorities of the State Council to transfer A Shares for listing and trading on an overseas stock exchange. See “— Conversion of A Shares into H Shares for Listing and Trading on the Hong Kong Stock Exchange” below for more details.

Our Articles of Association set out the differences between A Shares and H Shares. A summary of these differences is set forth in Appendix V to this prospectus. The differences include provisions on class rights, the dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different branches of the register of Shareholders, the method of share transfers and appointment of dividend receiving agents. A Shares and H Shares will, however, rank equally with each other in all other respects and, in particular, for all dividends or distributions declared, paid or made after the date of this prospectus. The holders of our A Shares and H Shares are equally entitled to our distributable profits accumulated prior to the Listing. For further information on this special dividend, see “Financial Information — Dividend Policy”. All dividends in respect of H Shares are to be calculated in RMB and will be paid in Hong Kong dollars whereas all dividends in respect of A Shares will be calculated and paid in RMB. In addition to cash, dividends may be distributed in the form of Shares. Holders of H Shares will receive share dividends in the form of H Shares. Holders of A Shares will receive share dividends in the form of A Shares.

SHANGHAI-HONG KONG STOCK CONNECT

Pursuant to the announcement jointly made by the SFC and the CSRC regarding the in principle approval for the development of the pilot program for the establishment of mutual stock market access between Mainland China and Hong Kong dated April 10, 2014, the Hong Kong Stock Exchange and the Shanghai Stock Exchange have launched the Shanghai-Hong Kong Stock Connect on November 17, 2014, which establishes mutual order routing connectivity and related technical infrastructure to enable investors of their respective market to trade designated equity securities listed in the other’s market. In the first phase of the Shanghai-Hong Kong Stock Connect, Hong Kong and overseas investors are able to trade

SHARE CAPITAL

shares of all constituents of the SSE 180 Index and SSE 380 Index, and all A shares listed on the Shanghai Stock Exchange that are not included as constituent stocks of the relevant indices but which have corresponding H shares listed on the Hong Kong Stock Exchange through the northbound trading link (subject to certain exceptions). In addition, mainland institutional investors and individual investors who satisfy the eligibility criteria (i.e. individual investors who hold an aggregate balance of not less than RMB500,000 in their securities and cash accounts) will be accepted to trade shares of all constituent stocks of the Hang Seng Composite LargeCap Index and Hang Seng Composite MidCap Index, and all H shares that are not included as constituent stocks of the relevant indices but which have corresponding A shares listed on the Shanghai Stock Exchange (subject to certain exceptions). Given that our A Shares are among the constituents of the SSE 380 Index and our H Shares are listed on the Hong Kong Stock Exchange, our A Shares can be traded by Hong Kong and overseas investors and our H Shares can be traded by the mainland institutional investors and eligible individual investors under the Shanghai-Hong Kong Stock Connect.

TRANSFER OF STATE-OWNED SHARES

In accordance with the relevant PRC rules regarding the reduction of state-owned shares, the Everbright Group is required to transfer to the NSSF such number of Shares which is equivalent to 10% of the number of the Offer Shares (being, 68,000,000 Shares before the exercise of the Over-Allotment Option or 78,000,000 Shares upon full exercise of the Over-Allotment Option). On October 19, 2015, the NSSF agreed the Everbright Group to perform its obligations to transfer state-owned shares by way of cash payment and instructed the Everbright Group to make the cash payment directly to the national treasury of the PRC in RMB in one go within 30 business days after the Listing (or the date on which the Over-Allotment Option is exercised), the calculation of which shall be the Offer Price multiplied by the number of Shares to be transferred. On November 15, 2015, the MOF approved that the Everbright Group performs its obligation to transfer state-owned shares by way of cash payment, the calculation of which shall be the Offer Price multiplied by the number of Shares to be transferred. Neither our Company nor the Everbright Group will receive any proceeds from the transfer of cash payment to the NSSF.

As advised by King & Wood Mallesons, the legal advisor to our Company as to PRC law, the above arrangements have been approved by the relevant authorities and are in compliance with the PRC laws and regulations.

CONVERSION OF A SHARES INTO H SHARES FOR LISTING AND TRADING ON THE HONG KONG STOCK EXCHANGE

A Shares and H Shares are generally neither interchangeable nor fungible, and the market prices of our A Shares and H Shares may be different.

If any holder of our A Shares wishes to transfer its A Shares to overseas investors for listing and trading on the Hong Kong Stock Exchange, it must obtain the approval of the relevant PRC regulatory authorities, including the CSRC for the transfer and conversion of

SHARE CAPITAL

the A Shares and the approval of the Hong Kong Stock Exchange for the listing and trading of the converted H Shares, as well as follow the procedures set forth below:

- (1) the holder of A Shares must obtain the requisite approval of the CSRC or the authorized securities approval authorities of the State Council for the conversion of all or part of its A Shares into H Shares;
- (2) we may apply for the listing of all or any portion of our A Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion and we must obtain prior approval from the Hong Kong Stock Exchange before the converted H Shares can be listed and traded on the Hong Kong Stock Exchange;
- (3) the holder of A Shares must request that we remove its A Shares from the A Share register, attaching the relevant documents of title together with the request;
- (4) subject to obtaining the approval of the Board and the Hong Kong Stock Exchange, we would then instruct the H Share Registrar, with effect from a specified date, to issue the relevant holder H Share certificates for a specified number of H Shares;
- (5) the specified number of A Shares to be converted to H Shares are then re-registered on the H Share register maintained in Hong Kong on the condition that:
 - (a) our H Share Registrar lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificate; and
 - (b) the admission of the H Shares for trading in Hong Kong will comply with the Hong Kong Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time;
- (6) upon completion of the transfer and conversion, the shareholding of the relevant holder of A Shares in our A Share register will be reduced by such number of A Shares transferred and the number of H Shares registered will correspondingly be increased by the same number of H Shares; and
- (7) in compliance with the Hong Kong Listing Rules, we will publicly announce the transfer and conversion not less than three days prior to the proposed effective date.

Approvals from holders of A Shares and H Shares as separate classes are not required for the listing and trading of the converted H Shares. As at the Latest Practicable Date, the Directors were not aware of any intention of any holder of A Shares to convert all or part of its A Shares into H Shares.

SHARE CAPITAL

APPROVAL FROM HOLDERS OF A SHARES REGARDING THE GLOBAL OFFERING

We require the approval of holders of A Shares to issue H Shares and list the H Shares on the Hong Kong Stock Exchange. We have obtained the approval for the Global Offering of H Shares at our general meeting held on April 28, 2015. The approval is subject to the following conditions:

(1) Size of the offering

The proposed number of H Shares to be offered does not exceed 680,000,000 H Shares (before exercise of the Over-allotment Option) and the Over-allotment Option granted to the bookrunner(s) shall not exceed 100,000,000 H Shares.

(2) Method of offering

The method of offering shall be by way of Hong Kong Public Offering and International Offering.

(3) Targets of the offering

H Shares may be issued to overseas professional institutions, enterprises and individuals, and other investors who meet relevant conditions.

(4) Pricing

The issue price of the H Shares will be determined after due consideration of the interests of our existing Shareholders, the acceptance of investors and risks related to issue, etc., and in accordance with international practice, through order demands and a book-building process, based on the domestic and overseas capital market conditions and by reference to the valuation of comparable companies in domestic and overseas markets.

(5) Validity period

The issue of H Shares and listing of H Shares on the Hong Kong Stock Exchange must be completed within eighteen months from the date of the Shareholders' meeting, i.e. April 28, 2015.

There are no other approved offering plans for any other Shares except the Global Offering.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements as of and for the years ended December 31, 2013, 2014 and 2015, and as of March 31, 2016 and for the three months ended March 31, 2015 and 2016, and the accompanying notes included in Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS. The following discussion and analysis contains forward-looking statements relating to events that involve risks and uncertainties. For additional information regarding these risks and uncertainties, see “Risk Factors”.

OVERVIEW

We are a leading full-service securities group in China with strong innovation capabilities and an integrated onshore and offshore business platform. As a core financial services platform of the Everbright Group, we benefit from synergies within the group and from the “Everbright” brand recognition.

Our principal business activities comprise (1) Brokerage and Wealth Management, (2) Credit Business, (3) Institutional Securities Services, (4) Investment Management, and (5) Overseas Business. We report our financial results in the following six segments:

- Brokerage and Wealth Management, which primarily includes fees and commissions from brokerage and investment advisory services to retail clients, interest income from cash held on behalf of clients, and fees from selling financial products developed by us and other financial institutions;
- Credit Business, which primarily includes interest income from margin financing and securities lending activities, collateralized stock repurchase transactions, repurchase transactions, and stock incentive financing for listed companies, as well as income generated by Everbright Leasing;
- Institutional Securities Services, which primarily includes fees and commissions from underwriting and financial advisory, investment research and prime brokerage services to corporate and other institution clients, as well as investment gains and interest income from proprietary trading and market-making activities;
- Investment Management, which primarily includes management and advisory fees from providing asset management, fund management and private equity investment management services, as well as investment gains from private equity and alternative investments;
- Overseas Business, which primarily includes fees and commissions, interest income and investment gains from our Hong Kong operations; and
- Others, which primarily includes investment gains and interest income from cash deposits earned by our headquarters.

FINANCIAL INFORMATION

SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL RESULTS

Our results of operations and financial condition, and their period-to-period comparability are significantly affected by a number of factors, including those described below:

Market Conditions

As a securities firm, our results of operations and financial condition are materially affected by the condition of the financial markets and the general economy. Favorable economic or market conditions include high GDP growth, transparent, liquid and efficient capital markets, low inflation, low unemployment, strong business profitability and high investor confidence. Unfavorable or uncertain economic or market conditions may result from declines in economic growth, business activity or investor confidence, decreased availability (or increase in the cost) of credit and capital, increases in inflation or interest rates, exchange rate volatility, outbreaks of hostilities or other geopolitical instability, corporate, political or other scandals that reduce investor confidence in the capital markets, or a combination of these or other factors.

Our businesses and profitability have been and may continue to be affected by market conditions in many ways. For example, changes in equity markets valuation or interest rates affect the value of our clients' portfolios and their trading and investing activities, which in turn may affect the amount of our brokerage commissions and asset management fees. Changes in financial or economic conditions may also lead to increases or decreases in the number and size of transactions in which we provide underwriting, financial advisory and other services. In addition, fluctuating market prices could affect the value of our own investment portfolio, and we may be required to record losses that would negatively impact our financial results. We use derivative instruments to reduce the exposure of our investment portfolio to price fluctuations, but they may not be completely effective at managing these risks.

Regulatory Environment in China

Although we are expanding our overseas business, we currently derive substantially all of our revenue from operations in the PRC. Accordingly, our results of operations and financial condition, and prospects are affected by regulatory developments in China and the economic policies of the PRC government.

The PRC securities industry is highly regulated. Many aspects of our business require government approvals and permits. In addition, as China's regulatory regime and securities industry develop, changes in laws and regulations, or in their interpretation or enforcement, could materially affect our business, financial condition or results of operations. In recent years, the CSRC has gradually liberalized the regulation of the PRC securities industry. For example, the CSRC approved the launch of various new financial products and businesses by PRC securities firms, such as direct investment, stock index futures, margin financing and securities lending, repurchase agreements, collateralized stock repurchase agreements, dealer-quoted bond repurchase agreements and stock option trading and market-making. The PRC government has also introduced measures to improve the capital efficiency and diversify

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the funding sources of PRC securities firms, such as lowering the risk-weighted capital reserve requirements, and allowing the issuance of subordinated debt to shareholders and institutional investors. We expect regulatory reforms and government policies to continue to affect the PRC securities industry and our business, financial condition and results of operations.

Interest Rate Environment

Our business is also affected by changes in interest rates and credit spreads. Changes in interest rates affect our results of operations and financial condition in different ways. First, an increase in interest rates could cause a corresponding decline in the fair value of fixed income products we invest in and adversely affect our average investment yield. A rise in interest rates could also affect the profitability of our derivative financial instruments and hedging strategies depending on the long-short positions we take. Second, a rise in interest rates could lower our corporate clients' ability or willingness to access the debt capital markets, which could lower the revenue generated by our debt underwriting business. Third, changes in interest rates would also affect our interest income and cost of funding. Interest rates in China are regulated by the PBOC. In October 2015, the PBOC further reduced the one-year RMB benchmark lending rate to 4.35%. We expect future changes in the interest rate environment, in particular, changes in PBOC benchmark interest rates, to continue to significantly affect our financial condition and results of operations.

Competition

We face intense competition in all aspects of our business. We compete principally with other securities firms in China and Hong Kong, some of which offer their clients a broader range of financial services, have more resources, and may have greater operating efficiencies. In addition, we face increasing competition from other financial institutions, such as commercial banks, fund management companies and other financial service providers. We believe that the principal factors affecting competition are price, product and service offering, and the execution ability, experience and knowledge of our staff. For example, in recent years, we experienced intense price competition in our retail brokerage business, with considerable pressure on brokerage commission rates. In 2013, 2014 and 2015 and the three months ended March 31, 2016, our net average stock and fund brokerage commission rates were 0.689‰, 0.617‰, 0.449‰ and 0.376‰, respectively. We believe that we will continue to experience downward pressures on brokerage commissions as some of our competitors seek to gain market share by reducing prices. Further, deregulation of the securities industry could increase market competition, which could materially affect our business, financial condition or results of operations. Increased competition or an adverse change in our competitive position could lead to a reduction of business and therefore a reduction of revenues and profits. Competition can also raise the cost of hiring and retaining the talents we need to effectively operate our business.

Product Offerings and Mix

Our business lines and products and services have varying profit margins and growth prospects, and as a result, any material changes in our product mix, whether due to changes in our growth strategies, market conditions, client demand or other reasons, may affect our

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financial condition and results of operations. Our historical financial results have been significantly affected by the revenue contribution and profit margin of our brokerage business. We seek to optimize our product mix by increasing the revenue contribution of other business lines with relatively higher profit margins and significant growth potential, such as capital intermediary businesses and investment management business.

As we seek to diversify our revenue sources by broadening our product and service offerings, our future results of operations and financial condition could be significantly affected by our ability to design, develop and bring new products to market, to transact business with new clients and counterparties, to manage new asset classes, and to expand in new markets.

Mergers and Acquisitions

We have engaged in and intend to continue engaging in mergers and acquisitions to expand our business and take advantage of market opportunities. For example, on June 2, 2015, we acquired a 70% interest in SHKFGL. See “History, Development and Corporate Structure — Major Acquisition during the Track Record Period — Acquisition of a Majority Interest in SHKFGL” for additional information. The success of our strategy to expand through mergers and acquisitions is subject to a number of variables, such as (i) our ability to identify suitable targets and complete acquisitions at commercially viable terms, (ii) the availability, terms and cost of any financing required to fund acquisitions or complete expansion plans, (iii) required regulatory approvals, and (iv) our ability to integrate the acquired businesses and realize the expected synergies. In addition, our expansion plans may demand significant effort on the part of our management, which may divert their attention from our core business activities. Further, impairment charges on goodwill from our historical acquisitions could negatively affect our financial results. For example, a small change in the assumptions used in the impairment testing of goodwill may lead to impairment losses.

CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies and estimates significant to the preparation of our financial statements in accordance with IFRS. The Accountants’ Report in Appendix I to this prospectus sets forth these significant accounting policies in note 2. The application of some of our accounting policies involve subjective assumptions, estimates and judgments related to assets, liabilities, income, expenses and other accounting items, which are discussed in note 2 of the Accountants’ Report in Appendix I to this prospectus. Our estimates are based on historical experience and other assumptions that management believes to be reasonable under the circumstances. Results may differ under different assumptions and conditions. Changes in our accounting estimates and assumptions, for example, the assumptions used in the impairment testing of goodwill, may significantly impact our financial results. Our management has identified below the accounting policies, estimates and judgments that they believe are most critical to the preparation of our financial statements. We are not aware of any event or circumstance that, as of the Latest Practicable Date, would cause us to adjust our accounting estimates and assumptions.

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Impairment of Available-for-sale Financial Assets and Held-to-maturity Investments

The determination of whether available-for-sale financial assets and held-to-maturity investments are impaired requires significant judgment. 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, technology changes as well as operating and financing cash flows.

Fair Value of Financial Instruments

We use valuation techniques to estimate the fair value of financial instruments that are not quoted in an active market. These valuation techniques include the use of recent fair market transaction prices of the same or similar instruments, discounted cash flow analysis and option pricing models. We have established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Our valuation models make maximum use of market input and rely as little as possible on our specific data. However, areas such as our credit and counterparty risk, and risk correlations require management to make estimates. We review the estimations and assumptions periodically and make adjustments when necessary.

Classification of Financial Assets and Liabilities

Our accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories as set forth below:

We classify 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.

We classify financial assets or liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading) when we determine that they are (i) acquired or incurred principally for the purpose of selling or repurchasing in the near term, (ii) managed in a pattern of short-term profit taking, (iii) derivatives, or (iv) designated at fair value through profit or loss.

We classify financial assets as held-to-maturity when we determine that we have both the positive intent and ability to hold the assets until their maturity date. Our management makes significant judgments in evaluating whether an asset meets the requirements to be classified as a financial asset as held-to-maturity. Failure in accurately assessing our intent and ability to hold specific investments until maturity may result in reclassification of a whole investment portfolio as available-for-sale financial assets.

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Available-for-sale financial assets include non-derivative financial assets that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Impairment of Receivables

We review receivables to assess impairment on a periodic basis. Objective evidence of impairment includes observable data about loss events such as a significant decline in the estimated future cash flow of an individual debtor and other factors. Impairment losses recognized in prior years are reversed if there is an indication that there has been a change in the factors used to determine the provisions for impairment.

Impairment of Non-financial Assets

We review non-financial assets regularly and recognize impairment losses if the carrying amount of an asset exceeds its recoverable amount. Our management exercises significant judgments in assessing the present value of future cash flows of an asset based on the asset's selling price, related operating expenses and discount rate. We use all relevant materials that can be obtained to estimate the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumptions.

Income Tax

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. We carefully evaluate tax implications of transactions and make tax provisions accordingly. We re-evaluate the tax treatment of transactions periodically to take into account the changes in tax legislations. We recognize deferred tax assets for tax losses not yet used and temporary deductible differences. As deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, management's judgment is required to assess the probability of future taxable profits. We constantly review management's assessment and recognize additional deferred tax assets if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

Determination of Consolidation Scope

Our financial statements incorporate the financial statements of our Company and entities (including structured entities) controlled by our Company and our subsidiaries. Control is achieved where we:

- have power over the investee;
- have rights to variable returns from our involvement with the investee; and
- have the ability to use our power to affect our returns.

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All facts and circumstances must be taken into consideration assessing whether we, as an investor, control an investee. We reassess whether or not we control an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For asset management schemes where we are a manager, we assess whether the combination of investments we hold, if any, together with our remuneration creates exposure to variability of returns from the activities of the asset management schemes that is of such significance that it indicates that we are a principal. The asset management scheme shall be consolidated if we act in the role of principal.

OVERALL RESULTS OF OPERATIONS

The following table sets forth selected consolidated statements of profit or loss data for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions)				
Revenue					
Fee and commission income	3,823.0	4,804.8	12,334.2	2,275.0	1,706.6
Interest income	1,508.6	2,558.8	6,839.3	1,382.4	1,324.1
Net investment (losses)/gains	(313.9)	1,112.1	3,970.8	714.4	149.7
Other income and gains	161.7	85.9	148.4	18.6	39.7
Total revenue and other income	<u>5,179.4</u>	<u>8,561.6</u>	<u>23,292.7</u>	<u>4,390.4</u>	<u>3,220.1</u>
Expenses					
Fee and commission expenses	(493.1)	(702.5)	(2,071.9)	(385.2)	(282.4)
Interest expenses	(588.3)	(1,290.6)	(4,619.5)	(833.5)	(1,090.6)
Staff costs	(1,512.5)	(1,995.7)	(4,109.7)	(768.5)	(571.2)
Depreciation and amortization expenses	(191.3)	(175.0)	(421.3)	(40.2)	(97.7)
Business tax and surcharges	(250.2)	(350.8)	(971.2)	(190.7)	(123.0)
Other operating expenses	(1,343.9)	(957.9)	(1,336.8)	(226.9)	(259.3)
(Provision for)/reversal of impairment losses	(372.0)	(300.6)	10.4	(7.9)	(28.8)
Total expenses	<u>(4,751.3)</u>	<u>(5,773.1)</u>	<u>(13,520.0)</u>	<u>(2,452.9)</u>	<u>(2,453.0)</u>
Operating profit	428.1	2,788.5	9,772.7	1,937.5	767.1
Share of profit of associates and joint ventures	58.3	60.9	73.6	17.4	7.8
Profit before income tax	486.4	2,849.4	9,846.3	1,954.9	774.9
Income tax expense	(202.8)	(712.8)	(2,099.4)	(416.3)	(151.2)
Profit for the year/period	<u>283.6</u>	<u>2,136.6</u>	<u>7,746.9</u>	<u>1,538.6</u>	<u>623.7</u>

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The following discussion describes and compares the major components of our results of operations for the years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016. In addition, we evaluate our financial results, particularly our revenue composition, through reporting segments. For a discussion of each of our segments, see “— Segment Operating Results” below.

Revenue and Other Income

The following table sets forth the components of revenue and other income for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(Unaudited)	
				(RMB in millions)	
Revenue					
Fee and commission income	3,823.0	4,804.8	12,334.2	2,275.0	1,706.6
Interest income	1,508.6	2,558.8	6,839.3	1,382.4	1,324.1
Net investment (losses)/gains	(313.9)	1,112.1	3,970.8	714.4	149.7
Other income and gains	161.7	85.9	148.4	18.6	39.7
Total	5,179.4	8,561.6	23,292.7	4,390.4	3,220.1

Revenue and other income mainly comprised (1) fee and commission income earned from brokerage and wealth management activities, institutional securities services and investment management activities, (2) interest income earned from deposits by brokerage customers and our own cash deposits, advances to margin financing and securities lending customers, and from financial assets held under resale agreements, (3) net investment gains from trading and market-making activities and other investment activities, and (4) other income and gains, such as foreign exchange gains, rental income and government grants.

Comparison of the three months ended March 31, 2015 and 2016. Total revenue and other income decreased by 26.7% from RMB4,390.4 million in the three months ended March 31, 2015 to RMB3,220.1 million in the same period in 2016. The decrease primarily reflected (1) a RMB568.4 million decrease in fee and commission income, primarily due to decreased trading activity by brokerage clients, and a decrease in net average stock and fund brokerage commission rates due to market competition, (2) a RMB564.7 million decrease in net investment gains, primarily due to unfavorable market conditions, and (3) a RMB58.3 million decrease in interest income, largely because our clients were less active in margin financing and securities lending.

Comparison of 2014 and 2015. Total revenue and other income increased by 172.1% from RMB8,561.6 million in 2014 to RMB23,292.7 million in 2015. The increase primarily reflected (1) a RMB7,529.4 million increase in fee and commission income, largely attributable to increased volumes of stock and fund trading by brokerage clients and the growth of our investment banking and asset management businesses, (2) a RMB4,280.5 million increase in

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interest income, primarily attributable to the growth of our margin financing and securities lending business, and an increase in deposits with other financial institutions, and (3) a RMB2,858.7 million increase in net investment gains driven by our effective use of multi-pronged trading strategies.

Comparison of 2013 and 2014. Total revenue and other income increased by 65.3% from RMB5,179.4 million in 2013 to RMB8,561.6 million in 2014. The increase primarily reflected (1) net investment gains of RMB1,112.1 million in 2014, primarily driven by adjustments of our trading strategies in response to improved market conditions, as compared to net investment losses of RMB313.9 million in 2013, primarily reflecting unrealized losses from fair value changes of financial instruments at fair value through profit or loss, and our disposition of some equity securities at losses to meet our liquidity needs under challenging market conditions, (2) a RMB1,050.2 million increase in interest income, primarily attributable to the growth of our margin financing and securities lending business, and (3) a RMB981.8 million increase in fee and commission income, largely attributable to increased volumes of stock and fund trading by brokerage clients and the growth of our asset management business.

Fee and Commission Income

We earn fee and commission income primarily from (1) providing brokerage services for trading in equities, bonds, funds, futures and other securities, (2) providing capital-raising, financial advisory, investment research and prime brokerage services, and (3) managing asset management schemes, investment funds and private equity funds for our clients.

The following table sets forth the components of fee and commission income for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions)				
Income from securities brokerage and investment advisory business	2,575.2	3,517.6	9,314.9	1,712.2	1,056.2
Income from asset management business	608.1	775.0	1,393.1	173.3	207.8
Income from underwriting and sponsorship business	329.6	186.5	1,126.2	310.4	355.9
Income from futures brokerage business	226.3	236.9	299.0	72.2	54.4
Income from financial advisory business	83.8	88.8	201.0	6.9	32.3
Total	3,823.0	4,804.8	12,334.2	2,275.0	1,706.6

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Comparison of the three months ended March 31, 2015 and 2016. Fee and commission income decreased by 25.0% from RMB2,275.0 million in the three months ended March 31, 2015 to RMB1,706.6 million in the same period in 2016, primarily reflecting (1) a RMB656.0 million decrease in income from securities brokerage and investment advisory business, primarily due to decreased trading activity by our brokerage clients, and a decrease in net average stock and fund brokerage commission rates, and (2) a RMB17.8 million decrease in income from futures brokerage business, primarily due to decreased trading in financial futures by our brokerage clients as a result of measures by the China Financial Futures Exchange to discourage short-selling and trading activity of futures. The decreases were partially offset by (1) a RMB45.5 million increase in income from underwriting and sponsorship business, as we underwrote more bond offerings, (2) a RMB34.5 million increase in income from asset management business, primarily attributable to the launch of new and innovative asset management schemes by Everbright Asset Management, and (3) a RMB25.4 million increase in income from financial advisory business, as we recommended more NEEQ quotations.

Comparison of 2014 and 2015. Fee and commission income increased by 156.7% from RMB4,804.8 million in 2014 to RMB12,334.2 million in 2015, primarily reflecting (1) a RMB5,797.3 million increase in income from securities brokerage and investment advisory business, primarily attributable to increased trading activity by our brokerage clients, despite a decrease in net average stock and fund brokerage commission rates, (2) a RMB939.7 million increase in income from underwriting and sponsorship business, as we underwrote more equity and bond offerings, (3) a RMB618.1 million increase in income from asset management business, primarily attributable to the launch of new and innovative asset management schemes by Everbright Asset Management and improved performance of the investment portfolios that it managed, (4) a RMB112.2 million increase in income from financial advisory business, primarily because we recommended more NEEQ quotations, and (5) a RMB62.1 million increase in income from futures brokerage business, primarily attributable to our clients' increased futures trading volumes.

Comparison of 2013 and 2014. Fee and commission income increased by 25.7% from RMB3,823.0 million in 2013 to RMB4,804.8 million in 2014, primarily reflecting (1) a RMB942.4 million increase in income from securities brokerage and investment advisory business, primarily attributable to increased trading activity by our brokerage clients, despite a decrease in net average stock and fund brokerage commission rates, and (2) a RMB166.9 million increase in income from asset management business, largely attributable to the launch of new asset management schemes by Everbright Asset Management. These increases were partially offset by a RMB143.1 million decrease in income from underwriting and sponsorship business, as we underwrote fewer overseas equity offerings and lead-underwrote fewer security offerings in China in 2014.

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Interest Income

The following table sets forth the components of interest income for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions)				
Interest income arising from deposits in financial institutions	705.6	772.8	2,342.2	350.1	536.7
Interest income arising from margin financing and securities lending	728.0	1,600.1	4,064.2	924.5	624.9
Interest income arising from financial assets held under resale agreements	9.5	26.6	21.5	15.1	3.6
Interest income arising from securities-backed lending and stock repurchases	62.5	150.5	319.7	75.0	102.4
Interest income arising from financial leasing	–	–	56.9	–	41.9
Others	3.0	8.8	34.8	17.7	14.6
Total	<u>1,508.6</u>	<u>2,558.8</u>	<u>6,839.3</u>	<u>1,382.4</u>	<u>1,324.1</u>

Interest income primarily comprises interest income arising from our margin financing and securities lending business and interest income we receive from brokerage deposits of our brokerage customers and our own cash deposits. We also earn interest income from reverse repurchase transactions.

Comparison of the three months ended March 31, 2015 and 2016. Interest income decreased by 4.2% from RMB1,382.4 million in the three months ended March 31, 2015 to RMB1,324.1 million in the same period in 2016, primarily reflecting a RMB299.6 million decrease in interest income from margin financing and securities lending, primarily because our clients were less active in margin financing and securities lending. The decrease was partially offset by (1) a RMB186.6 million increase in interest income from deposits in financial institutions, primarily attributable to the growth of deposits with other financial institutions, (2) a RMB41.9 million increase in interest income from financial leasing, primarily reflecting our consolidation of the income of Everbright Leasing since May 2015, and (3) a RMB27.4 million increase in interest income from collateralized stock repurchase agreements and repurchase agreements, driven by a greater volume of collateralized stock repurchase transactions.

Comparison of 2014 and 2015. Interest income increased by 167.3% from RMB2,558.8 million in 2014 to RMB6,839.3 million in 2015, primarily reflecting (1) a RMB2,464.1 million increase in interest income from margin financing and securities lending, driven by the growth

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of our margin financing and securities lending business, (2) a RMB1,569.4 million increase in interest income from deposits with financial institutions, primarily attributable to the growth of deposits with other financial institutions, and (3) a RMB169.2 million increase in interest income from collateralized stock repurchase agreements and repurchase agreements, driven by a greater volume of collateralized stock repurchase transactions in 2015.

Comparison of 2013 and 2014. Interest income increased by 69.6% from RMB1,508.6 million in 2013 to RMB2,558.8 million in 2014, primarily reflecting (1) a RMB872.1 million increase in interest income from margin financing and securities lending, driven by the growth of our margin financing and securities lending business, and (2) a RMB88.0 million increase in interest income from collateralized stock repurchase agreements and repurchase agreements, driven by a greater volume of collateralized stock repurchase transactions.

Net Investment (Losses)/Gains

The following table sets forth the components of net investment (losses)/gains for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions)				
Net realized (losses)/ gains from disposal of available-for-sale financial assets	(570.1)	(462.9)	1,050.6	15.9	(48.1)
Dividend income and interest income from available-for-sale financial assets	139.4	275.7	252.8	49.7	51.8
Net realized (losses)/ gains from disposal of financial instruments at fair value through profit or loss	(126.4)	620.9	546.5	321.0	(224.6)
Dividend income and interest income from financial instruments at fair value through profit or loss	311.8	590.4	1,585.8	317.1	455.6
Net realized gains/(losses) from disposal of derivative financial instruments	73.4	(385.6)	391.8	(173.3)	(75.3)
Unrealized fair value changes of financial instruments at fair value through profit or loss	(407.7)	666.0	694.6	227.2	(605.1)
Unrealized fair value changes of derivative financial instruments	265.7	(202.0)	(551.3)	(43.2)	595.4
Others	–	9.6	–	–	–
Total	(313.9)	1,112.1	3,970.8	714.4	149.7

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Net realized gains from disposal of available-for-sale financial assets represent investment returns from investment, trading and market-making activities. Dividend income and interest income from available-for-sale financial assets are dividends from equity products held as principal or as a market-maker and interest from fixed-income investments. Net realized gains from disposal of financial instruments at fair value through profit or loss are gains from trading or market-making in equity and fixed-income products purchased for the purpose of sale in the near term. Dividend income and interest income from financial instruments at fair value through profit or loss are dividend from equity investments and interest income from fixed-income products purchased for the purpose of sale in the near term. Net realized gains from disposal of derivative financial instruments are investment returns on investment in derivatives. Unrealized fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments are gains or losses from the fair value changes of such financial assets.

Comparison of the three months ended March 31, 2015 and 2016. Net investment gains decreased by 79.0% from RMB714.4 million in the three months ended March 31, 2015 to RMB149.7 million in the same period in 2016, primarily due to (1) a RMB832.3 million decrease in unrealized fair value of financial instruments at fair value through profit or loss, reflecting unfavorable market conditions, and (2) an aggregate net losses of RMB272.7 million from disposal of financial instruments at fair value through profit or loss and available-for-sale financial assets in the three months ended March 31, 2016, compared to total net realized gains of RMB336.9 million in the same period in 2015, reflecting our disposition of certain stock and fund investments at losses under challenging market conditions. The decreases was partially offset by (1) a RMB638.6 million increase in unrealized fair value of derivative financial instruments, primarily reflecting an increase in the fair value of total return swaps and stock index futures used to hedge market risk exposure, (2) a RMB138.5 million increase in dividend income and interest income from financial instruments at fair value through profit or loss, largely reflecting an increase in the scale of our consolidated fixed-income asset management schemes, and (3) net losses of RMB75.3 million from disposal of derivative financial instruments in the three months ended March 31, 2016, compared to net losses of RMB173.3 million in the same period in 2015, primarily resulting from our disposition of total return swaps used to hedge market risk exposure.

Comparison of 2014 and 2015. Net investment gains increased by 257.1% from RMB1,112.1 million in 2014 to RMB3,970.8 million in 2015, primarily reflecting (1) a RMB1,513.5 million increase in net realized gains from our disposition of some available-for-sale financial assets, (2) a RMB995.4 million increase in dividend income and interest income from financial instruments at fair value through profit or loss, largely reflecting increased dividends from our stock and fund investments, and (3) a RMB777.4 million increase in net realized gains from disposal of derivatives financial instruments, primarily reflecting gains from our disposition of stock index futures and total return swaps that we used to hedge market risk exposure. The increases were partially offset by a RMB349.3 million decrease in unrealized fair value of derivatives financial instruments, primarily due to a decrease in the unrealized fair value of total return swaps used to hedge market risk exposure.

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Comparison of 2013 and 2014. We recorded net investment gains of RMB1,112.1 million in 2014, compared to net investment losses of RMB313.9 million in 2013, primarily reflecting (1) a RMB1,073.7 million increase in the unrealized fair value of financial instruments at fair value through profit or loss, primarily reflecting improved market conditions, and (2) a RMB747.3 million increase in net realized gains from our disposition of some financial assets at fair value through profit or loss. The increases were partially offset by (1) a RMB459.0 million increase in net losses from disposal of derivative financial instruments, primarily reflecting losses from our disposition of stock index futures that we used to hedge our market risk exposure, and (2) a RMB467.7 million decrease in unrealized fair value of derivative financial instruments, primarily due to a decrease in the unrealized fair value of interest rate swaps and stock index futures used to hedge market risk exposure.

Expenses

The following table sets forth the components of our expenses for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(Unaudited)	
	(RMB in millions)				
Staff costs	1,512.5	1,995.7	4,109.7	768.5	571.2
Fee and commission expenses . .	493.1	702.5	2,071.9	385.2	282.4
Interest expenses	588.3	1,290.6	4,619.5	833.5	1,090.6
Depreciation and amortization expenses	191.3	175.0	421.3 ⁽¹⁾	40.2	97.7
Business tax and surcharges	250.2	350.8	971.2	190.7	123.0
Other operating expenses	1,343.9	957.9	1,336.8	226.9	259.3
Provision for/(reversal of) impairment losses	372.0	300.6	(10.4)	7.9	28.8
Total	<u>4,751.3</u>	<u>5,773.1</u>	<u>13,520.0</u>	<u>2,452.9</u>	<u>2,453.0</u>

(1) Depreciation and amortization expenses increased from RMB175.0 million in 2014 to RMB421.3 million in 2015, primarily reflecting (1) a RMB133.9 million increase in depreciation of property and equipment primarily resulting from a decrease in both the estimated useful lives and residual values of fixed assets and (2) a RMB117.6 million increase in amortization of intangible assets, primarily due to amortization expenses relating to our acquisition of SHKFGL and a decrease in both the estimated useful lives and residual values of intangible assets. The downward adjustments to the estimated useful lives and residual values of fixed assets and intangible assets were made to reflect a shorter asset replacement and upgrading cycle driven by our business growth.

Our expenses primarily comprised (1) staff costs, including salaries, bonuses and allowances and other employee benefits, (2) fee and commission expenses incurred in Brokerage and Wealth Management, Institutional Securities Services and Investment Management segments, (3) interest paid to the counterparties of repurchase agreements, bond and short-term financing bill holders and brokerage customers, and interest on loans and borrowings, and (4) other operating expenses. Other operating expenses mainly consist of

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general and administrative expenses, operating lease rentals and securities investor protection fund expenses. Operating expenses accounted for 91.7%, 67.4%, 58.0%, 55.9% and 76.2% of our total revenue and other income in 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, respectively.

Comparison of the three months ended March 31, 2015 and 2016. Expenses remained relatively stable at RMB2,453.0 million in the three months ended March 31, 2016 as compared to RMB2,452.9 million in the same period in 2015, primarily reflecting a RMB257.1 million increase in interest expenses, resulting from subordinated bonds and overseas bonds issued during the period, and an increase in the scale of our consolidated fixed-income asset management schemes. The increase was partially offset by (1) a RMB197.3 million decrease in staff costs, primarily reflecting lower performance bonuses as a result of our decreased revenue, and (2) a RMB102.8 million decrease in fee and commission expenses, primarily reflecting a decrease in expenses arising from our securities brokerage and advisory business due to decreased trading activity by our brokerage clients.

Comparison of 2014 and 2015. Expenses increased by 134.2% from RMB5,773.1 million in 2014 to RMB13,520.0 million in 2015, primarily reflecting (1) a RMB3,328.9 million increase in interest expenses, primarily due to our increased use of repurchase agreements collateralized by receivables under margin loans and under collateralized stock repurchase agreements, and the issuance of subordinated bonds to fund our business activities, (2) a RMB2,114.0 million increase in staff costs, primarily reflecting an increase in performance-based bonuses as a result of our increased revenue in 2015, (3) a RMB1,369.4 million increase in fee and commission expenses, primarily reflecting an increase in expenses arising from our securities brokerage and advisory business due to the growth of our brokerage business, and (4) a RMB378.9 million increase in other operating expenses, primarily reflecting the growth of our businesses.

Comparison of 2013 and 2014. Expenses increased by 21.5% from RMB4,751.3 million in 2013 to RMB5,773.1 million in 2014, primarily reflecting (1) a RMB702.3 million increase in interest expenses, primarily due to our increased use of collateralized margin loan repurchase agreements and the issuance of subordinated bonds to fund our business activities, and (2) a RMB483.2 million increase in staff costs, primarily reflecting an increase in performance-based bonuses as a result of our increased revenue in 2014. The increases were partially offset by a RMB386.0 million decrease in other operating expenses. Our other operating expenses in 2013 were relatively higher primarily due to penalties of RMB436.1 million imposed by the CSRC for the 8•16 Event and provision of RMB4.3 million for penalties to be paid for our failure to fulfill our sponsor due diligence obligations in connection with the IPO of Tianfon Energy-saving.

We consider staff costs, interest expenses and fee and commission expenses as the three principal components of our expenses and important variables affecting our financial results. The following discussion addresses these expenses.

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Staff Costs

The following table sets forth staff costs for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(Unaudited)	
				(RMB in millions)	
Salaries, bonuses and allowances	1,258.8	1,740.5	3,757.8	698.2	487.2
Contributions to pension schemes	96.3	97.7	123.0	25.4	32.6
Other social welfare	157.4	157.5	228.9	44.9	51.4
Total	1,512.5	1,995.7	4,109.7	768.5	571.2

Our industry is highly competitive, and we continually seek to recruit, motivate and retain high-quality talent in order to compete effectively and expand into new businesses. Staff costs represented 29.2%, 23.3% and 17.6%, 17.5% and 17.7% of total revenue and other income in 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, respectively.

Comparison of the three months ended March 31, 2015 and 2016. Staff costs decreased by 25.7% from RMB768.5 million in the three months ended March 31, 2015 to RMB571.2 million in the same period in 2016, primarily reflecting a RMB211.0 million decrease in salaries, bonus and allowances. The decrease primarily reflected lower performance-based bonuses as a result of our decreased revenue in the three months ended March 31, 2016.

Comparison of 2014 and 2015. Staff costs increased by 105.9% from RMB1,995.7 million in 2014 to RMB4,109.7 million in 2015, primarily reflecting a RMB2,017.3 million increase in salaries, bonus and allowances, primarily from an increase in performance-based bonuses driven by our increased revenue in 2015.

Comparison of 2013 and 2014. Staff costs increased by 31.9% from RMB1,512.5 million in 2013 to RMB1,995.7 million in 2014, primarily reflecting a RMB481.7 million increase in salaries, bonuses and allowances, primarily from an increase in performance-based bonuses driven by our increased revenue in 2014.

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Interest Expenses

The following table sets forth interest expenses for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions)				
Interest expenses for financial assets sold under repurchase agreements	195.7	591.7	2,007.5	503.5	219.0
Interest expenses for accounts payable to brokerage clients . .	65.8	72.6	239.1	35.1	51.7
Interest expenses for placements from other financial institutions	186.6	314.9	337.3	84.1	2.8
Interest expenses for short-term debt instruments issued	125.9	–	105.3	–	17.2
Interest expenses for other structured entities' holders . . .	8.2	49.6	177.3	34.3	237.2
Interest expenses for loans and borrowings	5.9	11.5	122.3	5.3	35.5
Interest expenses for long-term bonds	–	242.2	1,614.9	167.9	525.1
Others	0.2	8.1	15.8	3.3	2.1
Total	<u>588.3</u>	<u>1,290.6</u>	<u>4,619.5</u>	<u>833.5</u>	<u>1,090.6</u>

We incur interest expenses principally in respect of (1) outstanding bonds and short-term financing bills, (2) repurchase agreements, (3) accounts payable to brokerage clients, and (4) placements from other financial institutions. Interest expenses accounted for 11.4%, 15.1%, 19.8%, 19.0% and 33.9% of our total revenue and other income in 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, respectively.

Comparison of the three months ended March 31, 2015 and 2016. Interest expenses increased by 30.8% from RMB833.5 million in the three months ended March 31, 2015 to RMB1,090.6 million in the same period in 2016, primarily reflecting (1) a RMB357.2 million increase in interest expenses for long-term bonds, due to our issuance of subordinated bonds with an aggregate principal amount of RMB24.0 billion from March 2015 to May 2015, and our issuance of overseas bonds in the principal amount of US\$450.0 million in August 2015, and (2) a RMB202.9 million increase in interest expenses for other structured entities' holders, primarily reflecting an increase in the scale of our consolidated fixed-income asset management schemes. The increases were partially offset by a RMB284.5 million decrease in interest expenses for financial assets sold under repurchase agreements, largely because of our decreased use of repurchase agreements collateralized by receivables under margin loans and under stock repurchase agreements to fund business activities.

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Comparison of 2014 and 2015. Interest expenses increased by 257.9% from RMB1,290.6 million in 2014 to RMB4,619.5 million in 2015, primarily reflecting (1) a RMB1,415.8 million increase in interest expenses for financial assets sold under repurchase agreements, largely because of our increased use of repurchase agreements collateralized by receivables under margin loans and under collateralized stock repurchase agreements to fund our business activities, and (2) a RMB1,372.7 million increase in interest expenses for long-term bonds, due to the issuance of subordinated bonds in an aggregate principal amount of RMB30.0 billion and overseas bonds in the principal amount of US\$450.0 million in 2015.

Comparison of 2013 and 2014. Interest expenses increased by 119.4% from RMB588.3 million in 2013 to RMB1,290.6 million in 2014, primarily reflecting (1) a RMB396.0 million increase in interest expenses for financial assets sold under repurchase agreements, largely because of our increased use of repurchase agreements collateralized by receivables under margin loans and under collateralized stock repurchase agreements to fund our business activities, (2) interest expenses of RMB242.2 million on long-term bonds due to the issuance of subordinated bonds in the principal amount of RMB7.0 billion in June 2014, and (3) a RMB128.3 million increase in interest expenses for placements from other financial institutions, due to our increased borrowings from other financial institutions to fund our margin financing and securities lending activities.

Fee and Commission Expenses

The following table sets forth fee and commission expenses for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions)				
Expenses arising from securities brokerage and advisory business	399.0	617.2	1,877.9	302.4	238.5
Expenses arising from futures brokerage business	44.5	45.7	56.8	15.5	8.6
Expenses arising from underwriting and sponsorship business	34.2	21.5	109.9	60.8	17.1
Expenses arising from financial advisory business	1.8	4.1	6.1	2.1	2.3
Expenses arising from asset management business	13.6	14.0	21.2	4.4	15.9
Total	493.1	702.5	2,071.9	385.2	282.4

Fee and commission expenses primarily comprised (1) fees and commissions charged by exchanges, banks and other authorized institutions, and (2) direct expenses incurred in connection with underwriting securities and commissions charged by other financial

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institutions for distributing securities underwritten by us. Fee and commission expense accounted for 9.5%, 8.2%, 8.9%, 8.8% and 8.8% of our total revenue and other income in 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, respectively.

Comparison of the three months ended March 31, 2015 and 2016. Fee and commission expenses decreased by 26.7% from RMB385.2 million in the three months ended March 31, 2015 to RMB282.4 million in the same period in 2016. The decrease was primarily due to (1) a RMB63.9 million decrease in expenses arising from the securities brokerage and advisory business, primarily reflecting decreased trading activity by our brokerage clients, and (2) a RMB43.7 million decrease in expenses arising from underwriting and sponsorship business. We incurred higher expenses relating to our underwriting business in the three months ended March 31, 2015, primarily because of our underwriting of certain large-sized IPO, which led to higher expenses.

Comparison of 2014 and 2015. Fee and commission expenses increased by 194.9% from RMB702.5 million in 2014 to RMB2,071.9 million in 2015. The increase was primarily due to (1) a RMB1,260.7 million increase in expenses arising from securities brokerage and advisory business, primarily reflecting the growth of our brokerage business, and (2) a RMB88.4 million increase in expenses arising from underwriting and sponsorship business, primarily because we underwrote more equity and bond offerings in 2015, which led to higher commission expenses for our investment banking business.

Comparison of 2013 and 2014. Fee and commission expenses increased by 42.5% from RMB493.1 million in 2013 to RMB702.5 million in 2014. The increase was primarily due to a RMB218.2 million increase in expenses arising from securities brokerage and advisory business, primarily reflecting the growth of our brokerage business. This increase was partially offset by a RMB12.7 million decrease in expenses arising from underwriting and sponsorship business in 2014, primarily because we underwrote fewer equity and debt offerings in 2014, which led to lower commission expenses for our investment banking business.

Share of profit of associates and joint ventures

Comparison of the three months ended March 31, 2015 and 2016. Our share of profit of associates and joint ventures in the three months ended March 31, 2016 was a profit of RMB7.8 million, a 55.2% decrease from the same period in 2015, when we had a profit of RMB17.4 million. The decrease was primarily the result of decreased profits of Dacheng Fund due to a decrease in the AUM of funds that it managed.

Comparison of 2014 and 2015. Our share of profit of associates and joint ventures in 2015 was a profit of RMB73.6 million, a 20.9% increase from 2014, when we had a profit of RMB60.9 million. The increase was mainly attributable to an increase in the profit of Dacheng Fund, primarily as a result of its launch of new public funds and the increase in the market value of the public funds it managed.

Comparison of 2013 and 2014. Our share of profit of associates and joint ventures in 2014 was a profit of RMB60.9 million, a 4.5% increase from 2013, when we had a profit of RMB58.3 million.

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Profit before income tax

Profit before income tax is derived by adding our share of profit of associates and joint ventures to our operating profit.

Comparison of the three months ended March 31, 2015 and 2016. In the three months ended March 31, 2016, our profit before income tax was RMB774.9 million, a decrease of 60.4% from the same period in 2015, when profit before income tax was RMB1,954.9 million. The decrease was largely due to a decrease in revenues from our brokerage and margin financing and securities lending businesses, and a decrease in investment gains from proprietary trading activities due to unfavorable market conditions.

Comparison of 2014 and 2015. In 2015, profit before income tax was RMB9,846.3 million, an increase of 245.6% from 2014, when profit before income tax was RMB2,849.4 million. The increase was largely due to the growth of our brokerage, margin financing and securities lending and investment banking businesses, as well as our increased investment gains.

Comparison of 2013 and 2014. In 2014, profit before income tax was RMB2,849.4 million, an increase of 485.8% from 2013, when profit before income tax was RMB486.4 million. The increase was largely attributable to increased investment gains from proprietary trading activities, as well as the growth of our margin financing and securities lending and brokerage businesses. Our profit before income tax was relatively lower in 2013 primarily due to our disposition of certain investments at losses to meet our liquidity needs under challenging market conditions and penalties imposed by the CSRC for the 8•16 Event and provision of RMB4.3 million for penalties to be paid for our failure to fulfill our sponsor due diligence obligations in connection with the IPO of Tianfon Energy-saving.

Income Tax Expense

The PRC statutory enterprise income tax rate is 25%, and our income tax rates in various regions in the PRC and in other jurisdictions vary. Our subsidiaries in Hong Kong were subject to income tax rates of 16.5% during the Track Record Period. Our subsidiaries in other jurisdictions were subject to income tax rates prevailing in those jurisdictions.

Our effective enterprise income tax rates may be affected by amounts relating to portions of income not subject to taxation and expenses and not deductible for tax purpose, unrecognized tax losses carried forward and utilization of tax losses for which no deferred income tax assets were recognized. In 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, our effective tax rate was 41.7%, 25.0%, 21.3%, 21.3% and 19.5%, respectively. Effective tax rate was 41.7% in 2013, primarily due to administrative penalties imposed by the CSRC for the 8•16 Event, which were not tax deductible.

As of the Latest Practicable Date and during the Track Record Period, we had fulfilled all our tax obligations and did not have any unresolved tax disputes.

Comparison of the three months ended March 31, 2015 and 2016. Income tax expense decreased by 63.7% from RMB416.3 million in the three months ended March 31, 2015 to RMB151.2 million in the same period in 2016, primarily as a result of a decrease in profit before income tax. Effective income tax rate decreased from 21.3% in the three months ended March 31, 2015 to 19.5% in the same period in 2016, primarily reflecting an increase in non-taxable income.

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Comparison of 2014 and 2015. Income tax expense increased by 194.5% from RMB712.8 million in 2014 to RMB2,099.4 million in 2015, primarily driven by the increase in profit before income tax. Effective income tax rate decreased from 25.0% in 2014 to 21.3% in 2015, primarily driven by an increase in non-taxable income.

Comparison of 2013 and 2014. Income tax expense increased by 251.5% from RMB202.8 million in 2013 to RMB712.8 million in 2014, primarily driven by the increase in profit before income tax. Effective income tax rate decreased from 41.7% in 2013 to 25.0% in 2014, primarily because we did not incur in 2014 any non tax-deductible administrative penalties similar to those incurred in 2013.

Profit for the Year/Period

The following table sets forth certain financial metrics for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
				(Unaudited)	
Operating profit					
<i>(RMB in millions)</i> ⁽¹⁾	428.1 ⁽⁸⁾	2,788.5	9,772.7	1,937.5	767.1
Operating margin ⁽²⁾	8.3% ⁽⁸⁾	32.6%	42.0%	44.1%	23.8%
Adjusted operating margin ⁽³⁾	10.4% ⁽⁸⁾	42.5%	58.9%	61.1%	41.5%
Profit for the year/period					
<i>(RMB in millions)</i>	283.6	2,136.6	7,746.9	1,538.6	623.7
Net margin ⁽⁴⁾	5.5%	25.0%	33.3%	35.0%	19.4%
Adjusted net margin ⁽⁵⁾	6.9%	32.5%	46.7%	48.5%	33.8%
Return on average equity ⁽⁶⁾	0.9%	8.5%	23.1%	5.7%	1.6%
Return on average total assets ⁽⁷⁾	0.5%	2.5%	5.0%	1.1%	0.3%

- (1) Represents the difference between total revenue and other income and total expenses.
- (2) Calculated by dividing operating profit by total revenue and other income.
- (3) Adjusted operating margin = (total revenue and other income – total expenses)/(total revenue and other income – fee and commission expenses – interest expenses). Adjusted operating margin is not a standard measure under IFRS but is presented here because PRC securities firms present their operating revenues after deduction of fee and commission expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS. We believe that, the adjusted operating margin and adjusted net margin provide appropriate indicators of our results of operations that are more comparable to other PRC securities firms due to different presentation requirements under PRC GAAP. Prospective investors should be aware that adjusted operating margin presented in this prospectus may not be comparable to other similarly titled measures reported by other companies due to different calculation methods or assumptions.
- (4) Calculated by dividing profit for the year/period by total revenue and other income.
- (5) Adjusted net margin = (profit for the year/period)/(total revenue and other income – fee and commission expenses – interest expenses). Adjusted net margin is not a standard measure under IFRS but is presented here for the reasons stated in note 3 above.
- (6) Calculated by dividing profit attributable to shareholders of our Company by the average balance of total equity attributable to shareholders of our Company at the end of the previous year/period and the end of the current year/period.
- (7) Calculated by dividing profit for the year/period of our Company by the average balance of total assets at the end of the previous year/period and the end of the current year/period.
- (8) Excluding penalties for the 8•16 Event, our operating profit would be RMB864.2 million, operating margin would be 16.7%, and our adjusted operating margin would be 21.1%.

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Comparison of the three months ended March 31, 2015 and 2016. Profit for the period decreased by 59.5% from RMB1,538.6 million in the three months ended March 31, 2015 to RMB623.7 million in the same period in 2016. Net margin and adjusted net margin decreased to 19.4% and 33.8% in the three months ended March 31, 2016, respectively, from 35.0% and 48.5% in the same period in 2015, respectively.

Return on average equity and return on average total assets decreased from 5.7% and 1.1% in the three months ended March 31, 2015 to 1.6% and 0.3% in the same period in 2016, primarily reflecting our decreased profits.

Comparison of 2014 and 2015. Profit for the year increased by 262.6% from RMB2,136.6 million in 2014 to RMB7,746.9 million in 2015. Net margin and adjusted net margin increased to 33.3% and 46.7% in 2015, respectively, from 25.0% and 32.5% in 2014, respectively.

Return on average equity and return on average total assets increased from 8.5% and 2.5% in 2014 to 23.1% and 5.0% in 2015, primarily reflecting increased profits of our brokerage, investment banking and margin financing and securities lending businesses, as well as our increased investment gains.

Comparison of 2013 and 2014. Profit for the year increased by 653.4% from RMB283.6 million in 2013 to RMB2,136.6 million in 2014. Net margin and adjusted net margin increased to 25.0% and 32.5% in 2014, respectively, from 5.5% and 6.9% in 2013, respectively.

Return on average equity and return on average total assets increased to 8.5% and 2.5% in 2014, respectively, from 0.9% and 0.5% in 2013, respectively, primarily reflecting increased gains from proprietary trading activities and increased profits of our margin financing and securities lending and brokerage businesses.

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SEGMENT OPERATING RESULTS

The following table sets forth the segment revenue and other income, segment expense and profit before income tax of each segment for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions, except percentages)				
Brokerage and Wealth Management					
Segment revenue and other income	2,875.8	3,928.8	9,607.3	1,845.5	1,072.9
Segment expenses	(1,898.6)	(2,158.2)	(4,533.4)	(824.4)	(616.1)
Profit before income tax	977.2	1,770.6	5,073.9	1,021.1	456.8
Segment margin ⁽¹⁾	34.0%	45.1%	52.8%	55.3%	42.6%
Credit Business					
Segment revenue and other income	802.8	1,772.6	4,658.1	1,008.4	790.3
Segment expenses	(310.3)	(1,102.0)	(3,239.0)	(787.3)	(414.0)
Share of profit of associates and joint ventures	–	9.3	2.9	0.7	–
Profit before income tax	492.5	679.9	1,422.0	221.8	376.3
Segment margin ⁽¹⁾	61.3%	38.2%	30.5%	22.0%	47.6%
Institutional Securities Services					
Segment revenue and other income	455.5	1,291.2	4,520.6	902.8	389.9
Segment expenses	(999.8)	(551.8)	(1,129.0)	(227.8)	(276.1)
(Loss)/profit before income tax	(544.3)	739.4	3,391.6	675.0	113.8
Segment margin ⁽¹⁾	(119.5)%	57.3%	75.0%	74.8%	29.2%
Investment Management					
Segment revenue and other income	663.4	955.0	2,390.7	372.2	501.8
Segment expenses	(436.1)	(687.9)	(970.1)	(140.2)	(392.0)
Share of profit of associates and joint ventures	58.3	51.6	69.9	16.7	6.7
Profit before income tax	285.6	318.7	1,490.5	248.7	116.5
Segment margin ⁽¹⁾	39.6%	31.7%	60.6%	63.9%	22.9%
Overseas Business					
Segment revenue and other income	302.7	282.9	872.0	75.1	231.0
Segment expenses	(229.3)	(410.5)	(913.9)	(66.7)	(300.5)
Share of profit of associates and joint ventures	–	–	3.5	–	1.1
Profit/(loss) before income tax	73.4	(127.6)	(38.4)	8.4	(68.4)
Segment margin ⁽¹⁾	24.2%	(45.1)%	(4.4)%	11.2%	(29.5)%

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	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions, except percentages)				
Others					
Segment revenue and other income	86.6	356.0	1,308.0	189.4	253.3
Segment expenses	(884.6)	(887.6)	(2,798.6)	(409.5)	(473.4)
Share of profit of associates and joint ventures	–	–	(2.7)	–	–
Loss before income tax	(798.0)	(531.6)	(1,493.3)	(220.1)	(220.1)
Segment margin ⁽¹⁾	(921.5)%	(149.3)%	(114.4)%	(116.2)%	(86.9)%

(1) Segment margin = Profit/(loss) before income tax/(segment revenue and other income + share of profit of associates and joint ventures).

The following discusses, describes and compares each segment's revenue and other income, expenses and profit before income tax for the periods indicated:

Brokerage and Wealth Management

The following table sets forth selected information concerning the Brokerage and Wealth Management segment for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions, except percentages)				
Segment revenue and other income	2,875.8	3,928.8	9,607.3	1,845.5	1,072.9
Fee and commission income . .	2,444.8	3,407.5	8,389.8	1,639.4	845.2
Interest income	411.4	469.1	1,213.6	212.2	219.7
Net investment (losses)/gains . .	(0.2)	2.6	(16.9)	(9.5)	0.0
Other income and gains	19.8	49.6	20.8	3.4	8.0
Segment expenses	(1,898.6)	(2,158.2)	(4,533.4)	(824.4)	(616.1)
Profit before income tax	977.2	1,770.6	5,073.9	1,021.1	456.8
Segment margin	34.0%	45.1%	52.8%	55.3%	42.6%

In Brokerage and Wealth Management, we provide brokerage and investment advisory services to our retail clients, and sell financial products developed by us and other financial institutions. Brokerage and Wealth Management contributed 55.5%, 45.9%, 41.2%, 42.0% and 33.3% of total revenue and other income, respectively, and 200.9%, 62.1%, 51.5%, 52.2% and 58.9% of profit before income tax for 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, respectively.

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Segment revenue and other income

Segment revenue and other income primarily include commissions from executing and clearing client orders, as well as interest income from brokerage deposits. In the ordinary course of our brokerage business, we hold cash on behalf of customers, which we deposit in segregated trust accounts with qualified commercial banks. We are obligated to pay brokerage customers interest on these brokerage deposits until they are withdrawn. Interest paid by custodial banks exceeds the interest that we are required to pay to our customers. Interest income earned on brokerage deposits is subject to interest rate fluctuations.

Comparison of the three months ended March 31, 2015 and 2016. Segment revenue and other income decreased by 41.9% from RMB1,845.5 million in the three months ended March 31, 2015 to RMB1,072.9 million in the same period in 2016. The decrease primarily reflected a decrease in fee and commission income due to (1) decreased trading activity by our brokerage clients, with total stock and fund trading volumes decreasing RMB2,407.9 billion in the three months ended March 31, 2015 to RMB1,732.4 billion in the same period in 2016, and (2) a decrease in net average stock and fund brokerage commission rate, from 0.564‰ for the three months ended March 31, 2015 to 0.376‰ for the same period in 2016, primarily reflecting significant price competition among PRC securities firms.

Comparison of 2014 and 2015. Segment revenue and other income increased by 144.5% from RMB3,928.8 million in 2014 to RMB9,607.3 million in 2015. The increase primarily reflected increased trading activity by our brokerage clients, with total stock and fund trading volumes increasing from RMB4,627.2 billion in 2014 to RMB15,178.7 billion in 2015. The increase in fee and commission income for our Brokerage and Wealth Management segment driven by increased client trading activities was partially offset by a decrease in net average brokerage commission rate, from 0.617‰ in 2014 to 0.449‰ in 2015, primarily reflecting significant price competition among PRC securities firms.

Comparison of 2013 and 2014. Segment revenue and other income increased by 36.6% from RMB2,875.8 million in 2013 to RMB3,928.8 million in 2014. The increase primarily reflected increased trading activity by our brokerage clients, with total stock and fund trading volumes increasing from RMB2,963.3 billion in 2013 to RMB4,627.2 billion in 2014. The increase in fee and commission income for our Brokerage and Wealth Management segment driven by increased client trading activities was partially offset by a decrease in net average brokerage commission rate, from 0.689‰ in 2013 to 0.617‰ in 2014, primarily reflecting significant price competition among PRC securities firms.

Segment expenses

Segment expenses consist mainly of expenses incurred by our brokerage branches, such as property and building rental costs, salaries and bonuses, interest expenses on our clients' brokerage deposits, transaction fees levied by third-parties, IT-related expenses, and business tax and surcharges.

Comparison of the three months ended March 31, 2015 and 2016. Segment expenses decreased by 25.3% from RMB824.4 million in the three months ended March 31, 2015 to RMB616.1 million in the same period in 2016. The decrease was primarily due to a decrease in trading activity by our brokerage clients.

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Comparison of 2014 and 2015. Segment expenses increased by 110.1% from RMB2,158.2 million in 2014 to RMB4,533.4 million in 2015, reflecting the growth of our brokerage business.

Comparison of 2013 and 2014. Segment expenses increased by 13.7% from RMB1,898.6 million in 2013 to RMB2,158.2 million in 2014, reflecting the growth of our brokerage business.

Profit before income tax

Comparison of the three months ended March 31, 2015 and 2016. Profit before income tax decreased by 55.3% from RMB1,021.1 million in the three months ended March 31, 2015 to RMB456.8 million in the same period in 2016. Segment margin decreased from 55.3% in the three months ended March 31, 2015 to 42.6% in the same period in 2016, primarily reflecting decreased revenues from our brokerage business.

Comparison of 2014 and 2015. Profit before income tax increased by 186.6% from RMB1,770.6 million in 2014 to RMB5,073.9 million in 2015. Segment margin increased from 45.1% in 2014 to 52.8% in 2015, primarily reflecting economies of scale resulting from increased trading activity by our brokerage clients.

Comparison of 2013 and 2014. Profit before income tax increased by 81.2% from RMB977.2 million in 2013 to RMB1,770.6 million in 2014. Segment margin increased from 34.0% in 2013 to 45.1% in 2014, primarily reflecting economies of scale resulting from increased trading activity by our brokerage clients.

Credit Business

The following table sets forth selected information concerning the Credit Business segment for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions, except percentages)				
Segment revenue and other					
income	802.8	1,772.6	4,658.1	1,008.4	790.3
Fee and commission income . .	–	–	103.0	–	15.0
Interest income	802.5	1,771.6	4,547.8	1,008.4	780.2
Net investment gains/(losses) . .	–	–	34.1	–	(9.7)
Other income and gains	0.3	1.0	(26.8)	–	4.8
Segment expenses	(310.3)	(1,102.0)	(3,239.0)	(787.3)	(414.0)
Share of profit of associates and joint ventures	–	9.3	2.9	0.7	–
Profit before income tax	492.5	679.9	1,422.0	221.8	376.3
Segment margin	61.3%	38.2%	30.5%	22.0%	47.6%

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In Credit Business, we engage in margin financing and securities lending, collateralized stock repurchase transactions, repurchase transactions and stock incentive financing for listed companies. Credit Business also includes income generated by Everbright Leasing. Credit Business contributed 15.5%, 20.7%, 20.0%, 23.0% and 24.5% of total revenue and other income, respectively, and 101.3%, 23.9%, 14.4%, 11.3% and 48.6% of profit before income tax for 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, respectively.

Segment revenue and other income

Segment revenue and other income primarily include interest income from margin financing and securities lending, collateralized stock repurchase transactions, repurchase transactions, and stock incentive financing for listed companies, as well as income generated by Everbright Leasing.

Comparison of the three months ended March 31, 2015 and 2016. Segment revenue and other income decreased by 21.6% from RMB1,008.4 million in the three months ended March 31, 2015 to RMB790.3 million in the same period in 2016, largely due to a decrease in interest income because our clients were less active in margin financing and securities lending. Our daily average margin account balances decreased from RMB43.5 billion as of March 31, 2015 to RMB29.7 billion as of March 31, 2016.

Comparison of 2014 and 2015. Segment revenue and other income increased by 162.8% from RMB1,772.6 million in 2014 to RMB4,658.1 million in 2015. The increase primarily reflected the growth of our margin financing and securities lending business, which led to an increase in interest income for our Credit Business segment. Our daily average margin account balances increased from RMB18.5 billion as of December 31, 2014 to RMB47.7 billion as of December 31, 2015.

Comparison of 2013 and 2014. Segment revenue and other income increased by 120.8% from RMB802.8 million in 2013 to RMB1,772.6 million in 2014. The increase primarily reflected the growth of our margin financing and securities lending business, which led to an increase in interest income for our Credit Business segment. Our daily average margin account balances increased from RMB8.5 billion as of December 31, 2013 to RMB18.5 billion as of December 31, 2014.

Segment expenses

Segment expenses consist mainly of interest expenses associated with margin financing and securities lending, collateralized stock repurchase transactions and repurchase transactions, as well as interest expenses incurred by Everbright Leasing.

Comparison of the three months ended March 31, 2015 and 2016. Segment expenses decreased by 47.4% from RMB787.3 million in the three months ended March 31, 2015 to RMB414.0 million in the same period in 2016. The decrease was primarily the result of a decrease in the scale of our margin financing and securities lending business.

Comparison of 2014 and 2015. Segment expenses increased by 193.9% from RMB1,102.0 million in 2014 to RMB3,239.0 million in 2015. The increase was primarily the result of the growth of our margin financing and securities lending business, which led to higher interest expenses and business taxes.

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Comparison of 2013 and 2014. Segment expenses increased by 255.1% from RMB310.3 million in 2013 to RMB1,102.0 million in 2014. The increase was primarily the result of the growth of our margin financing and securities lending business, which led to higher interest expenses and business taxes.

Profit before income tax

Comparison of the three months ended March 31, 2015 and 2016. Profit before income tax increased by 69.7% from RMB221.8 million in the three months ended March 31, 2015 to RMB376.3 million in the same period in 2016. Segment margin increased from 22.0% in 2015 to 47.6% in 2016, primarily attributable to a decrease in cost of funds.

Comparison of 2014 and 2015. Profit before income tax increased by 109.1% from RMB679.9 million in 2014 to RMB1,422.0 million in 2015. Segment margin decreased from 38.2% in 2014 to 30.5% in 2015, primarily because of the effect of (1) lower interest rates charged for margin financing and securities lending services driven by lower PBOC benchmark lending rates and market competition, and (2) increased cost of funds.

Comparison of 2013 and 2014. Profit before income tax increased by 38.1% from RMB492.5 million in 2013 to RMB679.9 million in 2014. Segment margin decreased from 61.3% in 2013 to 38.2% in 2014, primarily because of increased cost of funds.

Institutional Securities Services

The following table sets forth selected information concerning the Institutional Securities Services segment for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions, except percentages)				
Segment revenue and other					
income	455.5	1,291.2	4,520.6	902.8	389.9
Including: proprietary trading					
business	(32.2)	774.1	2,276.3	414.3	(68.2)
Fee and commission income . .	529.7	463.5	1,846.2	412.1	498.1
Interest income	13.6	25.7	37.0	15.3	5.5
Net investment (losses)/gains . .	(88.1)	802.0	2,637.4	475.4	(113.7)
Other income and gains	0.3	0.0	0.0	0.0	–
Segment expenses	(999.8)	(551.8)	(1,129.0)	(227.8)	(276.1)
(Loss)/profit before income tax .	(544.3)	739.4	3,391.6	675.0	113.8
Including: proprietary trading					
business	(659.1)	579.9	2,004.8	361.2	(102.2)
Segment margin	(119.5)%	57.3%	75.0%	74.8%	29.2%

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In Institutional Securities Services, we provide financing, financial advisory, investment research and prime brokerage services to institutional clients, as well as engage in market making and proprietary trading activities. Institutional Securities Services contributed 8.8%, 15.1%, 19.4%, 20.6% and 12.1% of total revenue and other income for 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, respectively, and 25.9%, 34.4%, 34.5% and 14.7% of profit before income tax for 2014 and 2015 and the three months ended March 31, 2015 and 2016, respectively. In 2013, we had loss before income tax of RMB544.3 million in the Institutional Securities Services segment.

Segment revenue and other income

Segment revenue and other income primarily consist of (1) underwriting, sponsorship and advisory fees from investment banking activities, (2) investment gains and interest income from proprietary trading and market-making activities, and (3) fees and commissions from providing investment research and prime brokerage services to institutional clients.

Comparison of the three months ended March 31, 2015 and 2016. Segment revenue and other income decreased by 56.8% from RMB902.8 million in the three months ended March 31, 2015 to RMB389.9 million in the same period in 2016. The decrease primarily reflected decreased investment gains from our proprietary trading activities due to unfavorable market conditions. The decrease was partially offset by an increase in fee and commission income from our investment banking business, primarily because we underwrote more bond offerings and recommended more NEEQ quotations. We lead-managed 31 bond offerings and recommended 21 NEEQ quotations in the PRC in the three months ended March 31, 2016, compared to only 4 bond offerings and 9 NEEQ quotations in the same period in 2015.

Comparison of 2014 and 2015. Segment revenue and other income increased by 250.1% from RMB1,291.2 million in 2014 to RMB4,520.6 million in 2015, primarily reflecting (1) an increase in fee and commission income, primarily resulting from the growth of our investment banking business. We lead-managed 11 equity offerings, 67 bond offerings and recommended 83 NEEQ quotations in the PRC in 2015, compared to only 3 equity offerings, 15 bond offerings and 31 NEEQ quotations in 2014, and (2) an increase in investment gains and interest income from our proprietary trading business. Driven by our effective use of multi-pronged trading strategies to capture market opportunities, the average rate of return of our investment portfolio increased from 17.0% to 26.4%.

Comparison of 2013 and 2014. Segment revenue and other income increased by 183.5% from RMB455.5 million in 2013 to RMB1,291.2 million in 2014. The increase primarily reflected increased investment gains from our proprietary trading activities. The average return of our investment portfolio increased from 0.6% to 17.0%, primarily driven by adjustments of our trading strategies in response to improved market conditions. The increase was partially offset by a decrease from fee and commission income, resulting from our lead-underwriting of fewer equity and bond offerings.

Segment expenses

Segment expenses primarily include interest expenses and fee and commission expenses that we incur in connection with investment banking, proprietary trading and market-making activities, and general operating expenses, such as employees' salaries and bonuses, recognized impairment and business tax and surcharges.

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Comparison of the three months ended March 31, 2015 and 2016. Segment expenses increased by 21.2% from RMB227.8 million in the three months ended March 31, 2015 to RMB276.1 million in the same period in 2016. The increase was primarily the result of the growth of our debt underwriting business, which led to higher operating expenses.

Comparison of 2014 and 2015. Segment expenses increased by 104.6% from RMB551.8 million in 2014 to RMB1,129.0 million in 2015. The increase was primarily the result of the growth of our investment banking business, which led to higher operating expenses, underwriting expenses and related business tax and surcharges.

Comparison of 2013 and 2014. Segment expenses decreased by 44.8% from RMB999.8 million in 2013 to RMB551.8 million in 2014. We underwrote fewer equity and bond offerings in 2014 and therefore incurred lower operating expenses, underwriting expenses, and related business tax and surcharges. The relatively higher segment expenses in 2013 also reflected impairment losses of RMB376.1 million on available-for-sale financial assets due to challenging market conditions.

Profit(loss) before income tax

Comparison of the three months ended March 31, 2015 and 2016. Profit before income tax decreased by 83.1% from RMB675.0 million in the three months ended March 31, 2015 to RMB113.8 million in the same period in 2016. Segment margin decreased from 74.8% in the three months ended March 31, 2015 to 29.2% in the same period in 2016, primarily reflecting decreased investment gains from our proprietary trading activities due to unfavorable market conditions.

Comparison of 2014 and 2015. We recorded profit before income tax of RMB3,391.6 million in 2015, compared to profit before income tax of RMB739.4 million in 2014. Segment margin increased from 57.3% in 2014 to 75.0% in 2015, primarily reflecting (1) a significant increase in revenue from our investment banking business driven by an increase in equity and debt offerings that we underwrote, while the expenses incurred by our investment banking business did not grow proportionately, and (2) increased investment gains from proprietary trading activities driven by our effective use of multi-pronged trading strategies.

Comparison of 2013 and 2014. We recorded profit before income tax of RMB739.4 million in 2014, compared to loss before income tax of RMB544.3 million in 2013. We had a segment margin of negative 119.5% in 2013, primarily reflecting decreased investment gains from proprietary trading activities and impairment losses of RMB376.1 million on available-for-sale financial assets due to challenging market conditions. We had a segment margin of 57.3% in 2014, primarily reflecting increased investment gains from proprietary trading activities driven by adjustments to our trading strategies in response to improved market conditions.

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Investment Management

The following table sets forth selected information concerning the Investment Management segment for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions, except percentages)				
Segment revenue and other					
income	663.4	955.0	2,390.7	372.2	501.8
Fee and commission income . .	608.1	784.3	1,381.9	169.9	210.3
Interest income	26.6	19.0	90.4	18.5	29.0
Net investment gains	8.1	137.4	884.6	178.9	254.5
Other income and gains	20.6	14.3	33.8	4.9	8.0
Segment expenses	(436.1)	(687.9)	(970.1)	(140.2)	(392.0)
Share of profit of associates and joint ventures	58.3	51.6	69.9	16.7	6.7
Profit before income tax	285.6	318.7	1,490.5	248.7	116.5
Segment margin	39.6%	31.7%	60.6%	63.9%	22.9%

In Investment Management, we manage asset management schemes, investment funds and private equity funds for clients through our wholly-owned subsidiary, Everbright Asset Management, as well as through Everbright Pramerica and Dacheng Fund, in which we held interest of 55.0% and 25.0%, respectively, as of March 31, 2016. We also engage in private equity and alternative investments through our wholly-owned subsidiaries, Everbright Capital and Everbright Fortune. In 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, Investment Management contributed 12.8%, 11.2%, 10.3%, 8.5% and 15.6%, respectively, of total revenue and other income and 58.7%, 11.2%, 15.1%, 12.7% and 15.0% of profit before income tax, respectively.

Segment revenue and other income

Segment revenue and other income primarily consists of management and advisory fees we charge clients for managing asset management schemes, investment funds and private equity funds, as well as income from exiting private equity and alternative investments.

Comparison of the three months ended March 31, 2015 and 2016. Segment revenue and other income increased by 34.8% from RMB372.2 million in the three months ended March 31, 2015 to RMB501.8 million in the same period in 2016. The increase primarily reflected (1) an increase in fee and commission income, as a result of an increase in the AUM of Everbright Asset Management, from approximately RMB206.7 billion as of March 31, 2015 to approximately RMB256.7 billion as of March 31, 2016, primarily driven by the launch of new and innovative asset management schemes, and (2) an increase in the dividend and interest income from our consolidated fixed-income asset management schemes.

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Comparison of the 2014 and 2015. Segment revenue and other income increased by 150.3% from RMB955.0 million in 2014 to RMB2,390.7 million in 2015, primarily reflecting (1) an increase in investment gains of Everbright Capital resulting from its exit from certain private equity and other investments, and increase in the investment gains of Everbright Fortune, primarily attributable to its effective use of quantitative trading strategies, and (2) an increase in fee and commission income, as a result of an increase in the AUM of Everbright Asset Management, from approximately RMB176.9 billion as of December 31, 2014 to approximately RMB235.3 billion as of December 31, 2015, primarily driven by the launch of new and innovative asset management schemes, and improved performance of the investment portfolios it managed.

Comparison of 2013 and 2014. Segment revenue and other income increased by 44.0% from RMB663.4 million in 2013 to RMB955.0 million in 2014. The increase was primarily attributable to an increase in fee and commission income, which was largely the result of an increase in the AUM of Everbright Asset Management, from approximately RMB150.0 billion as of December 31, 2013 to approximately RMB176.9 billion as of December 31, 2014, driven by the launch of new asset management schemes.

Segment expenses

Segment expenses consist mainly of marketing expenses and staff costs.

Comparison of the three months ended March 31, 2015 and 2016. Segment expenses increased by 179.6% from RMB140.2 million in the three months ended March 31, 2015 to RMB392.0 million in the same period in 2016. The increase was primarily the result of (1) an increase in interest expenses resulting from an increase in the scale of our consolidated fixed-income asset management schemes, and (2) an increase in expenses incurred by Everbright Asset Management, reflecting its business growth and increased revenue.

Comparison of 2014 and 2015. Segment expenses increased by 41.0% from RMB687.9 million in 2014 to RMB970.1 million in 2015. The increase was primarily the result of an increase in expenses incurred by Everbright Asset Management, Everbright Capital and Everbright Fortune, reflecting their business growth and increased revenue.

Comparison of 2013 and 2014. Segment expenses increased by 57.7% from RMB436.1 million in 2013 to RMB687.9 million in 2014. The increase was primarily the result of an increase in expenses incurred by Everbright Asset Management, reflecting its business growth and increased revenue, and impairment losses recorded by Everbright Capital on certain investments.

Profit before income tax

Comparison of the three months ended March 31, 2015 and 2016. Profit before income tax decreased by 53.2% from RMB248.7 million in the three months ended March 31, 2015 to RMB116.5 million in the same period in 2016. Segment margin decreased from 63.9% in the three months ended March 31, 2015 to 22.9% in the same period in 2016, primarily reflecting decreased profits of Everbright Fortune due to measures by the China Financial Futures Exchange to discourage short-selling and trading activities of futures.

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Comparison of 2014 and 2015. Profit before income tax increased by 367.7% from RMB318.7 million in 2014 to RMB1,490.5 million in 2015. Segment margin increased from 31.7% in 2014 to 60.6% in 2015, primarily reflecting increased profits of Everbright Asset Management, Everbright Capital and Everbright Fortune.

Comparison of 2013 and 2014. Profit before income tax increased by 11.6% from RMB285.6 million in 2013 to RMB318.7 million in 2014. Segment margin decreased from 39.6% in 2013 to 31.7% in 2014, primarily reflecting impairment losses recorded by Everbright Capital on certain investments.

Overseas Business

The following table sets forth selected information concerning the Overseas Business segment for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions, except percentages)				
Segment revenue and other					
income	302.7	282.9	872.0	75.1	231.0
Fee and commission income . .	216.3	170.7	590.5	49.8	141.3
Interest income	64.6	89.2	235.9	19.7	80.1
Net investment gains/(losses) . .	12.3	17.2	(0.5)	3.9	(5.4)
Other income and gains	9.5	5.8	46.1	1.7	15.0
Segment expenses	(229.3)	(410.5)	(913.9)	(66.7)	(300.5)
Share of profit of associates and joint venture	–	–	3.5	–	1.1
Profit/(loss) before income tax . .	73.4	(127.6)	(38.4)	8.4	(68.4)
Segment margin	24.2%	(45.1)%	(4.4)%	11.2%	(29.5)%

Overseas Business contributed 5.8%, 3.3%, 3.7%, 1.7% and 7.2% of total revenue and other income for 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, respectively. In 2013 and the three months ended March 31, 2015, profit before income tax from Overseas Business segment amounted to RMB73.4 million and RMB8.4 million, respectively. In 2014 and 2015 and the three months ended March 31, 2016, loss before income tax from Overseas Business amounted to RMB127.6 million, RMB38.4 million and RMB68.4 million, respectively.

Segment revenue and other income

Revenue and other income primarily include income generated by ESIL and SHKFGL, in which EBSHK held 51% and 70% equity interest as of March 31, 2016, respectively.

Comparison of the three months ended March 31, 2015 and 2016. Segment revenue and other gains increased by 207.6% from RMB75.1 million in the three months ended March 31, 2015 to RMB231.0 million in the same period in 2016. The increase primarily reflected our consolidation of SHKFGL's financial results since June 2015.

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Comparison of 2014 and 2015. Segment revenue and other income increased by 208.2% from RMB282.9 million in 2014 to RMB872.0 million in 2015. The increase primarily reflected our consolidation of SHKFGL's revenue since June 2015, and the growth of EBSHK's brokerage and investment banking businesses.

Comparison of 2013 and 2014. Segment revenue and other income decreased by 6.5% from RMB302.7 million in 2013 to RMB282.9 million in 2014, primarily because China Everbright Securities (HK) Limited underwrote fewer equity offerings in 2014.

Segment expenses

Segment expenses consist mainly of (1) operating and amortization expenses attributable to ESIL and SHKFGL, (2) goodwill impairment charges attributable to ESIL, and (3) interest expenses relating to overseas bonds issued by Double Charm Limited, a wholly owned subsidiary of EBSHK, in August 2015 and other borrowings of EBSHK.

Comparison of the three months ended March 31, 2015 and 2016. Segment expenses increased by 350.5% from RMB66.7 million in the three months ended March 31, 2015 to RMB300.5 million in the same period in 2016. The increase primarily reflected (1) our consolidation of SHKFGL's financial results, including its operating and amortization expenses, since June 2015, and (2) an increase in interest expenses due to our issuance of overseas bonds in an aggregate principal amount of US\$450.0 million and increased borrowings to fund our acquisition of SHKFGL and working capital.

Comparison of 2014 and 2015. Segment expenses increased by 122.6% from RMB410.5 million in 2014 to RMB913.9 million in 2015. The increase primarily reflected (1) our consolidation of SHKFGL's financial results, including its operating and amortization expenses, since June 2015, and (2) an increase in interest expenses due to our issuance of overseas bonds in an aggregate principal amount of US\$450.0 million and short-term borrowings of HK\$1.5 billion to fund our acquisition of SHKFGL.

Comparison of 2013 and 2014. Segment expenses increased by 79.0% from RMB229.3 million in 2013 to RMB410.5 million in 2014. This was primarily because we recorded goodwill impairment charges of RMB166.4 million, reflecting the excess of the carrying amount of ESIL over its anticipated recoverable amount.

Profit(loss) before income tax

Comparison of the three months ended March 31, 2015 and 2016. We recorded profit before income tax of RMB8.4 million in the three months ended March 31, 2015, compared to loss before income tax of RMB68.4 million in the same period in 2016. Segment margin decreased from positive 11.2% in the three months ended March 31, 2015 to negative 29.5% in the same period in 2016, primarily reflecting our consolidation of SHKFGL's operating and amortization expenses, and an increase in interest expenses due to our issuance of overseas bonds and increased borrowings.

Comparison of 2014 and 2015. Loss before income tax decreased by 69.9% from RMB127.6 million in 2014 to RMB38.4 million in 2015. Segment margin increased from negative 45.1% in 2014 to negative 4.4% in 2015, primarily reflecting our consolidation of

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SHKFGL's revenue since June 2015, as well as the growth of EBSHK's brokerage and investment banking businesses. The increase was partially offset by an increase in expenses resulting from our consolidation of SHKFGL's operating and amortization expenses, and an increase in interest expenses due to our issuance of overseas bonds and an increase in short-term borrowings.

Comparison of 2013 and 2014. We recorded loss before income tax of RMB127.6 million in 2014, compared to profit before income tax of RMB73.4 million in 2013. Segment margin decreased from positive 24.2% in 2013 to negative 45.1% in 2014, primarily because of goodwill impairment charges of RMB166.4 million, representing the excess of the carrying amount of ESIL over its anticipated recoverable amount.

Others

The following table sets forth selected information concerning the Others segment for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions, except percentages)				
Segment revenue and other income	86.6	356.0	1,308.0	189.4	253.3
Fee and commission income . .	32.1	3.2	46.0	5.7	0.0
Interest income	190.3	185.5	756.2	109.6	225.3
Net investment (losses)/gains . .	(248.6)	151.4	430.5	65.4	23.9
Other income and gains	112.8	15.9	75.3	8.7	4.1
Segment expenses	(884.6)	(887.6)	(2,798.6)	(409.5)	(473.4)
Share of profit of associates and joint ventures	–	–	(2.7)	–	–
Loss before income tax	(798.0)	(531.6)	(1,493.3)	(220.1)	(220.1)
Segment margin	(921.5)%	(149.3)%	(114.4)%	(116.2)%	(86.9)%

Others contributed 1.7%, 4.2%, 5.6%, 4.3% and 7.9% of total revenue and other income for 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, respectively. In 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, loss before income tax from Others amounted to RMB798.0 million, RMB531.6 million, RMB1,493.3 million, RMB220.1 million and RMB220.1 million, respectively.

Segment revenue and other income

Revenue and other income primarily include investment gains and interest income from cash deposits of our headquarters.

Comparison of the three months ended March 31, 2015 and 2016. Segment revenue and other income increased by 33.7% from RMB189.4 million in the three months ended March 31, 2015 to RMB253.3 million in the same period in 2016. The increase was primarily attributable to an increase in interest income earned by our headquarters.

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Comparison of 2014 and 2015. Segment revenue and other income increased by 267.4% from RMB356.0 million in 2014 to RMB1,308.0 million in 2015. The increase was primarily attributable to an increase in interest income and investment gains earned by our headquarters.

Comparison of 2013 and 2014. Segment revenue and other income increased by 311.1% from RMB86.6 million in 2013 to RMB356.0 million in 2014. The increase was primarily attributable to an increase in investment gains and interest income earned by our headquarters.

Segment expenses

Segment expenses consist mainly of operating expenses incurred by our headquarters.

Comparison of the three months ended March 31, 2015 and 2016. Segment expenses increased by 15.6% from RMB409.5 million in the three months ended March 31, 2015 to RMB473.4 million in the same period in 2016. The increase primarily reflected higher interest expenses as a result of our additional bond issuances.

Comparison of 2014 and 2015. Segment expenses increased by 215.3% from RMB887.6 million in 2014 to RMB2,798.6 million in 2015. The increase primarily reflected higher operating expenses driven by our increased revenue.

Comparison of 2013 and 2014. Segment expenses increased slightly by 0.3% from RMB884.6 million in 2013 to RMB887.6 million in 2014.

Loss before income tax

Comparison of the three months ended March 31, 2015 and 2016. Loss before income tax remained stable at RMB220.1 million in the three months ended March 31, 2016 as compared to RMB220.1 million in the same period in 2015. Segment margin increased from negative 116.2% in the three months ended March 31, 2015 to negative 86.9% in the same period in 2016, primarily reflecting an increase in interest income earned by our headquarters.

Comparison of 2014 and 2015. Loss before income tax increased by 180.9% from RMB531.6 million in 2014 to RMB1,493.3 million in 2015. Segment margin increased from negative 149.3% in 2014 to negative 114.4% in 2015, primarily reflecting an increase in interest income and investment gains earned by our headquarters.

Comparison of 2013 and 2014. Loss before income tax decreased by 33.4% from RMB798.0 million in 2013 to RMB531.6 million in 2014. Segment margin increased from negative 921.5% in 2013 to negative 149.3% in 2014, primarily reflecting an increase in investment gains and interest income earned by our headquarters.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We have historically met our funding and capital requirements primarily with cash inflows generated from our operating activities, issuances of bonds and structured notes, repurchase agreements, placements from other financial institutions and loans and borrowings. We manage liquidity primarily by monitoring the maturities of our assets and liabilities in an effort to ensure that we have sufficient funds to meet payment obligations when they fall due.

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Cash Flows

The following table sets forth selected cash flow statement information for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2013	2014	2015	2015	2016
	(Unaudited)				
	(RMB in millions)				
Net cash generated from/(used in) operating activities	2,089.4	(1,535.2)	(32,124.5)	(13,730.0)	12,748.4
Net cash (used in)/generated from investing activities	(3,123.7)	(1,137.9)	(4,511.4)	(1,230.5)	317.4
Net cash (used in)/generated from financing activities	(257.8)	7,109.7	43,701.7	15,872.5	(7,844.0)
Net (decrease)/increase in cash and cash equivalents	(1,292.1)	4,436.6	7,065.8	912.0	5,221.8
Cash and cash equivalents at the beginning of the year/period . .	2,826.5	1,535.8	5,970.0	5,970.0	12,996.8
Effect of foreign exchange rate changes	1.4	(2.4)	(39.0)	0.6	7.5
Cash and cash equivalents at the end of the year/period.	<u>1,535.8</u>	<u>5,970.0</u>	<u>12,996.8</u>	<u>6,882.6</u>	<u>18,226.1</u>

Operating activities

Operating activities include our fee and commission based services, such as underwriting, financial advisory, brokerage and asset management services, margin financing and securities lending, purchases and sales of financial assets at fair value through profit or loss, repurchase and reverse repurchase transactions, and other operating activities. We made our contribution to China Securities Finance Corporation Limited not as part of our investment strategy but at the request of regulators to stabilize the capital markets in a special situation, and the use of our contribution is at the discretion of China Securities Finance Corporation Limited. Therefore we have classified the contribution as an operating activity in accordance with IAS 7, which requires cash flows that do not meet the definition of either investing or financing cash flows be classified under operating activity.

Comparison of the three months ended March 31, 2015 and 2016. Net cash generated from operating activities was RMB12,748.4 million in the three months ended March 31, 2016, as compared to cash used in operating activities of RMB13,730.0 million in the same period in 2015. The change primarily reflected (1) a RMB29,266.6 million decrease in cash outflow from our margin financing and securities lending activities, (2) a RMB8,748.9 million increase in other payables and accruals, primarily resulting from an increase in the scale of our consolidated asset management schemes, and (3) a RMB6,029.5 million decrease in accounts receivables, other receivables and prepayments. The increases were partially offset by (1) a RMB8,068.7 million decrease in cash inflow from repurchase agreements, primarily reflecting

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our decreased use of repurchases agreements collateralized by receivables under margin loans to fund our business activities, and (2) a RMB6,241.9 million increase in cash outflow due to our increased investment in financial assets at fair value through profit and loss.

Comparison of 2014 and 2015. Net cash used in operating activities was RMB32,124.5 million 2015, representing a 1,992.5% increase from RMB1,535.2 million in 2014. The increase primarily reflected (1) a RMB39,064.2 million decrease in cash inflow from repurchase agreements, primarily reflecting our decreased use of repurchases agreements collateralized by receivables under margin loans and under collateralized stock repurchase agreements to fund our business activities, (2) a RMB11,262.7 million increase in cash outflow from other investments, primarily reflecting our contribution of funds to designated accounts managed by China Securities Finance Corporation Limited and our increased equity investments classified as available-for-sale financial assets, and (3) a RMB9,968.6 million increase in cash outflow due to our increased investment in financial assets at fair value through profit and loss. The increases were partially offset by a RMB23,990.5 million decrease in cash outflow from our margin financing and securities lending activities and a RMB5,033.3 million increase in other payables and accruals, mainly due to an increase in the scale of our consolidated asset management and fund investments.

Comparison of 2013 and 2014. Net cash used in operating activities was RMB1,535.2 million in 2014, compared to a net cash generated from operating activities of RMB2,089.4 million in 2013, primarily due to (1) a RMB16,862.7 million increase in cash outflow from our margin financing and securities lending activities, (2) a RMB10,318.5 million increase in cash outflow due to our increased investment in financial assets at fair value through profit and loss, (3) a RMB5,196.2 million decrease in cash inflow due to our reduced disposition of equity investment classified as available-for-sale financial assets, (4) a RMB5,077.6 million increase in cash outflow from resale agreements as a result of an increase in reverse repurchase transactions, and (5) a RMB2,919.4 million increase in refundable deposits, primarily reflecting an increase in refundable deposits with China Securities Finance Corporation Limited resulting from our increased margin loan financing activities, and an increase in refundable deposits with China Financial Futures Exchange resulting from our increased stock index futures trading activities. The increases were partially offset by a RMB38,142.5 million increase in cash inflow from repurchase agreements, primarily reflecting our increased use of repurchases agreements collateralized by receivables under margin loans to fund our business activities.

Investing activities

Investing activities primarily include purchases and disposition of available-for-sale financial assets, purchase and disposal of property and equipment, investment properties and intangible assets, and the acquisition and disposal of subsidiaries and associates and other investment activities.

Comparison of the three months ended March 31, 2015 and 2016. Net cash generated from investing activities in the three months ended March 31, 2016 was RMB317.4 million, compared to net cash used in investing activities of RMB1,230.5 million in the same period in 2015. This change was primarily attributable to proceeds from our disposition of available-for-sale financial assets.

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Comparison of 2014 and 2015. Net cash used in investing activities in 2015 was RMB4,511.4 million, compared to net cash used in investing activities of RMB1,137.9 million in 2014. This change was primarily due to our acquisition of a 70% interest in SHKFGL and a 35% interest in Everbright Leasing, our increased investment in associates and joint ventures, and our purchase of property and equipment, intangible assets and other non-current assets in 2015.

Comparison of 2013 and 2014. Net cash used in investing activities in 2014 was RMB1,137.9 million, a 63.6% decrease from RMB3,123.7 million in 2013. The decrease was primarily due to our decreased investment in wealth management products issued by securities firms and trust products classified as available-for-sale financial assets and loans and receivables in 2014.

Financing activities

Financing activities primarily include issuance of long-term bonds and structured notes, loans and borrowings and repayments, the distribution of dividends to our shareholders and the payment of interest on our debt instruments.

Comparison of the three months ended March 31, 2015 and 2016. Net cash used in financing activities was RMB7,844.0 million in the three months ended March 31, 2016, compared to net cash generated from financing activities of RMB15,872.5 million in the same period in 2015. The change was primarily due to (1) our issuances of subordinated bonds in an aggregate principal amount of RMB12.0 billion in the three months ended March 31, 2015, whereas we did not issue any long-term bonds in the same period in 2016, and (2) our repayment of subordinated bonds in an aggregate principal amount of RMB6.0 billion and structured notes in an aggregate principal amount of RMB1.5 billion in the three months ended March 31, 2016.

Comparison of 2014 and 2015. Net cash generated from financing activities was RMB43,701.7 million in 2015, a 514.7% increase from net cash generated from financing activities of RMB7,109.7 million in 2014. The increase was mainly attributable to (1) our issuances of subordinated bonds in an aggregate principal amount of RMB30.0 billion in 2015, (2) our issuance of structured notes in an aggregate principal amount of RMB5,301.0 million in 2015, and (3) bank borrowings of RMB3,469.9 million to fund our acquisition of a 70% interest in SHKFGL.

Comparison of 2013 and 2014. Net cash generated from financing activities was RMB7,109.7 million in 2014, compared to net cash used in financing activities of RMB257.8 million in 2013. The net cash inflow in 2014 was primarily attributable to our issuance of subordinated bonds in the principal amount of RMB7.0 billion in June 2014.

Assets and Liabilities

In order to ensure appropriate liquidity management and capital allocation, we dynamically monitor the size and composition of our balance sheet and seek to maintain a liquid balance sheet. The major portion of our balance sheet consists of current assets and liabilities, on account of the highly liquid nature of our business.

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Current Assets and Liabilities

The following table sets forth the components of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of March 31,	As of June 30,
	2013	2014	2015	2016	2016
					(unaudited)
	(RMB in millions)				
CURRENT ASSETS					
Accounts receivable	1,089.4	1,196.7	2,069.3	2,039.0	2,875.7
Finance lease receivables . .	–	–	1,450.9	1,331.4	1,018.6
Other receivables and prepayments	1,414.9	2,443.4	3,693.1	4,031.3	4,022.3
Margin accounts receivable	12,992.6	38,465.8	43,404.5	31,645.1	31,476.7
Available-for-sale financial assets	3,003.6	3,915.6	9,777.8	7,773.9	7,393.8
Financial assets held under resale agreements	466.2	3,486.5	5,003.9	5,383.5	3,690.7
Financial assets at fair value through profit or loss	6,715.5	11,269.3	25,539.9	32,865.2	21,720.1
Derivative financial assets .	7.5	41.2	168.5	152.7	136.4
Clearing settlement funds .	26.0	71.2	360.0	81.8	1,361.1
Cash held on behalf of brokerage clients	18,619.3	37,660.0	70,327.1	64,048.7	63,316.6
Cash and bank balances . .	2,744.2	6,904.1	15,091.7	19,959.5	13,823.4
Total current assets	<u>47,079.2</u>	<u>105,453.8</u>	<u>176,886.7</u>	<u>169,312.1</u>	<u>150,835.4</u>

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	As of December 31,			As of March 31,	As of June 30,
	2013	2014	2015	2016	2016
					(unaudited)
	(RMB in millions)				
CURRENT LIABILITIES					
Loans and borrowings	215.9	459.0	3,014.2	3,400.7	4,421.2
Short-term debt					
instruments issued	–	–	2,100.0	797.5	871.2
Placements from other					
financial institutions . . .	5,200.0	5,535.0	500.0	500.0	4,632.4
Accounts payable to					
brokerage clients	21,652.3	40,497.4	71,102.0	67,840.5	66,945.1
Employee benefits payable .	318.0	897.0	2,642.7	1,945.5	1,658.9
Other payables and					
accruals	1,026.3	2,417.6	9,347.4	20,766.4	7,403.7
Current tax liabilities	42.1	489.1	1,627.8	1,388.1	468.3
Financial assets sold under					
repurchase agreements . .	1,791.6	29,480.6	20,555.4	18,328.7	13,586.7
Derivative financial					
liabilities	–	117.5	1,022.6	402.9	349.9
Financial liabilities at fair					
value through profit and					
loss	–	–	–	235.5	205.2
Long-term debt securities					
issued due within					
one year	–	–	18,986.2	12,995.5	10,486.6
Total current liabilities	<u>30,246.2</u>	<u>79,893.2</u>	<u>130,898.3</u>	<u>128,601.3</u>	<u>111,029.2</u>
Net current assets	<u>16,833.0</u>	<u>25,560.6</u>	<u>45,988.4</u>	<u>40,710.8</u>	<u>39,806.2</u>
Current ratio⁽¹⁾	1.6	1.3	1.4	1.3	1.4

(1) Current ratio is calculated by dividing current assets by current liabilities.

Current assets consist primarily of (1) margin accounts receivables resulting from our margin financing and securities lending business, (2) cash held on behalf of brokerage clients resulting from our brokerage business, (3) financial assets at fair value through profit or loss, available-for-sale financial assets and derivative financial assets primarily resulting from our market-making and proprietary trading of various investment products for different purposes, (4) cash and bank balances, (5) clearing settlement funds resulting from our brokerage business, and (6) finance lease receivables resulting from our finance leasing business. Current liabilities consist primarily of (1) accounts payable to brokerage clients resulting from our brokerage business, (2) financial assets sold under repurchase agreements resulting from the repurchase agreements we enter into, and (3) placements from other financial institutions.

Current assets decreased by 10.9% from RMB169,312.1 million as of March 31, 2016 to RMB150,835.4 million as of June 30, 2016, primarily because of (1) a RMB11,145.1 million decrease in financial assets at fair value through profit or loss, primarily resulting from our

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redemption of certain consolidated asset management schemes, (2) a RMB6,136.1 million decrease in cash and bank balances due to our repayment of subordinated bonds and payment of dividends, and (3) a RMB1,692.8 million decrease in financial assets held under resale agreements, primarily resulting from a decrease in repurchase transactions as a result of our redemption of certain consolidated asset management schemes.

Current liabilities decreased by 13.7% from RMB128,601.3 million as of March 31, 2016 to RMB111,029.2 million as of June 30, 2016, primarily because of (1) a RMB13,362.7 million decrease in other payables and accruals, primarily resulting from our redemption of certain consolidated asset management schemes, (2) a RMB4,742.0 million decrease in financial assets sold under repurchase agreements, largely due to our decreased use of repurchase agreements collateralized by receivables under margin loans and under stock repurchase agreements to fund our business activities, and (3) a RMB2,508.9 million decrease in long-term debt securities issued due within one year, due to our repayment of subordinated bonds, partially offset by certain long-term loans becoming due within one year and our issuance of corporate bonds. The decrease was partially offset by a RMB4,132.4 million increase in placements from other financial institutions to fund our business activities.

Current ratio remains relatively unchanged at 1.4 as of June 30, 2016 compared to 1.3 as of March 31, 2016.

Current assets decreased 4.3% from RMB176,886.7 million as of December 31, 2015 to RMB169,312.1 million as of March 31, 2016, primarily because of (1) a RMB11,759.4 million decrease in margin accounts receivables due to decreased margin financing and securities lending activities by our clients, and (2) a RMB6,278.4 million decrease in cash held on behalf of brokerage clients, reflecting decreased trading activity by our brokerage clients. The decrease was partially offset by (1) a RMB7,325.3 million increase in financial assets at fair value through profit or loss due to an increase in the AUM of our consolidated fixed income asset management schemes, and (2) a RMB4,867.8 million increase in cash and bank balances.

Current liabilities decreased 1.8% from RMB130,898.3 million as of December 31, 2015 to RMB128,601.3 million as of March 31, 2016, primarily because of (1) a RMB5,990.7 million decrease in long-term bonds due within one year as a result of repayment of subordinated bonds, (2) a RMB3,261.5 million decrease in accounts payable to brokerage clients, primarily reflecting decreased trading activity by our brokerage clients, (3) a RMB2,226.7 million decrease in financial assets sold under repurchase agreements, largely due to our decreased use of repurchase agreements collateralized by receivables under margin loans and under stock repurchase agreements to fund our business activities, and (4) a RMB1,302.5 million decrease in short-term debt instruments resulting from repayment of structured notes. The decrease was partially offset by a RMB11,419.0 million increase in other payables and accruals resulting from an increase in the scale of our consolidated asset management and our increased fund investment.

Current ratio remained relatively unchanged at 1.3 as of March 31, 2016 compared to 1.4 as of December 31, 2015.

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Current assets increased by 67.7% from RMB105,453.8 million as of December 31, 2014 to RMB176,886.7 million as of December 31, 2015, primarily because of (1) a RMB32,667.1 million increase in cash held on behalf of brokerage clients, primarily reflecting the growth of our brokerage business, (2) a RMB14,270.6 million increase in financial assets at fair value through profit or loss, primarily reflecting our increased AUM of our consolidated fixed-income assets management schemes and fund products, (3) a RMB8,187.6 million increase in cash and bank balances, primarily driven by our business growth, (4) a RMB5,862.2 million increase in available-for-sale financial assets, primarily reflecting our increased equity investments, and (5) a RMB4,938.7 million increase in margin account receivable driven by the growth of our margin financing and securities lending business.

Current liabilities increased by 63.8% from RMB79,893.2 million as of December 31, 2014 to RMB130,898.3 million as of December 31, 2015, primarily because of (1) a RMB30,604.6 million increase in accounts payable to brokerage clients, primarily reflecting the growth of our brokerage business, (2) a RMB18,986.2 million increase in long-term debt securities due within one year, primarily because some of our subordinated debt in issue will become due soon, (3) a RMB6,929.8 million increase in other payables and accruals, primarily reflecting an increase in the scale of our consolidated asset management and fund investments, and an increase in interest payables as a result of our issuance of subordinated bonds, (4) a RMB2,555.2 million increase in short-term loans and borrowings, which were incurred primarily to fund our acquisition of a 70% interest in SHKFGL and our business activities, and (5) a RMB2,100.0 million increase in short-term debt instruments issued, primarily reflecting our issuance of structured notes with an aggregate principal amount of RMB5,301.0 million. The increase was partially offset by a RMB8,925.2 million decrease in financial assets sold under repurchase agreements, primarily because we entered into fewer repurchase agreements collateralized by receivables under margin loans and under collateralized stock repurchase agreements.

Current ratio remained relatively unchanged at 1.4 as of December 31, 2015 compared to 1.3 as of December 31, 2014.

Current assets increased by 124.0% from RMB47,079.2 million as of December 31, 2013 to RMB105,453.8 million as of December 31, 2014, primarily because of (1) a RMB25,473.2 million increase in margin accounts receivable resulting from the growth of our margin financing and securities lending business, (2) a RMB19,040.7 million increase in cash held on behalf of brokerage clients, primarily reflecting the growth of our brokerage business, (3) a RMB4,553.8 million increase in financial assets at fair value through profit or loss, primarily reflecting our increased investments in fixed-income and wealth management products, (4) a RMB4,159.9 million increase in cash and bank balances, primarily attributable to our issuance of subordinated bonds in the principal amount of RMB7.0 billion in June 2014, and (5) a RMB3,020.3 million increase in financial assets held under resale agreements, primarily because we entered into a greater volume of collateralized stock repurchase agreements in 2014.

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Current liabilities increased by 164.1% from RMB30,246.2 million as of December 31, 2013 to RMB79,893.2 million as of December 31, 2014, primarily reflecting (1) a RMB27,689.0 million increase in financial assets sold under repurchase agreements, primarily reflecting our increased use of collateralized margin loan repurchase agreements to fund our business activities, and (2) a RMB18,845.1 million increase in accounts payable to brokerage clients, primarily reflecting the growth of our brokerage business.

Current ratio decreased from 1.6 as of December 31, 2013 to 1.3 as of December 31, 2014, primarily due to our increased use of collateralized margin loan repurchase agreements to fund our business activities.

Adjusted assets and liabilities

Deposits from brokerage customers form a significant component of both our current assets, reflected as cash held on behalf of brokerage clients and clearing settlement funds held on behalf of customers, and our current liabilities, reflected under accounts payable to brokerage clients. Customer deposits fluctuate based on our customers' trading activities, financial market conditions and other factors extrinsic to our business. Consequently, although we earn some interest income from these deposits, customer deposits tend not to be meaningful indicators of our financial condition. We have therefore adjusted our assets and liabilities in the following presentation and discussion to exclude the effect of customer deposits.

The following table sets forth our adjusted assets and liabilities as of the dates indicated:

	As of December 31,			As of	As of
	2013	2014	2015	March 31,	June 30,
	(RMB in millions, except percentages)				
Adjusted current assets ⁽¹⁾	25,426.9	64,956.4	105,784.7	101,471.6	83,890.3
Adjusted current liabilities ⁽²⁾ .	8,593.9	39,395.8	59,796.3	60,760.8	44,084.1
Adjusted current ratio ⁽³⁾	3.0	1.6	1.8	1.7	1.9

(1) Adjusted current assets equals total current assets less accounts payable to brokerage clients.

(2) Adjusted current liabilities equals total current liabilities less accounts payable to brokerage clients.

(3) Adjusted current ratio is calculated by dividing adjusted current assets by adjusted current liabilities.

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Non-current assets and liabilities

The following table sets forth the components of non-current assets and liabilities as of the dates indicated:

	As of December 31,			As of
	2013	2014	2015	March 31, 2016
	(RMB in millions)			
NON-CURRENT ASSETS				
Property and equipment	972.8	943.6	879.4	874.8
Goodwill	233.1	67.4	1,411.8	1,404.2
Other intangible assets	157.3	147.3	885.8	835.0
Interest in associates and joint ventures	409.6	970.6	874.8	887.2
Held-to-maturity investments	–	–	129.5	128.9
Available-for-sale financial assets	1,329.5	1,777.3	7,865.0	7,724.2
Financial assets held under resale agreements	414.6	345.2	1,344.7	1,315.1
Refundable deposits	2,755.3	5,053.4	3,995.0	5,402.1
Deferred tax assets	378.7	36.3	79.9	253.1
Finance lease receivables	–	–	2,450.9	2,422.2
Other non-current assets	122.1	149.9	269.3	756.9
Total non-current assets	6,773.0	9,491.0	20,186.1	22,003.7
NON-CURRENT LIABILITIES				
Loans and borrowings	–	–	2,262.3	2,026.9
Long-term bonds	–	6,979.5	18,853.4	18,846.6
Deferred tax liabilities	–	111.8	551.2	352.1
Financial assets sold under repurchase agreements	–	1,340.0	230.0	–
Other non-current liabilities . . .	–	–	1,854.0	1,923.1
Total non-current liabilities	–	8,431.3	23,750.9	23,148.7

Refundable deposits with stock exchanges, futures and commodity exchanges and other institutions amounted to RMB5,402.1 million as of March 31, 2016, representing 24.6% of our non-current assets.

Equity investments are reflected on our balance sheet as available-for-sale financial assets and interests in associates and joint ventures. Interests in associates and joint ventures are strategic investments, while non-current available-for-sale financial assets mainly comprise equity investments in unlisted companies, our investments in asset management products with maturities of over one year, and our investments in designated accounts managed by China Securities Finance Corporation Limited. Equity investments amounted to RMB2,357.6 million as of March 31, 2016, representing 10.7% of our non-current assets.

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Non-current assets increased from RMB20,186.1 million as of December 31, 2015 to RMB22,003.7 million as of March 31, 2016, primarily attributable to (1) a RMB1,407.1 million increase in refundable deposits, primarily reflecting an increase in margin requirements for stock index futures by China Financial Futures Exchange and an increase in our commodity futures transactions, and (2) a RMB487.6 million increase in other non-current assets, primarily due to an increase in receivables investment under our consolidated asset management schemes.

Non-current assets increased from RMB9,491.0 million as of December 31, 2014 to RMB20,186.1 million as of December 31, 2015, primarily due to (1) a RMB6,087.7 million increase in available-for-sale financial assets, primarily reflecting our contribution of funds to designated accounts managed by China Securities Finance Corporation Limited, (2) a RMB2,450.9 million increase in finance lease receivables, primarily reflecting the growth of the lease financing business of Everbright Leasing, (3) a RMB1,344.4 million increase in goodwill and a RMB738.5 million increase in other intangible assets resulting from our acquisition of a 70% interest in SHKFGL, and (4) a RMB999.5 million increase in financial assets held under resale agreements, driven by a greater volume of collateralized stock repurchase transactions with maturities of over one year. The increases were partially offset by a RMB1,058.4 million decrease in refundable deposits, primarily due to our decreased margin loan financing activities and stock index futures trading activities in the second half of 2015.

Non-current assets increased from RMB6,773.0 million as of December 31, 2013 to RMB9,491.0 million as of December 31, 2014, primarily due to a RMB2,298.1 million increase in refundable deposits, primarily reflecting our increased stock index futures trading activities and margin loan financing activities.

Non-current liabilities decreased by 2.6% from RMB23,750.9 million as of December 31, 2015 to RMB23,148.7 million as of March 31, 2016, primarily due to (1) a RMB235.4 million decrease in loans and borrowings, primarily resulting from certain long-term loans becoming due within one year, and (2) a RMB230.0 million decrease in financial assets sold under repurchase agreements, primarily resulting from certain liabilities arising from repurchase agreements becoming due within one year.

Non-current liabilities increased by 181.7% from RMB8,431.3 million as of December 31, 2014 to RMB23,750.9 million as of December 31, 2015, primarily reflecting (1) a RMB11,873.9 million increase in long-term bonds resulting from our issuances of subordinated bonds in an aggregate principal amount of RMB30.0 billion, and our issuance of overseas bonds in the principal amount of US\$450.0 million, (2) a RMB2,262.3 million increase in loans and borrowings, which were incurred primarily to repay shareholder loans of SHKFGL and to fund the growth of the lease financing business of Everbright Leasing, and (3) a RMB1,854.0 million increase in other non-current liabilities, primarily reflecting put right liabilities arising from our acquisition of a 70% interest in SHKFGL.

As of December 31, 2014, we had non-current liabilities of RMB8,431.3 million, primarily reflecting our issuances of subordinated bonds in the principal amount of RMB7.0 billion in June 2014. We did not have any non-current liabilities as of December 31, 2013.

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Bank Loans

The table below sets forth certain information on outstanding short-term bank loans as of June 30, 2016.

	Principal amount	Nominal interest rate	Maturity date	Purpose
	(in millions)			
Bank loans secured with receivables	RMB20.0	5.50%	June 2017	Develop lease financing business
Bank loans secured with receivables	RMB169.3	4.35%	December 2016	Develop lease financing business
Bank loans secured with receivables	US\$28.9	1.15%	May 2017	Develop lease financing business
Bank loans secured with receivables	RMB139.5	4.28%	June 2017	Develop lease financing business
Bank loans secured with receivables	RMB30.0	4.28%	April 2017	Develop lease financing business
Unsecured bank loans . . .	RMB500.0	4.09%	December 2016	Working capital
Unsecured bank loans . . .	RMB72.4	4.40%	June 2017	Develop lease financing business
Unsecured bank loans . . .	HK\$1,200.0	2.43%	July 2016	Acquisition of a 70% interest in SHKFGL
Secured bank loans	HK\$1,710.0	0.88%–2.03%	July 2016	Working capital
Unsecured bank loans . . .	HK\$800.0	1.64%–2.83%	July 2016	Working capital
Secured bank loans	US\$15.0	2.05%	July 2016	Working capital
Secured bank loans	RMB28.5	1.64%–2.63%	July 2016	Working capital

The table below sets forth certain information on outstanding long-term bank loans as of June 30, 2016.

	Principal amount	Nominal interest rate	Maturity date	Purpose
	(in millions)			
Bank loans secured with receivables	US\$84.1	1.15%	July 2018	Develop lease financing business
Bank loans secured with receivables	RMB170.0	4.28%	June 2020	Develop lease financing business
Bank loans secured with receivables	RMB60.0	5.50%	June 2020	Develop lease financing business
Bank loans secured with receivables	RMB107.8	4.28%	June 2020	Develop lease financing business
Bank loans secured with receivables	RMB150.0	4.28%	December 2018	Develop lease financing business
Bank loans secured with receivables	RMB209.5	4.40%	June 2020	Develop lease financing business
Unsecured bank loans . . .	HK\$1,090.1	Hibor+2.85%	October 2018	Working capital

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During the Track Record Period and up to June 30, 2016, we did not experience any difficulty in refinancing bank loans. As of June 30, 2016, we had unutilized banking facilities of RMB1,952.0 million and HK\$3,135.1 million.

Subordinated Bonds

During the Track Record Period and up to June 30, 2016, we issued subordinated bonds in an aggregate principal amount of RMB37 billion. We used the net proceeds from the issuance of subordinated bonds primarily to fund working capital requirements. The table below sets forth certain information on the subordinated bonds issued.

Issuance date	Maturity	Nominal interest rate	Principal amount (RMB in billions)
June 11, 2014	June 11, 2016 ⁽¹⁾	5.99%	7.0
January 29, 2015	January 29, 2018	5.85%	4.0
January 29, 2015	July 29, 2017 ⁽²⁾	5.30%–8.30%	2.0
March 30, 2015	March 30, 2017 ⁽³⁾	5.40%–8.40%	6.0
April 27, 2015	April 27, 2020 ⁽⁴⁾	5.70%–8.70%	6.0
May 26, 2015	May 26, 2017 ⁽⁵⁾	4.80%–7.80%	6.0
May 26, 2015	May 26, 2018 ⁽⁶⁾	5.30%–8.30%	6.0

(1) We redeemed the bonds on June 11, 2016.

(2) We redeemed the bonds on July 29, 2015.

(3) We redeemed the bonds on March 30, 2016.

(4) We have an option to redeem the bonds on April 27, 2018.

(5) We redeemed the bonds on May 26, 2016.

(6) We have an option to redeem the bonds on May 26, 2017.

We intend to issue subordinated bonds on an as needed basis in accordance with working capital requirements in consideration of market conditions.

Overseas Bonds

On August 27, 2015, Double Charm Limited, our wholly-owned subsidiary, issued 2.88% bonds due 2018 in an aggregate principal amount of US\$450 million. We entered into a keep well deed in relation to the issuance of the bonds, under which we undertake to ensure that the bond issuer has sufficient liquidity to fulfill its payment obligations under the bonds. We plan to use the net proceeds from the issuance to fund working capital requirements and repay existing debt.

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Corporate Bonds through Private Placement

In May 2016, we issued two tranches of corporate bonds with an aggregate principal amount of RMB6.0 billion through private placement. Tranche one with an aggregate principal amount of RMB3.0 billion has a term of 18 months and bears an interest rate of 3.35%. We have an option to redeem the bonds on November 30, 2016. Tranche two with an aggregate principal amount of RMB3.0 billion has a term of 30 months and bears an interest rate of 3.59%. We have an option to redeem the bonds on November 30, 2017. We plan to use the net proceeds from the issuances to fund working capital requirements and repay existing debt.

In April 2016, we issued two tranches of corporate bonds with an aggregate principal amount of RMB4.0 billion through private placement. Tranche one with an aggregate principal amount of RMB1.5 billion has a term of 18 months and bears an interest rate of 3.45%. We have an option to redeem the bonds on October 31, 2016. Tranche two with an aggregate principal amount of RMB2.5 billion has a term of 30 months and bears an interest rate of 3.66%. We have an option to redeem the bonds on October 31, 2017. We plan to use the net proceeds from the issuance to fund working capital requirements and repay existing debt.

Structured Notes

We became eligible to issue structured notes in March 2015. In 2015, we issued seven tranches of structured notes in an aggregate principal amount of RMB5,301.0 million, which bear interest rates ranging from 5.00% to 8.25%. In the six months ended June 30, 2016, we issued 39 tranches of structured notes with an aggregate principal amount of RMB1,091.5 million, which bear interest rates ranging from 0.50% to 4.00% plus floating rates. We used the net proceeds from issuance of structured notes primarily to fund working capital requirements. As of June 30, 2016, we had outstanding unsecured and unguaranteed structured notes of RMB871.2 million.

As of the Latest Practicable Date, our outstanding debt instruments did not contain any material covenants. During the Track Record Period and up to the Latest Practicable Date, there had been no material breach of any debt covenant.

Except as disclosed in this prospectus, we currently do not have any material external financing plans.

Contingent Liabilities

As of June 30, 2016, other than disclosed in the prospectus, we were not involved in any material legal, arbitration or administrative proceedings that if adversely determined, would materially adversely affect our financial position or results of operations, although there can be no assurance that this will be the case in the future.

As of June 30, 2016, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans or other similar indebtedness or liabilities under acceptances or acceptance credits, any guarantees or other material contingent liabilities.

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Commitments and Contractual Obligations

The following table sets forth our commitments as of the dates indicated:

	As of December 31,			As of	As of
	2013	2014	2015	March 31,	June 30,
				2016	2016
	(RMB in millions)				
Contracted capital commitments but not provided for	–	–	64.0	144.8	1,192.7
Operating lease commitments					
Within one year	94.5	91.9	118.7	130.2	125.9
After one year but not more than two years	69.9	61.5	86.5	91.2	88.1
After two years but not more than three years . . .	42.9	35.9	60.1	52.0	59.1
After three years	67.7	24.8	63.9	48.6	57.3
Total	275.0	214.1	393.2	466.8	1,523.1

Our capital commitments mainly include contributions to private equity fund management company, private equity fund and other equity related items. We expected our demand for capital commitments will continue to increase to support our development with our growth.

Our Directors have confirmed that, except as disclosed in this prospectus, there has not been any material change in our indebtedness or contingent liabilities since June 30, 2016.

CAPITAL EXPENDITURE

We incurred capital expenditures of RMB118.8 million, RMB124.2 million, RMB260.4 million, RMB29.0 million and RMB52.2 million in 2013, 2014 and 2015 and the three months ended March 31, 2015 and 2016, respectively. Our capital expenditures mainly consisted of purchases of property and equipment and other intangible assets. We fund these expenditures primarily with cash generated from our operating activities.

We expect to incur capital expenditures of RMB312.4 million, RMB374.9 million and RMB449.9 million in 2016, 2017 and 2018, respectively, primarily relating to purchases of property and equipment and other intangible assets. We expect to fund these capital expenditures with cash generated from our operations and proceeds from the Global Offering.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the related party transactions set out in note 53 to the Accountants' Report in Appendix I to this prospectus were conducted in the ordinary course of business on

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an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related parties transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2016, we did not have any outstanding, off-balance sheet guarantees or foreign currency forward contracts.

WORKING CAPITAL

Taking into account our internal resources, cash flow from operations and the estimated net proceeds from the Global Offering, our Directors have confirmed that we have sufficient working capital for at least the next 12 months following the date of this prospectus.

CAPITAL ADEQUACY AND RISK INDICATOR REQUIREMENTS

We have established a dynamic monitoring mechanism to comply with the regulatory requirements for net capital. As of June 30, 2016, we had net capital (unaudited and on an unconsolidated basis) of RMB33,047.5 million. Our net capital and key regulatory risk indicators on an unconsolidated basis as of the dates indicated are as follows:

	As of December 31,			As of March 31,	As of June 30,	Warning Level ⁽¹⁾	Required Level
	2013	2014	2015	2016	2016		
					(unaudited)		
Net capital (RMB in millions) ⁽²⁾⁽³⁾ . . .	14,090.5	16,902.8	36,574.4	31,836.6	33,047.5	240	>200
Net capital/total risk capital reserves ⁽³⁾ (%)	524.3	304.9	1,118.7	978.7	1,026.7	120	>100
Net capital/net assets (%)	63.0	67.8	93.0	86.5	87.5	48	>40
Net capital/total liabilities ⁽⁴⁾ (%)	145.6	36.7	55.5	57.0	67.1	9.6	>8
Net assets/total liabilities ⁽⁴⁾ (%)	231.3	54.2	59.7	65.8	76.7	24	>20
Value of equity securities and derivatives held/net capital (%)	67.0	36.7	53.7	60.1	52.2	80	<100
Value of fixed income securities held/net capital (%)	27.9	52.3	32.8	30.9	37.8	400	<500

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- (1) Warning level is set by the CSRC. If the risk indicator is required to stay above a certain level, then the warning level is 120% of the stipulated minimum requirement, and if the risk indicator is required to stay below a certain level, then the warning level is 80% of the stipulated maximum requirement.
- (2) Net capital is measured by subtracting from net assets the risk adjustments required to be made to a securities firm's financial assets, other assets and contingent liabilities, and further adding or subtracting any other adjustments determined or authorized by the CSRC.
- (3) See "Supervision and Regulation — Summary of China's Regulatory Environment — Corporate Governance and Risk Management — Corporate Governance and Risk Management of Securities Companies — Internal Controls and Risk Management" for an explanation of how total risk capital reserves are calculated.
- (4) For purposes of calculating the risk indicator, total liabilities do not include accounts payable to brokerage clients.

In addition, we are required to comply with certain risk indicator requirements to engage in different businesses, such as direct investment, futures brokerage and trading. As of December 31, 2013, 2014 and 2015 and March 31, 2016 and June 30, 2016, we were in compliance with all applicable capital adequacy and risk indicator requirements.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

We have designed a risk management and control system to measure, monitor and manage financial risks arising in the ordinary course of business. See "Business — Risk Management" and note 57 of the Accountants' Report in Appendix I to this prospectus for an overview of our risk management processes. The main financial risks faced by us in the ordinary course of business are market risk, credit risk and liquidity risk. As we expand our business by offering new products and services, doing business with individuals and entities that are not within our traditional client and counterparty base, and entering new geographical markets, we are exposed to new regulatory and business challenges and risks, and the complexity of the risks we face has increased. The following discussion of our main financial risks and the estimated amounts of our risk exposure generated by our risk measurement models are forward-looking statements. These analyzes and the results of our risk measurement models are not, however, predictions of future events, and our actual results may be significantly different from the analyzes and results due to events in the global economy or the markets where we operate, as well as other factors described below.

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Credit Risk

Credit risk is the risk of loss arising from a borrower's or counterparty's failure to meet its contractual obligations to us or downgrade of its credit rating. We face credit risk primarily in three areas: (1) defaults by issuers or counterparties in fixed-income and derivatives securities transactions, (2) defaults by our margin financing and securities lending clients and counterparties of our repurchase transactions, and (3) defaults by borrowers in other credit businesses. Our credit risk is mitigated by a combination of our internal risk management measures as well as regulatory requirements, as discussed in note 55 of the Accountants' Report in Appendix I to this prospectus. We mitigate credit risk in margin financing and securities lending, reverse repurchase transactions and fixed-income products defaults through a variety of measures, including due diligence on counterparties, credit approval, continual monitoring, risk evaluation, and by restricting investments based upon credit ratings and investment quota. Our maximum credit risk exposure without taking account of any collateral and other credit enhancements is set out below:

	As of December 31,			As of
	2013	2014	2015	March 31,
	(RMB in millions)			
Held-to-maturity investments	–	–	129.5	128.9
Refundable deposits	2,755.3	5,053.4	3,995.0	5,402.1
Accounts receivable	1,089.4	1,196.7	2,069.3	2,039.0
Other receivables and prepayments	1,369.0	2,390.1	3,323.2	3,901.7
Finance lease receivables	–	–	3,901.8	3,753.6
Other non-current assets	–	50.0	185.0	668.7
Margin accounts receivable	12,992.6	38,465.8	43,404.5	31,645.1
Available-for-sale financial assets	982.7	3,219.0	1,955.3	2,118.7
Financial assets held under resale agreements	880.8	3,831.7	6,348.6	6,698.6
Financial assets at fair value through profit or loss	3,157.8	6,240.2	17,440.4	25,221.4
Derivative financial assets	7.5	41.2	168.5	152.7
Clearing settlement funds	26.0	71.2	360.0	81.8
Cash held on behalf of brokerage clients	18,619.3	37,660.0	70,327.1	64,048.7
Bank balances	2,743.8	6,903.9	15,091.1	19,959.2
Total maximum credit risk exposure	44,624.2	105,123.2	168,699.3	165,820.2

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Interest Rate Risk

Interest rate risk is the risk of fluctuation in the fair value of one or more financial instruments or future cash flows arising from adverse movements in interest rates. Our interest-generating assets mainly include bank deposits, clearing settlement funds and bond investments. The following tables set forth our interest-bearing financial assets and liabilities by their remaining terms to repricing or contractual maturity date, whichever is earlier:

As of March 31, 2016						
Less than one month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	More than five years	Non- interest- bearing	Total
(RMB in millions)						
Financial assets						
Held-to-maturity investments	–	–	–	128.9	–	128.9
Available-for-sale financial assets	173.1	83.0	183.3	1,308.1	277.3	13,473.3
Financial assets held under resale agreements	908.0	1,067.3	3,408.2	1,315.1	–	6,698.6
Refundable deposits	552.1	–	496.0	–	25.6	4,328.4
Accounts receivable	–	–	–	–	–	2,039.0
Finance lease receivables	215.5	293.4	822.5	2,385.3	36.9	–
Other receivables and prepayments	57.7	147.0	1,316.0	–	–	541.6
Margin accounts receivable	9,650.9	7,423.4	14,570.8	–	–	–
Financial assets at fair value through profit or loss	3,052.3	332.1	4,481.0	15,972.7	1,383.0	7,644.1
Derivative financial assets	68.3	29.3	1.7	–	–	53.4
Clearing settlement funds	81.8	–	–	–	–	–
Cash held on behalf of brokerage clients	63,918.7	–	20.0	110.0	–	–
Cash and bank balances	13,297.4	1,580.4	3,637.9	1,350.0	–	93.8
Other non-current assets	–	–	–	502.6	–	166.1
Total	91,975.8	10,955.9	28,937.4	23,072.7	1,722.8	28,339.7
Financial liabilities						
Loans and borrowings	(1,111.5)	(1,377.2)	(912.0)	(2,026.9)	–	–
Short term debt instruments issued	(669.5)	(48.2)	(79.8)	–	–	–
Placements from other financial institutions	(500.0)	–	–	–	–	–
Accounts payable to brokerage clients	(56,147.3)	–	–	–	–	(11,693.2)
Other payables and accruals	–	–	–	–	–	(18,901.9)
Financial liabilities at fair value through profit or loss	(30.3)	–	–	–	–	(205.2)
Financial assets sold under repurchase agreements	(9,542.8)	(1,495.9)	(7,290.0)	–	–	–
Derivative financial liabilities	(89.3)	(58.7)	(4.1)	–	–	(250.8)
Long-term bonds	–	(12,995.4)	–	(18,846.7)	–	–
Other non-current liabilities	–	–	–	–	–	(1,874.1)
Total	(68,090.7)	(15,975.4)	(8,285.9)	(20,873.6)	–	(32,925.2)
Net interest rate risk exposure	23,885.1	(5,019.5)	20,651.5	2,199.1	1,722.8	(4,585.5)

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As of December 31, 2015

	Less than one month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	More than five years	Non- interest- bearing	Total
(RMB in millions)							
Financial assets							
Held-to-maturity							
investments	–	–	–	129.5	–	–	129.5
Available-for-sale financial							
assets	121.8	–	230.8	1,252.2	316.4	15,721.6	17,642.8
Financial assets held under							
resale agreements	949.0	632.9	3,422.0	1,344.7	–	–	6,348.6
Refundable deposits	1,239.5	–	–	–	25.7	2,729.8	3,995.0
Accounts receivable	–	–	–	–	–	2,069.3	2,069.3
Finance lease receivables	195.5	186.8	1,068.6	2,450.9	–	–	3,901.8
Other receivables and							
prepayments	25.0	57.7	1,361.1	–	–	325.0	1,768.8
Margin accounts receivable	11,006.5	3,577.2	28,820.8	–	–	–	43,404.5
Financial assets at fair value							
through profit or loss	6,129.2	272.3	637.7	9,495.8	905.1	8,099.8	25,539.9
Derivative financial assets	77.4	26.7	2.1	–	–	62.3	168.5
Clearing settlement funds	360.0	–	–	–	–	–	360.0
Cash held on behalf of							
brokerage clients	64,473.0	1,734.5	4,020.2	99.4	–	–	70,327.1
Cash and bank balances	13,509.0	718.9	569.8	210.6	–	83.4	15,091.7
Other non-current assets	–	–	–	185.0	–	–	185.0
Total	98,085.9	7,207.0	40,133.1	15,168.1	1,247.2	29,091.2	190,932.5
Financial liabilities							
Loans and borrowings	(2,328.2)	–	(686.0)	(2,262.3)	–	–	(5,276.5)
Short term debt instruments							
issued	(700.0)	(800.0)	(600.0)	–	–	–	(2,100.0)
Placements from other							
financial institutions	(500.0)	–	–	–	–	–	(500.0)
Accounts payable to							
brokerage clients	(55,347.7)	–	–	–	–	(15,754.3)	(71,102.0)
Other payables and							
accruals	–	–	–	–	–	(7,310.7)	(7,310.7)
Financial assets sold under							
repurchase agreements	(6,726.0)	(3,274.1)	(10,555.3)	(230.0)	–	–	(20,785.4)
Derivative financial							
liabilities	(104.6)	(54.7)	(5.1)	–	–	(858.2)	(1,022.6)
Long-term bonds	–	(5,997.1)	(12,989.1)	(18,853.4)	–	–	(37,839.6)
Other non-current							
liabilities	–	–	–	–	–	(1,854.0)	(1,854.0)
Total	(65,706.5)	(10,125.9)	(24,835.5)	(21,345.7)	–	(25,777.2)	(147,790.8)
Net interest rate risk							
exposure	32,379.4	(2,918.9)	15,297.6	(6,177.6)	1,247.2	3,314.0	43,141.7

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As of December 31, 2014

	Less than one month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	More than five years	Non- interest- bearing	Total
(RMB in millions)							
Financial assets							
Available-for-sale financial assets	563.8	150.0	338.9	1,091.6	1,055.8	2,492.8	5,692.9
Financial assets held under resale agreements	756.6	93.1	2,636.8	345.2	–	–	3,831.7
Refundable deposits	748.4	420.9	900.9	–	20.0	2,963.2	5,053.4
Accounts receivable	–	–	–	–	–	1,196.7	1,196.7
Other receivables and prepayments	146.4	143.7	923.6	50.0	–	485.8	1,749.5
Margin accounts receivable	22.6	2,388.5	36,054.7	–	–	–	38,465.8
Financial assets at fair value through profit or loss	1,246.8	166.4	1,164.1	2,731.0	797.9	5,163.1	11,269.3
Derivative financial assets	33.5	5.3	2.4	–	–	–	41.2
Clearing settlement funds	71.2	–	–	–	–	–	71.2
Cash held on behalf of brokerage clients	35,012.7	917.3	1,280.0	450.0	–	–	37,660.0
Cash and bank balances	6,215.8	33.4	207.8	430.0	–	17.1	6,904.1
Other non-current assets	–	–	–	50.0	–	–	50.0
Total	44,817.8	4,318.6	43,509.2	5,147.8	1,873.7	12,318.7	111,985.8
Financial liabilities							
Loans and borrowings	(459.0)	–	–	–	–	–	(459.0)
Placements from other financial institutions	(400.0)	(1,635.0)	(3,500.0)	–	–	–	(5,535.0)
Accounts payable to brokerage clients	(33,788.9)	–	–	–	–	(6,708.5)	(40,497.4)
Other payables and accruals	–	–	–	–	–	(1,722.3)	(1,722.3)
Financial assets sold under repurchase agreements	(7,014.5)	(4,202.6)	(18,263.5)	(1,340.0)	–	–	(30,820.6)
Derivative financial liabilities	(55.1)	(15.7)	(1.9)	–	–	(44.8)	(117.5)
Long-term bonds	–	–	–	(6,979.5)	–	–	(6,979.5)
Total	(41,717.5)	(5,853.3)	(21,765.4)	(8,319.5)	–	(8,475.6)	(86,131.3)
Net interest rate risk exposure	3,100.3	(1,534.7)	21,743.8	(3,171.7)	1,873.7	3,843.1	25,854.5

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As of December 31, 2013

	Less than one month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	More than five years	Non- interest- bearing	Total
(RMB in millions)							
Financial assets							
Available-for-sale financial assets	249.0	140.6	236.0	232.5	124.5	3,350.5	4,333.1
Financial assets held under resale agreements	102.9	23.9	350.5	403.5	–	–	880.8
Refundable deposits	2,651.0	–	–	–	–	104.3	2,755.3
Accounts receivable	–	–	–	–	–	1,089.4	1,089.4
Other receivables and prepayments	–	150.0	766.0	–	–	98.6	1,014.6
Margin accounts receivable	23.7	3,009.6	9,959.3	–	–	–	12,992.6
Financial assets at fair value through profit or loss	1,009.0	117.2	404.4	1,433.3	203.0	3,548.6	6,715.5
Derivative financial assets	(51.2)	52.7	6.0	–	–	–	7.5
Clearing settlement funds	26.0	–	–	–	–	–	26.0
Cash held on behalf of brokerage clients	17,959.3	150.0	20.0	490.0	–	–	18,619.3
Cash and bank balances	2,083.0	217.8	–	430.0	–	13.4	2,744.2
Total	24,052.7	3,861.8	11,742.2	2,989.3	327.5	8,204.8	51,178.3
Financial liabilities							
Loans and borrowings	(215.9)	–	–	–	–	–	(215.9)
Placements from other financial institutions	(5,200.0)	–	–	–	–	–	(5,200.0)
Accounts payable to brokerage clients	(17,160.5)	–	–	–	–	(4,491.8)	(21,652.3)
Other payables and accruals	–	–	–	–	–	(813.1)	(813.1)
Financial assets sold under repurchase agreements	(1,202.9)	(588.7)	–	–	–	–	(1,791.6)
Total	(23,779.3)	(588.7)	–	–	–	(5,304.9)	(29,672.9)
Net interest rate risk exposure	273.4	3,273.1	11,742.2	2,989.3	327.5	2,899.9	21,505.4

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We use interest rate sensitivity analysis as the principal tool to monitor our interest rate risk. Our use of interest rate sensitivity analysis assumes all other variables remain constant. Assuming a shift in market interest rates, and without taking into consideration our risk management activities to reduce interest rate risk, the impact of such a shift on our profit after tax and equity based on our interest rate sensitivity analysis is as follows:

	As of December 31,			As of March 31,
	2013	2014	2015	2016
	(RMB in millions)			
Profit after tax for the year	283.6	2,136.6	7,746.9	623.7
+25 basis points	(14.6)	(21.1)	23.5	(61.3)
–25 basis points	19.3	25.8	12.5	70.0

	As of December 31,			As of March 31,
	2013	2014	2015	2016
	(RMB in millions)			
Equity	23,606.0	26,620.3	42,423.6	39,565.8
+25 basis points	(20.8)	(35.9)	15.7	(70.6)
–25 basis points	26.4	42.5	21.0	80.5

We use derivatives, including interest rate swaps, to hedge our interest rate risk exposure. Our ability to hedge against market risk in China, however, is limited by the developing derivatives market in China. This constrains the number of derivative products and other hedging products we can use to manage our interest risk exposure.

Currency Risk

Currency risk is the risk of fluctuation in the fair value of one or more financial instruments or future cash flows arising from fluctuations in foreign exchange rates. The analysis below shows the impact on profit after tax of a 10% appreciation of RMB against the U.S. dollar, Hong Kong dollar and EUR, assuming all other variables remain unchanged.

	As of December 31,			As of March 31,
	2013	2014	2015	2016
	(RMB in millions)			
U.S. dollar	(15.9)	(3.2)	139.9 ⁽¹⁾	194.1 ⁽¹⁾
Hong Kong dollar	(0.9)	(0.8)	(109.6) ⁽²⁾	(118.3) ⁽²⁾
EUR	–	(0.0)	(0.8)	(0.8)

(1) A 10% appreciation of the RMB against the U.S. dollar as of December 31, 2015 and March 31, 2016 would have increased our income profit after tax in 2015 and the three months ended March 31, 2016 by RMB139.9 million and RMB194.1 million, primarily reflecting an increase in our U.S. dollar-denominated liabilities resulting from (a) issuance of overseas bonds in the principal amount of US\$450.0 million, and (b) bank borrowings of US\$120.6 million as of December 31, 2015 and US\$113.2 million as of March 31, 2016 to develop our lease financing business.

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- (2) A 10% appreciation of the RMB against the Hong Kong dollar as of December 31, 2015 and March 31, 2016 would have decreased our income profit after tax in 2015 by RMB109.6 million and RMB118.3 million, respectively, primarily reflecting an increase in our Hong Kong dollar-denominated assets resulting from our acquisition of a 70% interest in SHKFGL.

Price Risk

Price risk is the risk of fluctuation in the fair value of one or more financial instruments or future cash flows arising from fluctuations in market prices (other than interest rates or foreign exchange rates). We use VaR, risk sensitivity indicators and stress testing indicators to monitor our price risk.

The analysis below shows the impact on profit after tax and equity due to change in the prices of equity securities, funds, derivatives and CAM schemes by 10%, assuming all other variables remain unchanged. A positive result indicates an increase in profit after tax and equity, while a negative result indicates otherwise.

	As at December 31,			As of March 31,
	2013	2014	2015	2016
	(RMB in millions)			
Profit after tax for the year	283.6	2,136.6	7,746.9	623.7
Increase by 10%	236.8	200.7	470.6	603.5
Decrease by 10%	(236.8)	(200.7)	(470.6)	(603.5)

	As at December 31,			As of March 31,
	2013	2014	2015	2016
	(RMB in millions)			
Equity	23,606.0	26,620.3	42,423.6	39,565.8
Increase by 10%	436.2	317.1	1,594.9	1,599.8
Decrease by 10%	(436.2)	(317.1)	(1,594.9)	(1,599.8)

Liquidity Risk

Liquidity risk is the risk that our capital or funds will be insufficient to meet our financial obligations in a timely manner. We have established internal controls, described in more details in note 55(b) of the Accountants' Report in Appendix I to this prospectus, to ensure that we have, for each period in which our financial obligations become due, sufficient assets to meet those obligations. As of March 31, 2016, we had adjusted current assets (excluding accounts payable to brokerage customers) of RMB101,471.6 million and adjusted current liabilities (excluding accounts payable to brokerage customers) of RMB60,760.8 million. We have historically maintained a high level of net current assets as a safeguard against liquidity risk. See “— Liquidity and Capital Resources — Cash Flows — Assets and Liabilities” above.

FINANCIAL INFORMATION

The tables below present the cash flows payable by us within the remaining contractual maturities as of the dates indicated:

As of March 31, 2016							
	Carrying amount	Overdue/ repayable on demand	Less than one month	More than one month but less than three months	More than three month but less than one year	More than one year but less than five years	Total
(RMB in millions)							
Loans and borrowings . . .	5,427.6	–	1,127.7	1,400.4	954.4	2,186.8	5,669.3
Short-term debt instruments issued	797.5	–	699.0	48.9	81.4	–	829.3
Placements from other financial institutions . . .	500.0	–	500.0	–	–	–	500.0
Accounts payable to brokerage clients	67,840.5	67,840.5	–	–	–	–	67,840.5
Other payables and accruals . .	18,901.9	1,505.9	14.1	2,395.3	14,986.6	–	18,901.9
Financial liabilities at fair value through profit or loss . .	235.5	205.2	30.4	–	–	–	235.6
Financial assets sold under repurchase agreements . . .	18,328.7	–	9,615.0	1,636.5	7,395.2	–	18,646.7
Derivative financial liabilities	402.9	2.0	0.7	13.3	386.9	–	402.9
Long-term bonds	31,842.1	–	342.0	14,025.3	317.6	20,298.4	34,983.3
Other non-current liabilities	1,874.1	–	–	–	–	1,874.1	1,874.1
Total	146,150.8	69,553.6	12,328.9	19,519.7	24,122.1	24,359.3	149,883.6

FINANCIAL INFORMATION

As of December 31, 2015

	Carrying amount	Overdue/ repayable on demand	Less than one month	More than one month but less than three months	More than three month but less than one year	More than one year but less than five years	Total
(RMB in millions)							
Loans and borrowings . . .	5,276.5	–	2,332.3	6.4	761.9	2,407.1	5,507.7
Short-term debt instruments issued	2,100.0	–	723.1	830.1	629.0	–	2,182.2
Placements from other financial institutions . . .	500.0	–	500.3	–	–	–	500.3
Accounts payable to brokerage clients	71,102.0	71,102.0	–	–	–	–	71,102.0
Other payables and accruals . .	7,310.7	1,204.2	21.4	3,006.0	3,079.1	–	7,310.7
Financial assets sold under repurchase agreements . . .	20,785.4	–	6,762.7	3,408.1	10,890.3	233.9	21,295.0
Derivative financial liabilities	1,022.6	2.1	–	276.9	743.6	–	1,022.6
Long-term bonds	37,839.6	–	234.0	6,366.0	14,409.3	20,589.6	41,598.9
Other non-current liabilities	1,854.0	–	–	–	–	1,854.0	1,854.0
Total	147,790.8	72,308.3	10,573.8	13,893.5	30,513.2	25,084.6	152,373.4

FINANCIAL INFORMATION

As of December 31, 2014

	Carrying amount	Overdue/ repayable on demand	Less than one month	More than one month but less than three months	More than three month but less than one year	More than one year but less than five years	Total
(RMB in millions)							
Loans and borrowings . . .	459.0	127.7	331.5	–	–	–	459.2
Placements from other financial institutions . . .	5,535.0	–	400.4	1,655.9	3,573.6	–	5,629.9
Accounts payable to brokerage clients	40,497.4	40,497.4	–	–	–	–	40,497.4
Other payables and accruals . .	1,722.3	592.9	46.3	146.2	936.9	–	1,722.3
Financial assets sold under repurchase agreements . . .	30,820.6	–	7,027.9	4,262.6	18,945.7	1,514.6	31,750.8
Derivative financial liabilities	117.5	44.8	–	70.8	1.9	–	117.5
Long-term bonds	6,979.5	–	–	–	419.3	7,419.3	7,838.6
Total	86,131.3	41,262.8	7,806.1	6,135.5	23,877.4	8,933.9	88,015.7

As of December 31, 2013

	Carrying amount	Overdue/ repayable on demand	Less than one month	More than one month but less than three months	More than three month but less than one year	More than one year but less than five years	Total
(RMB in millions)							
Loans and borrowings . . .	215.9	–	215.9	–	–	–	215.9
Placements from other financial institutions . . .	5,200.0	–	5,208.4	–	–	–	5,208.4
Accounts payable to brokerage clients	21,652.3	21,652.3	–	–	–	–	21,652.3
Other payables and accruals . .	813.1	797.9	7.1	–	8.1	–	813.1
Financial assets sold under repurchase agreements . . .	1,791.6	–	1,203.5	596.8	–	–	1,800.3
Total	29,672.9	22,450.2	6,634.9	596.8	8.1	–	29,690.0

FINANCIAL INFORMATION

DIVIDEND POLICY

Our Board is responsible for submitting proposals for dividend payments to the shareholders' general meeting for approval. The determination of whether to distribute dividend and in what amount is based on our results of operations, cash flow, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions and other factors that our Board deems relevant. We may distribute dividends in the form of cash, shares or a combination of cash and shares. All of our shareholders have equal rights to dividends and other distributions proportionate to their shareholding. According to PRC law and our Articles of Association, we may pay dividends out of our after-tax profit only after we have made the following allocations:

- recovery of accumulated losses from previous years, if any;
- allocations to statutory reserve fund equal to 10% of our after-tax profit until the amount in the statutory reserve fund reaches 50% of our Company's registered capital;
- allocations to a general risk reserve fund equal to 10% of our after-tax profit; and
- allocations to a transaction risk reserve fund equal to 10% of our Company's after-tax profit.

Furthermore, under CSRC rules, as a securities firm, we are not allowed to distribute as cash dividends the gains from fair value changes of financial assets that are included in distributable profits. Our Articles of Association require us to distribute cash dividends of no less than 10% of the distributable profit of each year and no less than 30% of the average annual distributable profit in any rolling three-year period, subject to significant investment or capital expenditure plans and working capital requirements. We may also distribute stock dividends and interim dividends based on our financial performance and working capital requirements.

After completion of the Global Offering, dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower. Any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years.

For 2013, 2014 and 2015, we declared cash dividends of RMB68.4 million, RMB273.4 million and RMB2,344.0 million, respectively, or RMB0.2, RMB0.8 and RMB6.0 per 10 A Shares, respectively. Our A Share dividend payout ratio (calculated by dividing dividends declared for the year by profit for the year attributable to shareholders of our Company) was 33.2%, 13.2% and 30.7%, respectively. Both our A shareholders and H shareholders are entitled to our accumulated retained earnings prior to the Global Offering. Our historical dividends may not be indicative of future dividend payments.

DISTRIBUTABLE RESERVES

As of March 31, 2016, we had RMB9,085.6 million in retained profits, as determined under IFRS, available for distribution to our Shareholders.

FINANCIAL INFORMATION

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Listing and the Global Offering. Listing expenses to be borne by us are estimated to be approximately RMB243.8 million, of which approximately RMB220.9 million is directly attributable to the issue of H Shares to the public and to be capitalized, and approximately RMB22.9 million is expected to be reflected in our consolidated income statements. None of the listing expenses were reflected in our consolidated income statements during the Track Record Period. Our Directors do not expect such expenses to materially impact our results of operations for 2016.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had taken place on March 31, 2016, based on our audited consolidated net tangible assets attributable to the owners of our Company as of March 31, 2016 as shown in the Accountants' Report, the text of which is set forth in Appendix I to this prospectus, and adjusted as follows. No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading result or other transactions of our Company entered into after March 31, 2016.

	Audited consolidated net tangible assets attributable to Shareholders of our Company as of March 31, 2016 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of our Company	Unaudited pro forma adjusted consolidated net tangible assets attributable to Shareholders of our Company per Share	
	(RMB in millions)		(RMB in millions)	(RMB in millions)	(RMB) ⁽³⁾⁽⁵⁾
Based on Offer					
Price of HK\$11.80 per Share	35,388	6,646	42,034	9.16	10.69
Based on Offer					
Price of HK\$13.26 per Share	35,388	7,480	42,868	9.35	10.90

FINANCIAL INFORMATION

- (1) The consolidated net tangible assets attributable to shareholders of the Company as at 31 March 2016 is based on the Group's consolidated net assets attributable to shareholders as at that day of RMB37,627 million less other intangible assets of RMB835 million and goodwill of RMB1,404 million, as shown in the Accountants' Report as set out in Appendix I of this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the offer price of HK\$11.80 (being the minimum offer price) and HK\$13.26 (being the maximum offer price) per H share and the assumption that there are 680,000,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other related expenses payable by the Company, assuming that the Over-allotment Option is not exercised.
- (3) The estimated net proceeds from the Global Offering are translated into Renminbi at the rate of RMB0.8575 to HK\$1.00, the exchange rate set by the PBOC prevailing on 29 July 2016. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per share is arrived on the basis of 3,906,638,839 shares in issue as at 31 March 2016, 680,000,000 shares that will be issued under the Global Offering, assuming that the Global Offering has been completed on 31 March 2016, but does not take into account of any shares which may be issued upon the exercise of the over-allotment.
- (5) The unaudited pro forma adjusted consolidated net tangible assets per share is translated into Hong Kong dollars at exchange rate of RMB0.8575 to HK\$1.00, the exchange rate set by PBOC prevailing on 29 July 2016. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars at that rate or at any other rate.
- (6) The unaudited pro forma adjusted consolidated net tangible assets does not take into account the financial results or other transactions of the Group subsequent to 31 March 2016.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors have confirmed that they are not aware of any circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Hong Kong Listing Rules.

As a company listed on the Shanghai Stock Exchange, we are required to publish our quarterly (for the first and third quarters of each year), interim (for the first six months of each year) and annual financial information. In addition, as a listed PRC securities firm, we are also required to publish unconsolidated monthly operating income, net profit and net assets of our Company and Everbright Asset Management. We will release such information simultaneously in Hong Kong pursuant to Rule 13.10B of the Hong Kong Listing Rules following the Listing.

DIRECTORS' CONFIRMATION OF NO MATERIAL ADVERSE CHANGE

Except as disclosed in this prospectus, our Directors have confirmed that since March 31, 2016 (being the date of our latest audited financial statements) and up to the date of the Prospectus, there has been no material adverse change in our financial or trading position or prospects, and there has been no event which would materially affect the information shown in the Accountants' Report in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Business Strategies” for a detailed discussion of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK\$12.53 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$11.80 and HK\$13.26 per H Share), we estimate that we will receive net proceeds of approximately HK\$8,236 million from the Global Offering (after deducting the underwriting commissions and other estimated expenses) if the Over-allotment Option is not exercised.

In line with our business strategies, we aim to become a top-notch all-round securities financial group with international competitiveness which realizes sustainable business growth through closely following trends of domestic and foreign capital market integration. We intend to use the net proceeds from the Global Offering for the following purposes and in the amounts set out below:

- approximately 35% or HK\$2,883 million, to further develop capital intermediary business across all business lines to satisfy the investment and financing needs of our customers as follows:
 - in credit business, primarily to actively expand our businesses in margin financing and securities lending, collateralized stock repurchase transactions, repurchase transactions, and stock option financing for listed companies;
 - in institutional securities services, primarily to enhance the ability of our investment banking business in offering financing solutions that include acquisition and structured financing, while expand our FICC trading platform to enhance product variety, trading volume and market making in more financial products;
 - in investment management, primarily to develop more financing and collateralized stock products, increase seed funding to establish more private equity funds, and enhance the scale of our alternative investments;
 - as the business scale of our leasing subsidiaries expands, to purchase more leasing assets; and
 - expand investments in overseas capital intermediary businesses; such as margin financing and securities lending;

FUTURE PLANS AND USE OF PROCEEDS

- approximately 35% or HK\$2,883 million, to fund existing operations of our overseas business and the inorganic expansion of our onshore and offshore platforms as follows:
 - for existing operations, primarily to further develop the core businesses of EBSI and SHKFGL, such as wealth management, investment banking, asset management; and
 - for inorganic expansion; primarily to fund potential strategic acquisitions of financial institutions in China and abroad or strategic alliances with leading financial institutions, although we do not currently have any specific targets;
- approximately 20% or HK\$1,647 million, to develop our wealth management and institutional securities services businesses primarily as follows:
 - further developing wealth management centers and online Internet financial channels;
 - further expand our investment advisory team; enhance research and development of innovative wealth management products, and expand the distribution channels for asset management products;
 - increase investment in investment banking, NEEQ, sales and trading, and investment research to further integrate our institutional securities service platform; and
 - build a cross-border integrated platform for wealth management and institutional securities services, increasing the integration of customers and products; and
- approximately 10% or HK\$824 million, to fund working capital, the establishment of back-office systems and general corporate purposes, primarily as follows:
 - upgrade and establish information, risk management, and internal control systems;
 - strategically establish Internet financial platform;
 - increase investment in big data application and integrated customer services platform; and
 - enhance training to increase the overall staff quality.

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds will be approximately HK\$1,228 million, after deducting the underwriting commissions and other estimated expenses, assuming an Offer Price of HK\$12.53 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$11.80 and HK\$13.26 per H Share). We intend to use all the additional net proceeds proportionately as earmarked above.

FUTURE PLANS AND USE OF PROCEEDS

The allocation of the proceeds used for the above will be adjusted in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range. If the Offer Price is fixed at HK\$13.26 per H Share, being the high end of the stated Offer Price range, our net proceeds will be (i) increased by approximately HK\$486 million, assuming the Over-allotment Option is not exercised, and (ii) increased by approximately HK\$558 million, assuming the Over-allotment Option is exercised in full. In such circumstances, we presently intend to use such additional proceeds to increase the net proceeds applied for the same purposes as set out above on a pro rata basis. If the Offer Price is fixed at HK\$11.80 per H Share, being the low end of the stated Offer Share range, our net proceeds will be (i) decreased by approximately HK\$486 million, assuming the Over-allotment Option is not exercised, and (ii) decreased by approximately HK\$558 million, assuming the Over-allotment Option is exercised in full. In such circumstances, we presently intend to reduce the net proceeds applied for the same purposes as set out above on a pro rata basis.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, and to the extent permitted by applicable laws and regulations, we intend to apply our net proceeds to short-term investment such as liquid assets classes.

OUR CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements (the “Cornerstone Investment Agreements”) with the following investors (the “Cornerstone Investors”, each a “Cornerstone Investor”), pursuant to which the Cornerstone Investors in aggregate have agreed to purchase at the Offer Price the sum of (i) 339,000,000 Offer Shares and (ii) such number of Offer Shares as may be purchased with US\$210 million (rounded down to the nearest whole board lot) (the “Cornerstone Placing”). Assuming an Offer Price of HK\$11.80 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 477,079,800, representing approximately (i) 10.4% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 10.2% of the Shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK\$12.53 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 469,035,200, representing approximately (i) 10.2% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 10.0% of the Shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK\$13.26 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 461,876,600, representing approximately (i) 10.1% of the Shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 9.9% of the Shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. In the event of a reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation”, the Company and the Joint Representatives may allocate the number of Offer Shares to be subscribed by the Cornerstone Investors in a manner such that the total number of Offer Shares to be subscribed by the Cornerstone Investors in aggregate would represent approximately the same proportion of the total number of Offer Shares offered under the International Offering as if such reallocation did not take place. None of the Cornerstone Investors will subscribe for such number of H Shares which will exceed 10% of the total issued share capital of the Company upon the completion of the Global Offering and assuming no exercise of the Over-allotment Option.

Save as disclosed below, to the best knowledge of our Company, each of the Cornerstone Investors is an independent third party and independent of each other, not our connected person or an existing shareholder of the Company or their respective associates. Each of the Cornerstone Investors has represented, warranted and undertaken to us that, save as disclosed below, neither it nor its close associates held or would hold any of our issued A Shares during the period from the date of the relevant Cornerstone Investment Agreements and ending on the Listing Date. Dazhong HK is a close associate of Dazhong Leasing, an existing A Share shareholder of our Company. Accordingly, we have applied to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 10.04 of the Hong Kong Listing Rules in relation to the cornerstone investment by Dazhong HK, details of which are set out in “Consents and Waivers from Strict Compliance with the Hong Kong Listing Rules — Waiver in Relation to Allocation of H Shares to a Close Associate of an Existing A Shareholder under Rule 10.04 and Paragraph 5(2) of Appendix 6

OUR CORNERSTONE INVESTORS

to the Hong Kong Listing Rules as Cornerstone Investor”. PICA, being a close associate of PGIM, a substantial shareholder of our subsidiary, Everbright Pramerica, is a core connected person of our Company under the Hong Kong Listing Rules. Accordingly, we have applied to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 9.09(b) of the Hong Kong Listing Rules in relation to the cornerstone investment by PICA, details of which are set out in “Consents and Waivers from Strict Compliance with the Hong Kong Listing Rules — Cornerstone Investment by a Core Connected Person”.

Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by our Company on or around August 17, 2016.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Offer Shares in issue and except for the subscription by PICA in the Cornerstone Placing, will be counted towards the public float of our Company. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering (other than and pursuant to the respective Cornerstone Investment Agreements). Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become a substantial shareholder of our Company (as defined under the Hong Kong Listing Rules).

CORNERSTONE INVESTORS

We have entered into Cornerstone Investment Agreements with the following Cornerstone Investors in respect of the Cornerstone Placing.

Based on the Offer Price of HK\$12.53 (being the mid-point of the Offer Price range)					
Cornerstone Investor	Investment Amount/number of H Shares to be subscribed by the Cornerstone Investor	Approximate percentage of the Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised)	Approximate percentage of the Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is fully exercised)	Approximate percentage of the H Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised)	Approximate percentage of the H Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is fully exercised)
Hengjian International Investment Holding (Hong Kong) Limited	113,000,000 H Shares	2.5%	2.4%	16.6%	14.5%
China Shipbuilding Capital Limited	113,000,000 H Shares	2.5%	2.4%	16.6%	14.5%
CSCEC Capital (Hong Kong) Limited	113,000,000 H Shares	2.5%	2.4%	16.6%	14.5%

OUR CORNERSTONE INVESTORS

Based on the Offer Price of HK\$12.53 (being the mid-point of the Offer Price range)

Cornerstone Investor	Investment Amount/number of H Shares to be subscribed by the Cornerstone Investor	Approximate percentage of the Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised)	Approximate percentage of the Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is fully exercised)	Approximate percentage of the H Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised)	Approximate percentage of the H Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is fully exercised)
China Life Insurance (Group) Company . BOCOM	US\$80 million	1.1%	1.1%	7.3%	6.4%
International Global Investment Limited	US\$50 million	0.7%	0.7%	4.6%	4.0%
The Prudential Insurance Company of America	US\$30 million	0.4%	0.4%	2.7%	2.4%
Dazhong Transportation (Hong Kong) Limited	US\$30 million	0.4%	0.4%	2.7%	2.4%
Mercuries Life Insurance Company Limited .	US\$20 million	0.3%	0.3%	1.8%	1.6%

The information about our Cornerstone Investors set forth below has been provided by the relevant Cornerstone Investors in connection with the Cornerstone Placing:

Hengjian International Investment Holding (Hong Kong) Limited

Hengjian International Investment Holding (Hong Kong) Limited (“Hengjian International”) has agreed to subscribe for 113,000,000 H Shares at the Offer Price, representing approximately (i) 2.5% of the Shares in issue immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised, and (ii) 2.4% of the Shares in issue immediately following completion of the Global Offering assuming full exercise of the Over-allotment Option.

Hengjian International was incorporated in Hong Kong and its principal business is investment holding. Hengjian International is wholly-owned by Guangdong Hengjian Investment Holding Co., Ltd. (“Guangdong Hengjian”) and is its only overseas investment vehicle. Guangdong Hengjian is a wholly state-owned investment holding company incorporated in the PRC through which the State-owned Assets Supervision and Administration Commission of the People’s Government of Guangdong Province performs the responsibilities of an investor. It is the only provincial-level state-owned capital operating company in Guangdong Province and has the support of the People’s Government of

OUR CORNERSTONE INVESTORS

Guangdong Province. Guangdong Hengjian bears the mission, duties and functions of four major platforms in Guangdong Province, “the state-owned economic financing platform, the state-owned investment development platform, the state-owned asset management platform and the state-owned capital operating platform”.

China Shipbuilding Capital Limited

China Shipbuilding Capital Limited (“CSCL”) has agreed to subscribe for 113,000,000 H Shares at the Offer Price, representing approximately (i) 2.5% of the Shares in issue immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised, and (ii) 2.4% of the Shares in issue immediately following completion of the Global Offering assuming full exercise of the Over-allotment Option.

CSCL is a wholly-owned subsidiary of China Shipbuilding Industry Corporation (“CSIC”) registered in Hong Kong. CSIC is a very large state-owned enterprise in China, authorised by the PRC central government to engage in investment and capital management, and has been a Fortune Global 500 company for six consecutive years. CSIC owns a group of competitive enterprises specialized in manufacturing and the repair of marine equipment and research and development institutions in China. China Shipbuilding Capital Limited, as the overseas financing and investment platform of CSIC, mainly engages in industrial investment, investment consulting, financial leasing, and advisory business for the aforesaid businesses.

CSCEC Capital (Hong Kong) Limited

CSCEC Capital (Hong Kong) Limited (“CSCEC Capital (Hong Kong)”) has agreed to subscribe for 113,000,000 H Shares at the Offer Price, representing approximately (i) 2.5% of the Shares in issue immediately following completion of the Global Offering assuming the Over-allotment Option is not exercised, and (ii) 2.4% of the Shares in issue immediately following completion of the Global Offering assuming full exercise of the Over-allotment Option.

CSCEC Capital (Hong Kong) was incorporated in Hong Kong and is a wholly-owned subsidiary of China State Construction Engineering Corporation Limited (“CSCECL”). CSCEC Capital (Hong Kong) is primarily engaged in financing, lease and restructuring transactions and other related management services. CSCECL is one of the largest construction and real estate conglomerates in the People’s Republic of China with the longest history of specialized operations and market-oriented management. It was established on December 10, 2007 and has been listed on the Shanghai Stock Exchange (Stock Code: 601668) since 2009. CSCECL is principally engaged in housing construction, infrastructure construction and investment, real estate development and investment, design and prospecting.

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China Life Insurance (Group) Company

China Life Insurance (Group) Company (“China Life”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$80 million at the Offer Price. Assuming the Offer Price of HK\$11.80 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by China Life would be 52,602,000, representing approximately (i) 1.1% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 1.1% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK\$12.53 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by China Life would be 49,537,400, representing approximately (i) 1.1% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 1.1% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK\$13.26 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by China Life would be 46,810,200, representing approximately (i) 1.0% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 1.0% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option.

China Life is a large state-owned financial and insurance company headquartered in Beijing. Its subsidiaries include China Life Insurance Company Limited, China Life Asset Management Company Limited, China Life Property & Casualty Insurance Company Limited, China Life Pension Company Limited, China Life Ecommerce Company Limited, China Life Insurance (Overseas) Company Limited, China Life Investment Holding Company Limited and Insurance Professional College. Its businesses cover life insurance, property and casualty insurance, pension plans (corporate annuity), asset management, alternative investments and overseas operations. It has invested in various banks, security companies and other financial and non-financial institutions through its capital operations. China Life and its subsidiaries constitute the largest business insurance group in the PRC with assets exceeding RMB3.0 trillion and are the largest institutional investors in the PRC capital markets.

BOCOM International Global Investment Limited

BOCOM International Global Investment Limited (“BOCOM Investment”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$50 million at the Offer Price. Assuming the Offer Price of HK\$11.80 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by BOCOM Investment would be 32,876,200, representing approximately (i) 0.7% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.7% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK\$12.53 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total

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number of Offer Shares to be subscribed for by BOCOM Investment would be 30,960,800, representing approximately (i) 0.7% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.7% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK\$13.26 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by BOCOM Investment would be 29,256,400, representing approximately (i) 0.6% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.6% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option.

BOCOM Investment is an indirect wholly-owned subsidiary of Bank of Communications Co., Ltd. Its principal business is investment holding. Headquartered in Shanghai, Bank of Communications Co., Ltd. is the first nationwide, state-owned joint-stock commercial bank in China with both national and global coverage. The Asset Management Business Center (“BankComm AMBC”) is a department under Bank of Communications Co., Ltd. mainly responsible for the overall investment operations of asset management businesses, research and development of relevant products and service systems, business risk management, system development and maintenance, and business operations support within the Bank of Communications Co., Ltd. group. BOCOM Investment, as a cornerstone investor, will hold the H Shares for and on behalf of the independent third party clients of BankComm AMBC (as a discretionary investment advisor).

As BOCOM Investment is a connected client of BOCOM International Securities Limited, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, its consent under paragraph 5(1) of Appendix 6 to the Hong Kong Listing Rules to permit BankComm AMBC (through BOCOM Investment) to participate in the Global Offering as a cornerstone investor, subject to the conditions as disclosed in “Consents and Waivers from Strict Compliance with the Hong Kong Listing Rules — Allocation of H Shares to Cornerstone Investor who is Connected with BOCOM Securities”.

The Prudential Insurance Company of America

PICA has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$30 million at the Offer Price. Assuming the Offer Price of HK\$11.80 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by PICA would be 19,725,600, representing approximately (i) 0.4% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.4% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK\$12.53 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by PICA would be 18,576,400, representing approximately (i) 0.4% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.4% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK\$13.26 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by PICA would be 17,553,800,

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representing approximately (i) 0.4% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.4% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option.

PICA is a New Jersey stock life insurance company, of which the stock is owned by Prudential Financial, Inc. PICA's primary businesses are offering non-participating individual life insurance, annuities, group insurance and retirement services.

As disclosed in “Consents and Waivers from Strict Compliance with the Hong Kong Listing Rules — Cornerstone Investment by a Core Connected Person”, PICA is a core connected person of the Company at the subsidiary level. We have, therefore, applied to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 9.09(b) of the Listing Rules so that PICA may participate in the Global Offering as a cornerstone investor.

Dazhong Transportation (Hong Kong) Limited

Dazhong Transportation (Hong Kong) Limited (“Dazhong HK”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$30 million at the Offer Price. Assuming the Offer Price of HK\$11.80 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by Dazhong HK would be 19,725,600, representing approximately (i) 0.4% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.4% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK\$12.53 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by Dazhong HK would be 18,576,400, representing approximately (i) 0.4% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.4% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK\$13.26 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by Dazhong HK would be 17,553,800, representing approximately (i) 0.4% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.4% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option.

Dazhong HK was incorporated in Hong Kong and is a wholly-owned subsidiary of Dazhong Transportation (Group) Co. Ltd. Dazhong Transportation (Group) Co. Ltd. is primarily engaged in urban transportation, modern logistics, tourist services, real estate and self-operated financial services. The principal businesses of Dazhong HK include taxi and automobile rental and management of car parks, modern logistics and transportation.

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As Dazhong HK is considered as a close associate of Dazhong Car Leasing Co., Ltd. pursuant to the Hong Kong Listing Rules, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 10.04 of the Hong Kong Listing Rules, and its consent under Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules to permit the allocation of H Shares to Dazhong HK to subscribe for, and for us to place to it, H Shares as a cornerstone investor, subject to the conditions as disclosed in “Consents and Waivers from Strict Compliance with the Hong Kong Listing Rules — Waiver in Relation to Allocation of H Shares to a Close Associate of an Existing A Shareholder under Rule 10.04 and Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules as Cornerstone Investor”.

Mercuries Life Insurance Company Limited

Mercuries Life Insurance Company Limited (“Mercuries Life”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot) which may be purchased with an aggregate amount of US\$20 million at the Offer Price. Assuming the Offer Price of HK\$11.80 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by Mercuries Life would be 13,150,400, representing approximately (i) 0.3% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.3% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK\$12.53 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by Mercuries Life would be 12,384,200, representing approximately (i) 0.3% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.3% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option. Assuming an Offer Price of HK\$13.26 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by Mercuries Life would be 11,702,400, representing approximately (i) 0.3% of the shares in issue upon the completion of the Global Offering, assuming no exercise of the Over-allotment Option; or (ii) 0.2% of the shares in issue upon the completion of the Global Offering, assuming full exercise of the Over-allotment Option.

Mercuries Life was incorporated in Taiwan and listed on the Taiwan Stock Exchange (ticker: 2867 TT). It is principally engaged in the life insurance business and primarily provides individual life insurance services, individual health insurance services, individual accident insurance services, individual annuities insurance services, individual universal insurance services and group insurance services, as well as investment insurance products. Mercuries Life’s controlling shareholder, Mercuries & Associates Holding Ltd., also a company listed on the Taiwan Stock Exchange (ticker: 2905 TT) owns extensive businesses in general merchandise, dining, department stores, shoe retail business, retail business, financial services, biochemical technology, recreation and charity, etc.

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Conditions Precedent

The subscription obligation of each Cornerstone Investor is subject to, amongst other things, the following conditions precedent:

- (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and becoming effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) and not having been terminated by the time and date specified in the underwriting agreements;
- (ii) the Listing Committee of the Hong Kong Stock Exchange having granted the listing of, and permission to deal in, the H Shares and such approval or permission not having been revoked;
- (iii) no laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, official directives, requests, orders, judgments, decrees or rulings of any court, government, governmental, intergovernmental, supranational body, agency, department or of regulatory, self-regulatory or other authority or organization (including, without limitation, the Hong Kong Stock Exchange and the SFC) of all relevant jurisdictions having been enacted or promulgated by any governmental authority which prohibits the consummation of the closing of the relevant Cornerstone Investment Agreement and there being no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting the consummation of the closing of the relevant Cornerstone Investment Agreement; and
- (iv) each of the representations, warranties, undertakings and confirmations of the Cornerstone Investor in the relevant Cornerstone Investment Agreement being accurate and true in material respects and there being no material breach of the relevant Cornerstone Investment Agreement on the part of the Cornerstone Investor.

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Restrictions on the Cornerstone Investors' Investment

Each of the Cornerstone Investors has agreed that, without the prior written consent of our Company and the Joint Representatives, it will not, and will cause its affiliates not to, whether directly or indirectly, at any time during the period of six (6) months following the Listing Date, dispose of (as defined in the relevant Cornerstone Investment Agreement) any of the relevant H Shares or any interest in any company or entity holding any of the relevant H Shares, other than in certain limited circumstances such as transfers to any wholly-owned subsidiary of such Cornerstone Investor provided that, amongst other requirements, such wholly-owned subsidiary undertakes to, and the Cornerstone Investor undertakes to procure that such subsidiary will, abide by such restrictions imposed on the Cornerstone Investor.

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Joint Lead Managers

China Everbright Securities (HK) Limited
Merrill Lynch Far East Limited
UBS AG Hong Kong Branch
CCB International Capital Limited
BOCOM International Securities Limited
CEB International Capital Corporation Limited
Sun Hung Kai Investment Services Limited
CMB International Capital Limited
Yuanta Securities (Hong Kong) Company Limited
Macquarie Capital Limited
BOCI Asia Limited
ICBC International Securities Limited
ABCI Securities Company Limited
CIMB Securities Limited
Deutsche Bank AG, Hong Kong Branch
China Merchants Securities (HK) Co., Limited
China Securities (International) Corporate Finance Company Limited
Guotai Junan Securities (Hong Kong) Limited
China Industrial Securities International Capital Limited
AMTD Asset Management Limited

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This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis on the terms and conditions set out in this prospectus, the Application Forms relating thereto and the Hong Kong Underwriting Agreement. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between our Company and the Joint Representatives (on behalf of the Hong Kong Underwriters), the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 68,000,000 Hong Kong Offer Shares and the International Offering of initially 612,000,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section “Structure of the Global Offering” as well as to the Over-allotment Option in the case of the International Offering.

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The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering Hong Kong Offer Shares for subscription by the public in Hong Kong in accordance with the terms and conditions of this prospectus and the Application Forms relating thereto.

Subject to (i) the Listing Committee granting listing of, and permission to deal in, the H Shares to be offered as mentioned in this prospectus pursuant to the Global Offering (including any additional H Shares that may be issued pursuant to the exercise of the Over-allotment Option), and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement (including, amongst others, the Joint Representatives (on behalf of the Hong Kong Underwriters) and our Company agreeing upon the Offer Price), the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus and the Application Forms relating thereto and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, amongst others, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. If at any time prior to 8:00 a.m. on the day that trading in the H Shares commences on the Stock Exchange:

- a. there develops, occurs, exists or comes into force:
 - i. any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, Singapore, the United States, the United Kingdom, the European Union (or any member thereof) or Japan (each a “Relevant Jurisdiction”); or
 - ii. any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock

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- and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a fluctuation of the Hong Kong dollars and/or the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or
- iii. any event or series of events in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, flooding, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, outbreak of diseases or epidemics including, but not limited to, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9 and such related/mutated forms, economic sanction, in whatever form) in or directly or indirectly affecting any Relevant Jurisdiction; or
 - iv. any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
 - v. any moratorium, suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange; or
 - vi. any general moratorium on commercial banking activities in any Relevant Jurisdiction or any disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
 - vii. any (A) change or prospective change in exchange controls, currency exchange rates or foreign investment regulations, or (B) any change or prospective change in Taxation (as defined in the Hong Kong Underwriting Agreement) in any Relevant Jurisdiction adversely affecting an investment in the H Shares; or
 - viii. the issue or requirement to issue by the Company of a supplemental or amendment to the Prospectus, Application Forms, preliminary offering circular or offering circular or other documents in connection with the offer and sale of the H Shares pursuant to the Hong Kong Companies Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the opinion of the Joint Representatives, adversely affect the marketing for or implementation of the Global Offering; or
 - ix. any litigation or claim being threatened or instigated against any Group Company or any Director; or
 - x. any of the chairman, president of the Company or any Director vacating his/her office, or any of them being charged with an indictable offence or

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prohibited by operation of Laws (as defined in the Hong Kong Underwriting Agreement) or otherwise disqualified from taking part in the management of a company or the commencement by any Governmental Authority (as defined in the Hong Kong Underwriting Agreement) of any action against the chairman, president or any Director in his or her capacity as such or an announcement by any Governmental Authority that it intends to take any such action; or

- xi. any Governmental Authority in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Group Company, any Director or any Supervisor; or
- xii. any demand by creditors for repayment of indebtedness or a petition being presented for the winding-up or liquidation of any Group Company or any Group Company making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any Group Company or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any Group Company or anything analogous thereto occurs in respect of any Group Company; or
- xiii. a prohibition on the Company for whatever reason from allotting or selling the H Shares (including the Over-allotment Option Shares (as defined in the Hong Kong Underwriting Agreement)) pursuant to the terms of the Global Offering;

and which, in any such case individually or in the aggregate, in the sole opinion of the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters: (A) is or will be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, general affairs, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of the Company or the Group as a whole; or (B) has or will have or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make or will make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (C) makes or will make or may make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by the Prospectus, the Application Forms, the Formal Notice, the preliminary offering circular or the offering circular; or (D) would have the effect of making a part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

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- b. there has come to the notice of the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, Joint Lead Managers or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
- i. that any statement contained in the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement) and/or any notices, announcements, advertisements, communications issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incomplete, incorrect or misleading in any material respect or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Hong Kong Public Offering Documents and/or any notices, announcements, advertisements, communications so issued or used are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or
 - ii. any contravention by any Group Company or any Director or any Supervisor of any Law which in the sole opinion of the Joint Representatives (i) has or will have or may have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased, or (ii) has made or is likely to make or will make it impracticable or inadvisable or incapable, for any material part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or implemented as envisaged, or to proceed with the Global Offering; or
 - iii. non-compliance of the Prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Law; or
 - iv. any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the Prospectus, not having been disclosed in the Prospectus, constitutes a material omission therefrom; or
 - v. either (i) there has been a material breach of any of the Warranties, or provisions of the Hong Kong Underwriting Agreement by the Company or (ii) any of the Warranties is (or would when repeated be) untrue, incorrect, incomplete or misleading in any material respect; or

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- vi. any of the Reporting Accountant (as defined in the Hong Kong Underwriting Agreement), or the PRC legal advisor of the Company has withdrawn its respective consent to the issue of the Prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- vii. any event, act or omission which gives or is likely to give rise to any liability of the Company pursuant to the indemnities given by the Company under the Hong Kong Underwriting Agreement, which liability has a Material Adverse Effect (as defined in the Hong Kong Underwriting Agreement); or
- viii. any material breach of any of the obligations of the Company under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- ix. any experts as disclosed in the Hong Kong Public Offering Documents (other than the Joint Sponsors) has withdrawn or subject to withdraw its consent to being named in any of the Hong Kong Public Offering Documents or to the issue of any of the Hong Kong Public Offering Documents; or
- x. any material adverse change or material prospective adverse change or development involving a prospective material adverse change in the assets, business, general affairs, management, shareholder's equity, profits, losses, properties, results of operations, in the position or condition (financial or otherwise) or prospects of the Company and its subsidiaries, as a whole; or
- xi. the Company has withdrawn the Prospectus or the Global Offering,

then the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters), in their sole and absolute discretion and upon giving notice in writing to the Company, may terminate the Hong Kong Underwriting Agreement with immediate effect.

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Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules

(A) Undertakings by our Company

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, we have irrevocably and unconditionally undertaken to the Hong Kong Stock Exchange that, we will not issue any further shares or securities convertible into equity securities of the Company (whether or not of a class already listed) or form the subject of any agreement to such an issue within six (6) months from the date on which the H Shares of the Company first commence dealing on the Hong Kong Stock Exchange (whether or not such issue of shares or securities will be completed within six (6) months from the commencement of dealing), except for (1) the Global Offering (including the exercise of the Over-allotment Option); (2) the issue of H Shares, the listing of which has been approved by the Hong Kong Stock Exchange, pursuant to a share option scheme under Chapter 17 of the Listing Rules; (3) the exercise of conversion rights attaching to warrants issued as part of the Global Offering; and (4) any capitalization issue, capital reduction or consolidation or sub-division of shares; and (5) the issue of H Shares pursuant to an agreement entered into before the commencement of dealing, the material terms of which have been disclosed in the Prospectus.

(B) Undertakings by the Controlling Shareholder

Pursuant to Rule 10.07(1) of the Hong Kong Listing Rules, our controlling shareholder has undertaken to each of us and the Hong Kong Stock Exchange that, it shall not and shall procure that Everbright Limited shall not:

- (a) in the period commencing on the date by reference to which disclosure of its shareholding is made in the Prospectus and ending on the date which is six (6) months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which it is shown by the Prospectus to be the ultimate beneficial owner(s) (as defined in Rule 10.07(2) of the Hong Kong Listing Rules) (“Relevant Shares”); and
- (b) in the period of six (6) months commencing on the date on which the period referred to in Rule 10.07(1)(a) of the Listing Rules expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in Rule 10.07(1)(a) of the Listing Rules if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be the ultimate controlling shareholder of the Company, in each case, save as permitted under the Hong Kong Listing Rules. For the avoidance of doubt, the abovementioned restrictions shall not apply to the disposal of, or entering into any agreement to dispose of or creation of any options, rights, interests or encumbrances in respect of the Relevant Shares among its affiliates, provided that such disposal of, or entering into any agreement to dispose of or creation of any options, rights, interests or encumbrances shall not affect the controlling shareholder’s beneficial interest in us as disclosed in the Prospectus.

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Pursuant to Note (3) of Rule 10.07 of the Listing Rules, our controlling shareholder further undertook to each of us and the Hong Kong Stock Exchange that within the period commencing on the date by reference to which disclosure of its shareholding is made in the Prospectus and ending on the date which is twelve (12) months from the date on which dealings in the Shares commence on the Hong Kong Stock Exchange, it shall:

- (a) when it pledges/charges any of the Relevant Shares beneficially owned by it in favour of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge/charge together with the number of such Relevant Shares so pledged/charged; and
- (b) when it receives indications, either verbal or written, from any pledgee/chargee of the Relevant Shares pledged or charged that such Relevant Shares will be disposed of, immediately inform us of such indications.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters, if any, by any of our controlling shareholder and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Hong Kong Listing Rules as soon as possible after being so informed.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, the Company undertakes to each of the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time after the date of this Agreement up to and including the date falling six months from the Listing Date (the “First Six Month Period”), it will not, without the prior written consent of the Joint Sponsors and the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- a. allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, mortgage, charge, pledge, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any legal or beneficial interest in the share capital or any other securities of the Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase any share capital or other securities of the Company, as applicable, but excluding debt securities), or deposit any share capital or other securities of the Company, as applicable, with a depositary in connection with the issue of depositary receipts; or

UNDERWRITING

- b. enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of such share capital or any other securities of the Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any share capital or any other securities of the Company, as applicable); or
- c. enter into any transaction with the same economic effect as any transaction described in paragraph (a) or (b) above; or
- d. offer to or agree to do any of the foregoing or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise (whether or not the issue of such share capital or other securities will be completed within the First Six Month Period) or publicly disclose that the Company will or may enter into any transaction described above. The Company further agrees that, in the event of an issue or disposal of any H Shares or any interest therein or the Company offering to or agreeing to or announcing any intention to effect any such transaction after the First Six Month Period expires, it will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of the Company will, create a disorderly or false market for any Shares or other securities of the Company.

Hong Kong Underwriters' Interests in Our Company

Except for its obligations under the Hong Kong Underwriting Agreement and save as disclosed in this prospectus, none of the Hong Kong Underwriters has any shareholding interest in our Company or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

The International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set out therein, it is expected that the International Underwriters would, severally and not jointly, agree to procure purchasers for, or to purchase, Offer Shares being offered pursuant to the International Offering (excluding, for the avoidance of doubt, the Offer Shares which are subject to the Over-allotment Option). It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting

UNDERWRITING

Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Over-allotment Option

We expect to grant to the International Underwriters, exercisable by the Joint Representatives (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 100,000,000 H Shares, representing no more than 14.71% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to, among other things, cover over-allocations in the International Offering, if any.

Commissions and Expenses

The Hong Kong Underwriters will receive a commission of 1.5% of the aggregate Offer Price of all the Offer Shares. The Hong Kong Underwriters may receive an additional incentive fee of up to 1% of the Offer Price of all the Offer Shares.

For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay the underwriting commission attributable to such reallocated Hong Kong Offer Shares to the Joint Representatives, Joint Global Coordinators and/or the relevant International Underwriters (but not the Hong Kong Underwriters).

The aggregate commissions and fees, together with Hong Kong Stock Exchange listing fees, SFC transaction levy and Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering, which are estimated to amount in aggregate to approximately HK\$284.3 million (assuming (i) an Offer Price of HK\$12.53 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus), (ii) the full payment of the discretionary incentive fee and (iii) the Over-allotment Option is not exercised at all), are payable and borne by our Company.

Joint Sponsors' Fee

An amount of US\$500,000 is payable by our Company as sponsor fees to each of the Joint Sponsors, totaling an amount of US\$1,500,000.

Other Services Provided by the Underwriters

The Joint Representatives, the Joint Global Coordinators and the Underwriters may in their ordinary course of business provide financing to investors subscribing for the Offer Shares offered by this prospectus. Such Joint Representatives, Joint Global Coordinators and Underwriters may enter into hedges and/or dispose of such Offer Shares in relation to the financing which may have a negative impact on the trading price of the H Shares.

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Indemnity

We have agreed to indemnify, among others, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including, among other matters, losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement as the case may be.

INDEPENDENCE OF THE JOINT SPONSORS

Each of Merrill Lynch Far East Limited and UBS Securities Hong Kong Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong Listing Rules. China Everbright Capital Limited is a subsidiary of China Everbright Securities (International) Limited, one of the subsidiaries of our Company and as such it is not independent of our Company.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “Syndicate Members”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the H Shares, those activities could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the H Shares, and entering into over-the-counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

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All such activities may occur both during and after the end of the stabilizing period described in “Structure of the Global Offering”. Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 68,000,000 H Shares in Hong Kong as described in “— The Hong Kong Public Offering” below; and
- (ii) the International Offering of an aggregate of initially 612,000,000 H Shares to be offered to (i) persons in the United States or U.S. persons in each case who are both QIBs and QPs in reliance on Rule 144A or another exemption from, or in transaction not subject to, the registration requirements of the U.S. Securities Act and (ii) non-U.S. persons outside the United States in reliance on Regulation S. At any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications in the Hong Kong Public Offering, the Joint Representatives, as representatives of the International Underwriters, have an option to require our Company to issue and allot up to an aggregate of 100,000,000 additional Offer Shares, representing 14.71% of the initial number of Offer Shares to be offered in the Global Offering, at the Offer Price to, among other things, cover over-allocations in the International Offering, if any.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 14.83% of the enlarged issued share capital of our Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 16.64% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in “— The International Offering — Over-allotment Option” below.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in “— The Hong Kong Public Offering — Reallocation” below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 68,000,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Offer Shares will represent approximately 1.48% of our Company’s registered share capital immediately after completion

STRUCTURE OF THE GLOBAL OFFERING

of the Global Offering, assuming that the Over-allotment Option is not exercised. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in “— Conditions of the Global Offering” below.

Allocation

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of the Hong Kong Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly.

For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 34,000,000 Hong Kong Offer Shares are liable to be rejected.

Reallocation

Paragraph 4.2 of the Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. If the number of the Hong Kong Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more the number of the Hong Kong Offer Shares initially available

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for subscription under the Hong Kong Public Offering, then the International Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 204,000,000 Hong Kong Offer Shares (in the case of (i)), 272,000,000 Hong Kong Offer Shares (in the case of (ii)) and 340,000,000 Hong Kong Offer Shares (in the case of (iii)), representing 30%, 40% and 50% of the Offer Shares initially available under the Global Offering respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate. In addition, the Joint Representatives may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Representatives have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$13.26 per Hong Kong Offer Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Hong Kong Offer Share. If the Offer Price, as finally determined in the manner described in “— Pricing of the Global Offering” below, is less than the maximum price of HK\$13.26 per Hong Kong Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in “How to Apply for Hong Kong Offer Shares”.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

Subject to reallocation as described above, the International Offering will consist of an initial offering of 612,000,000 International Offer Shares representing 90.0% of the Offer Shares under the Global Offering and approximately 13.34% of our Company's enlarged share capital immediately after the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of the International Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such International Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of the International Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in "— Pricing of the Global Offering" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Joint Representatives (on behalf of the Underwriters) may require any investor who has been offered the International Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of the Hong Kong Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we are expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Representatives on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Joint Representatives have the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to issue and allot up to an aggregate of 100,000,000 additional Offer Shares, representing 14.71% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional

STRUCTURE OF THE GLOBAL OFFERING

Offer Shares will represent approximately 2.13% of our Company's enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for them, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among others, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of the H Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering.

The number of the H Shares that may be over-allocated will not exceed the number of the H Shares that may be sold under the Over-allotment Option, namely, 100,000,000 H Shares, which is 14.71% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocation for the purpose of preventing or minimizing any reduction in the market price;

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- (b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any deduction in the market price;
- (c) subscribing, or agreeing to subscribe, for the H Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, the H Shares for the sole purpose of preventing or minimizing any reduction in the market price;
- (e) selling the H Shares to liquidate a long position held as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilizing period, which begins on the day on which trading of the H Shares commences on the Hong Kong Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on Saturday, September 10, 2016. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the H Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by applicants. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

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PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring the International Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of the International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Thursday, August 11, 2016, and in any event on or before Sunday, August 14, 2016, by agreement between the Joint Representatives (on behalf of the Joint Bookrunners and the Underwriters) and our Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$13.26 per Offer Share and is expected to be not less than HK\$11.80 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Joint Representatives, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price stated below in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.ebscn.com) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised offer price range will be final and conclusive and the offer price, if agreed upon by the Joint Representatives, on behalf of the Underwriters, and our Company, will be fixed within such revised offer price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Joint Representatives, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

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In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Representatives may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of the Hong Kong Offer Shares comprised in the Hong Kong Public Offering shall not be less than 5% of the total number of Hong Kong Offer Shares in the Global Offering. The International Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Representatives.

The Offer Price under the Global Offering is expected to be announced on Wednesday, August 17, 2016. The indications of interest in the Global Offering, the results of applications and the basis of allotment of the Hong Kong Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Wednesday, August 17, 2016 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.ebscn.com).

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the respective Underwriting Agreements, are summarised in “Underwriting”.

ADMISSION OF THE H SHARES INTO CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

STRUCTURE OF THE GLOBAL OFFERING

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, August 18, 2016, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Thursday, August 18, 2016. Our H Shares will be traded in board lots of 200 H Shares each and the stock code of our H Shares will be 6178.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Representatives (on behalf of the Underwriters) on or before Sunday, August 14, 2016, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares”. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

STRUCTURE OF THE GLOBAL OFFERING

H Share certificates for the Offer Shares are expected to be issued on Wednesday, August 17, 2016 but will only become valid certificates of title at 8:00 a.m. on Thursday, August 18, 2016 provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for Termination” has not been exercised.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for the Hong Kong Offer Shares, then you may not apply for or indicate an interest for the International Offer Shares.

To apply for the Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Representatives, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Representatives may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Unless permitted by the Hong Kong Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Hong Kong Listing Rules) of any of the above;
- a connected person (as defined in the Hong Kong Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, August 8, 2016 till 12:00 noon on Thursday, August 11, 2016 from:

any of the following offices of the Hong Kong Underwriters:

China Everbright Securities (HK) Limited

24th Floor, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

Merrill Lynch Far East Limited

55/F, Cheung Kong Center
2 Queen's Road Central
Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

UBS AG Hong Kong Branch

52/F, Two International Finance Centre
8 Finance Street
Central, Hong Kong

CCB International Capital Limited

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

BOCOM International Securities Limited

9/F, Man Yee Building
68 Des Voeux Road Central
Central
Hong Kong

CEB International Capital Corporation Limited

22/F, AIA Central
1 Connaught Road Central
Central
Hong Kong

Sun Hung Kai Investment Services Limited

28/F, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

CMB International Capital Limited

Units 1803–4
18/F, Bank of America
12 Harcourt Road
Central
Hong Kong

Yuanta Securities (Hong Kong) Company Limited

23/F, Tower 1
Admiralty Centre
18 Harcourt Road
Admiralty
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Macquarie Capital Limited

Level 18
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

BOCI Asia Limited

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

ICBC International Securities Limited

37/F, ICBC Tower
3 Garden Road
Hong Kong

ABCI Securities Company Limited

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

CIMB Securities Limited

Unit 7706-08
Level 77
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Deutsche Bank AG, Hong Kong Branch

Level 52
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

China Merchants Securities (HK) Co., Limited

48/F., One Exchange Square
Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

China Securities (International) Corporate Finance Company Limited

18/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited

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

China Industrial Securities International Capital Limited

30/F, AIA Central
1 Connaught Road Central
Hong Kong

AMTD Asset Management Limited

Rooms 2501–2503
World Trade Centre
280 Gloucester Road
Causeway Bay
Hong Kong

any of the following branches of the receiving banks:

Bank of China (Hong Kong) Limited

	<u>Branch</u>	<u>Address</u>
Hong Kong Island .	Bank of China Tower Branch Sheung Wan Branch Causeway Bay Branch	3/F, 1 Garden Road Shop 1–4, G/F, Tung Hip Commercial Building, 244–248 Des Voeux Road Central 505 Hennessy Road, Causeway Bay, Hong Kong
Kowloon	Mong Kok Branch Tsim Sha Tsui East Branch Metro City Branch	589 Nathan Road, Mong Kok Shop 3, LG/F, Hilton Towers, 96 Granville Road, Tsim Sha Tsui East, Kowloon Shop 209, Level 2, Metro City Phase 1, Tseung Kwan O

HOW TO APPLY FOR HONG KONG OFFER SHARES

	<u>Branch</u>	<u>Address</u>
New Territories . . .	City One Sha Tin Branch	Shop Nos. 24–25, G/F, Fortune City One Plus, No. 2 Ngan Shing Street, ShaTin
	Ma On Shan Plaza Branch	Shop 2103, Level 2, Ma On Shan Plaza, Sai Sha Road, Ma On Shan

Standard Chartered Bank (Hong Kong) Limited

	<u>Branch</u>	<u>Address</u>
Hong Kong Island .	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Aberdeen Branch	Shop 4A, G/F and Shop 1, 1/F, Aberdeen Centre Site 5, No. 6–12 Nam Ning Street, Aberdeen
Kowloon	Kwun Tong Branch	G/F, 414 Kwun Tong Road, Kowloon
	Lok Fu Shopping Centre Branch	Shop G201, G/F., Lok Fu Shopping Centre
New Territories . . .	Maritime Square Branch	Shop 308E, Level 3, Maritime Square, Tsing Yi

Bank of Communications Co., Ltd. Hong Kong Branch

	<u>Branch</u>	<u>Address</u>
Hong Kong Island .	Hong Kong Branch	20 Pedder Street, Central
Kowloon	Kowloon Sub-Branch Cheung Sha Wan Plaza Sub-Branch	G/F., 563 Nathan Road Unit G04 on G/F., Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
New Territories . . .	Tsuen Wan Sub-Branch	Shop G9B and G10–11 on G/F., Bo Shek Mansion, 328 Sha Tsui Road, Tsuen Wan

HOW TO APPLY FOR HONG KONG OFFER SHARES

Wing Lung Bank Limited

	<u>Branch</u>	<u>Address</u>
Hong Kong Island .	Head Office North Point Branch	45 Des Voeux Road Central 361 King's Road
Kowloon	Mongkok Branch Lam Tin Sceneway Plaza Branch	B/F Wing Lung Bank Centre, 636 Nathan Road Shop 59, 3/F Sceneway Plaza, 8 Sceneway Road
New Territories . . .	Tsuen Wan Branch	251 Sha Tsui Road

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, August 8, 2016 till 12:00 noon on Thursday, August 11, 2016 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of China (Hong Kong) Nominees Limited — Everbright Securities Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Monday, August 8, 2016 — 9:00 a.m. to 5:00 p.m.
- Tuesday, August 9, 2016 — 9:00 a.m. to 5:00 p.m.
- Wednesday, August 10, 2016 — 9:00 a.m. to 5:00 p.m.
- Thursday, August 11, 2016 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, August 11, 2016, the last application day or such later time as described in "— 10. Effect of Bad Weather on the Opening of the Application Lists" below.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) **undertake** to execute all relevant documents and instruct and authorize our Company and/or the Joint Representatives (or their agents or nominees), as agents

HOW TO APPLY FOR HONG KONG OFFER SHARES

of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

- (ii) **agree** to comply with the Hong Kong Companies Ordinance, the Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) **confirm** that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) **confirm** that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) **agree** that none of our Company, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) **undertake** and **confirm** that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering nor participated in the International Offering;
- (viii) **agree** to disclose to our Company, our H Share Registrar, receiving banks, the Joint Representatives, Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, **agree** and **warrant** that you have complied with all such laws and none of our Company, the Joint Representatives, the Joint Global Coordinators the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (x) **agree** that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) **agree** that your application will be governed by the laws of Hong Kong;
- (xii) **represent, warrant and undertake** that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) **warrant** that the information you have provided is true and accurate;
- (xiv) **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) **authorize** our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) **declare and represent** that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) **understand** that our Company and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) **warrant** that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) **warrant** that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “— 2. Who can apply” above, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, August 8, 2016 until 11:30 a.m. on Thursday, August 11, 2016 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, August 11, 2016 or such later time under “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies (Winding up and Miscellaneous Provisions)

HOW TO APPLY FOR HONG KONG OFFER SHARES

Ordinance (as applied by Section 342E of the Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** service is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2.00 for each “Everbright Securities Company Limited” **White Form eIPO** application submitted via the www.eipo.com.hk to support the funding of “Source of Dongjiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Representatives and our H Share Registrar.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
 - confirm that you understand that our Company, the Directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
 - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

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- agree that none of our Company, the Joint Representatives, the Joint Global Coordinators the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our H Share Registrar, receiving banks, the Joint Representatives, the Joint Global Coordinators the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Companies Ordinance, the Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;

- agree with our Company, for itself and for the benefit of each of the Shareholders and each director, supervisor, manager and other senior officer of our Company (and so that our Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each of the Shareholder and each director, supervisor, manager and other senior officer of our Company, with each CCASS Participant giving **electronic application instructions**):
 - (a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association;
 - (b) that any award made in such arbitration shall be final and conclusive; and
 - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- agree with our Company (for our Company itself and for the benefit of each Shareholder) that the H Shares are freely transferable by their holders;
- authorize our Company to enter into a contract on its behalf with each director and officer of our Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by

HOW TO APPLY FOR HONG KONG OFFER SHARES

debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for 200 Hong Kong Offer Shares. Instructions for more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Monday, August 8, 2016 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Tuesday, August 9, 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Wednesday, August 10, 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Thursday, August 11, 2016 — 8:00 a.m.⁽¹⁾ to 12:00 noon

⁽¹⁾ These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, August 8, 2016 until 12:00 noon on Thursday, August 11, 2016 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, August 11, 2016, the last application day or such later time as described in “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong

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Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the H Share Registrar, the receiving bankers, the Joint Representatives, the Joint Global Coordinators the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, the Directors, the Joint Bookrunners, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, August 11, 2016.

HOW TO APPLY FOR HONG KONG OFFER SHARES

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of our Company;
- control more than half of the voting power of our Company; or
- hold more than half of the issued share capital of our Company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Hong Kong Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for the Hong Kong Offer Shares under the terms set out in the Application Forms.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 200 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Global Offering — Pricing of the Global Offering”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, August 11, 2016. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, August 11, 2016 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, August 17, 2016 in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on our Company’s website at www.ebscn.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.ebscn.com and the Hong Kong Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Wednesday, August 17, 2016;

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- from the designated results of allocations website at www.iporesults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Wednesday, August 17, 2016 to 12:00 midnight on Tuesday, August 23, 2016;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, August 17, 2016 to Saturday, August 20, 2016;
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, August 17, 2016 to Friday, August 19, 2016 at all the receiving banks’ designated branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Representatives, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Representatives believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

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13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$13.26 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, August 17, 2016.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for, and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Wednesday, August 17, 2016. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, August 18, 2016 provided that the Global Offering has become unconditional and the right of termination described in "Underwriting" has not been exercised. Investors who trade the H Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, August 17, 2016 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, August 17, 2016, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, August 17, 2016, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock

HOW TO APPLY FOR HONG KONG OFFER SHARES

account as stated in your Application Form on Wednesday, August 17, 2016, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "— 11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, August 17, 2016 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, August 17, 2016, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, August 17, 2016 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, August 17, 2016, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "— 11. Publication of Results" above on Wednesday, August 17, 2016. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, August 17, 2016 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, August 17, 2016. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but

HOW TO APPLY FOR HONG KONG OFFER SHARES

without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, August 17, 2016.

15. ADMISSION OF THE H SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

Date: 8 August 2016

The Directors
Everbright Securities Company Limited

China Everbright Capital Limited
Merrill Lynch Far East Limited
UBS Securities Hong Kong Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Everbright Securities Company Limited (光大證券股份有限公司) (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2013, 2014, 2015 and 31 March 2016, the consolidated income statements and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended 31 December 2013, 2014, 2015 and the three months ended 31 March 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Financial Information"), for inclusion in the prospectus of the Company dated 8 August 2016 (the "Prospectus").

Approved by the People's Bank of China ("PBOC"), Everbright Securities Limited Liability Company (光大證券有限責任公司), was incorporated in Beijing, the People's Republic of China (the "PRC"), on 23 April 1996. The Company was converted into a joint stock limited liability company on 14 July 2005, and renamed as Everbright Securities Company Limited (光大證券股份有限公司). On 18 August 2009, the Company's shares are listed on the Shanghai Stock Exchange with the stock code 601788.

The Group has prepared its statutory consolidated financial statements in accordance with the "Accounting Standards for Business Enterprises" issued by the Ministry of Finance of the PRC (the "MOF") and other relevant requirements (collectively known as the "PRC GAAP"). KPMG Huazhen LLP has audited the Group's statutory PRC GAAP financial statements of each year for the years ended 31 December 2013, 2014 and 2015.

All companies comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Periods and the names of the respective auditors are set out in Note 21 of Section II. The statutory financial statements of these companies were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated.

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods (the “Underlying Financial Statements”) in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”). The Underlying Financial Statements for each of the years ended 31 December 2013, 2014, 2015 and the three months ended 31 March 2016 were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information has been prepared by the directors of the Company for inclusion in the Prospectus in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs issued by the IASB and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Company, its subsidiaries of the Group in respect of any period subsequent to 31 March 2016.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Group and the Company as at 31 December 2013, 2014, 2015 and 31 March 2016, and of the Group's financial performance and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated income statement, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the three months ended 31 March 2015, together with the notes thereon (the “Corresponding Financial Information”), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I FINANCIAL INFORMATION

1 Consolidated income statements

(Expressed in thousands of Renminbi, unless otherwise stated)

	Section II Note	Year ended 31 December			Three months ended 31 March	
		2013	2014	2015	2015	2016
					(Unaudited)	
Revenue						
Fee and commission income	4	3,823,000	4,804,806	12,334,172	2,275,050	1,706,673
Interest income	5	1,508,587	2,558,767	6,839,323	1,382,390	1,324,061
Net investment (losses)/gains.	6	(313,932)	1,112,120	3,970,777	714,403	149,700
Total revenue		5,017,655	8,475,693	23,144,272	4,371,843	3,180,434
Other income and gains . . .	7	161,753	85,868	148,457	18,566	39,681
Total revenue and other income		5,179,408	8,561,561	23,292,729	4,390,409	3,220,115
Fee and commission expenses	8	(493,088)	(702,477)	(2,071,865)	(385,186)	(282,362)
Interest expenses	9	(588,284)	(1,290,560)	(4,619,505)	(833,546)	(1,090,638)
Staff costs	10	(1,512,472)	(1,995,745)	(4,109,700)	(768,506)	(571,158)
Depreciation and amortisation expenses . .	11	(191,301)	(174,986)	(421,282)	(40,147)	(97,734)
Business tax and surcharges		(250,174)	(350,759)	(971,218)	(190,683)	(122,991)
Other operating expenses . .	12	(1,343,953)	(957,934)	(1,336,877)	(226,921)	(259,310)
(Provision for)/reversal of impairment losses	13	(372,001)	(300,596)	10,437	(7,931)	(28,786)
Total expenses		(4,751,273)	(5,773,057)	(13,520,010)	(2,452,920)	(2,452,979)
Operating profit		428,135	2,788,504	9,772,719	1,937,489	767,136
Share of profit of associates and joint ventures		58,293	60,928	73,570	17,394	7,752
Profit before income tax		486,428	2,849,432	9,846,289	1,954,883	774,888
Income tax expense	14	(202,805)	(712,809)	(2,099,434)	(416,332)	(151,145)
Profit for the year/period		283,623	2,136,623	7,746,855	1,538,551	623,743
Attributable to:						
Shareholders of the Company		205,837	2,068,307	7,646,516	1,520,485	619,911
Non-controlling interests . .		77,786	68,316	100,339	18,066	3,832
Total		283,623	2,136,623	7,746,855	1,538,551	623,743
Basic and diluted earnings per share (<i>in Renminbi per share</i>)	17	0.0602	0.6051	2.1359	0.4448	0.1587

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

2 Consolidated statements of profit or loss and other comprehensive income

(Expressed in thousands of Renminbi, unless otherwise stated)

Section II Note	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Profit for the year/period	283,623	2,136,623	7,746,855	1,538,551	623,743
Other comprehensive income for the year/period					
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale financial assets					
– Net change in fair value . . .	(323,645)	1,767,374	2,292,229	306,987	(1,519,289)
– Reclassified to profit or loss	942,850	(465,606)	(1,044,186)	(16,815)	48,097
Share of other comprehensive income of associates	838	(104)	(2,176)	501	(5,375)
Exchange differences on translation of financial statements in foreign currencies	(41,383)	(5,026)	27,627	3,449	782
Income tax impact	(154,801)	(325,442)	(311,646)	(72,543)	367,579
Total other comprehensive income for the year/period, net of tax	50	423,859	971,196	221,579	(1,108,206)
Total comprehensive income for the year/period		707,482	3,107,819	8,708,703	1,760,130
Attributable to:					
Shareholders of the Company		647,253	3,041,195	8,518,310	1,735,577
Non-controlling interests . . .		60,229	66,624	190,393	24,553
Total		707,482	3,107,819	8,708,703	1,760,130

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

3 Consolidated statements of financial position

(Expressed in thousands of Renminbi, unless otherwise stated)

	Section II Note	As at 31 December			As at 31 March
		2013	2014	2015	2016
Non-current assets					
Property and equipment . . .	18	972,825	943,567	879,372	874,773
Goodwill	19	233,055	67,392	1,411,783	1,404,200
Other intangible assets	20	157,290	147,319	885,817	834,950
Interest in associates and joint ventures	22	409,583	970,640	874,763	887,157
Held-to-maturity investments	23	–	–	129,531	128,921
Available-for-sale financial assets	24	1,329,537	1,777,268	7,864,984	7,724,214
Financial assets held under resale agreements	25	414,600	345,209	1,344,690	1,315,123
Refundable deposits	26	2,755,283	5,053,389	3,995,018	5,402,150
Deferred tax assets	27(c)	378,696	36,240	79,969	253,061
Finance lease receivables . . .	28	–	–	2,450,900	2,422,262
Other non-current assets . . .	29	122,085	149,927	269,318	756,884
Total non-current assets		6,772,954	9,490,951	20,186,145	22,003,695
Current assets					
Accounts receivable	30	1,089,410	1,196,673	2,069,298	2,039,000
Finance lease receivables . . .	28	–	–	1,450,942	1,331,371
Other receivables and prepayments	31	1,414,951	2,443,483	3,692,973	4,031,269
Margin accounts receivable . .	32	12,992,573	38,465,783	43,404,467	31,645,146
Available-for-sale financial assets	24	3,003,655	3,915,617	9,777,815	7,773,862
Financial assets held under resale agreements	25	466,269	3,486,459	5,003,931	5,383,462
Financial assets at fair value through profit or loss	33	6,715,484	11,269,299	25,539,897	32,865,235
Derivative financial assets . .	34	7,467	41,248	168,519	152,729
Clearing settlement funds . .	35	25,958	71,222	360,034	81,823
Cash held on behalf of brokerage clients	36	18,619,338	37,659,987	70,327,108	64,048,744
Cash and bank balances . . .	37	2,744,151	6,904,064	15,091,692	19,959,491
Total current assets		47,079,256	105,453,835	176,886,676	169,312,132
Total assets		53,852,210	114,944,786	197,072,821	191,315,827

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

3 Consolidated statements of financial position (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

	Section II Note	As at 31 December			As at 31 March
		2013	2014	2015	2016
Current liabilities					
Loans and borrowings	39	215,869	458,990	3,014,161	3,400,679
Short-term debt instruments issued	40	–	–	2,100,000	797,557
Placements from other financial institutions	41	5,200,000	5,535,000	500,000	500,000
Financial liabilities at fair value through profit or loss	42	–	–	–	235,502
Accounts payable to brokerage clients	43	21,652,322	40,497,386	71,102,044	67,840,568
Employee benefits payable	44	318,041	897,029	2,642,761	1,945,538
Other payables and accruals	45	1,026,249	2,417,572	9,347,420	20,766,402
Current tax liabilities	27(a)	42,098	489,112	1,627,768	1,388,084
Financial assets sold under repurchase agreements	46	1,791,604	29,480,639	20,555,441	18,328,682
Derivative financial liabilities	34	–	117,519	1,022,572	402,885
Long-term bonds due within one year	47	–	–	18,986,177	12,995,466
Total current liabilities		<u>30,246,183</u>	<u>79,893,247</u>	<u>130,898,344</u>	<u>128,601,363</u>
Net current assets		<u>16,833,073</u>	<u>25,560,588</u>	<u>45,988,332</u>	<u>40,710,769</u>
Total assets less current liabilities		<u>23,606,027</u>	<u>35,051,539</u>	<u>66,174,477</u>	<u>62,714,464</u>
Non-current liabilities					
Loans and borrowings	39	–	–	2,262,341	2,026,851
Long-term bonds	47	–	6,979,468	18,853,355	18,846,659
Deferred tax liabilities	27(c)	–	111,757	551,184	352,051
Financial assets sold under repurchase agreements	46	–	1,340,000	230,000	–
Other non-current liabilities	48	–	–	1,853,981	1,923,116
Total non-current liabilities		<u>–</u>	<u>8,431,225</u>	<u>23,750,861</u>	<u>23,148,677</u>
Net assets		<u>23,606,027</u>	<u>26,620,314</u>	<u>42,423,616</u>	<u>39,565,787</u>

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

3 Consolidated statements of financial position (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

	Section II Note	As at 31 December			As at 31 March
		2013	2014	2015	2016
Equity					
Share capital	49	3,418,000	3,418,000	3,906,699	3,906,699
Reserves	50	15,215,118	16,839,151	25,760,459	24,635,110
Retained profits	50	4,203,109	5,551,911	10,815,441	9,085,613
Total equity attributable to shareholders of the Company		22,836,227	25,809,062	40,482,599	37,627,422
Non-controlling interests . . .		769,800	811,252	1,941,017	1,938,365
Total equity		<u>23,606,027</u>	<u>26,620,314</u>	<u>42,423,616</u>	<u>39,565,787</u>

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

4 Statements of financial position

(Expressed in thousands of Renminbi, unless otherwise stated)

	Section II Note	As at 31 December			As at 31 March
		2013	2014	2015	2016
Non-current assets					
Property and equipment . . .	18	928,428	894,081	824,132	818,989
Other intangible assets	20	57,575	56,537	55,204	52,406
Investments in subsidiaries . .	21	4,820,328	5,876,933	5,876,933	6,676,933
Interest in associates and joint ventures	22	409,583	468,097	640,889	642,754
Available-for-sale financial assets	24	375,094	495,011	7,717,579	7,523,381
Financial assets held under resale agreements	25	403,600	345,209	1,344,690	1,315,123
Refundable deposits	26	274,475	1,591,398	1,607,966	1,442,688
Deferred tax assets	27(c)	336,004	–	–	177,924
Other non-current assets . . .	29	94,081	76,128	58,163	970,038
Total non-current assets		7,699,168	9,803,394	18,125,556	19,620,236
Current assets					
Accounts receivable	30	43,815	49,868	105,095	86,602
Other receivables and prepayments	31	388,662	590,440	2,573,502	6,268,353
Margin accounts receivable .	32	11,917,014	37,354,135	38,761,836	27,205,193
Available-for-sale financial assets	24	3,582,467	4,142,030	7,551,141	6,461,961
Financial assets held under resale agreements	25	434,469	3,320,459	4,460,231	3,267,309
Financial assets at fair value through profit or loss	33	6,360,021	9,375,124	17,996,450	15,330,491
Derivative financial assets	34	7,467	46,590	304,036	308,958
Clearing settlement funds	35	9,596	23,622	7,841,195	2,225,659
Cash held on behalf of brokerage clients	36	15,316,246	32,645,750	56,557,339	50,042,135
Cash and bank balances . . .	37	1,356,061	5,267,636	4,576,853	10,455,408
Total current assets		39,415,818	92,815,654	140,727,678	121,652,069
Total assets		47,114,986	102,619,048	158,853,234	141,272,305

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

4 Statements of financial position (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Section II Note	As at 31 December			As at 31 March
		2013	2014	2015	2016
Current liabilities					
Short-term debt instruments					
issued	40	–	–	2,100,000	797,557
Placements from other					
financial institutions	41	5,200,000	5,535,000	500,000	500,000
Financial liabilities at fair					
value through profit or					
loss	42	–	–	–	30,267
Accounts payable to					
brokerage clients	43	15,051,046	31,638,718	53,671,724	48,577,413
Employee benefits					
payable	44	216,083	695,019	2,155,716	1,593,234
Other payables and					
accruals	45	2,474,979	1,480,515	4,255,439	6,665,987
Current tax liabilities	27(a)	–	389,490	1,337,531	1,272,533
Financial assets sold under					
repurchase agreements	46	1,791,604	29,480,639	19,178,503	15,680,983
Derivative financial liabilities	34	–	72,757	1,022,566	402,619
Long-term bonds due within					
one year	47	–	–	18,986,177	12,995,466
Total current liabilities		<u>24,733,712</u>	<u>69,292,138</u>	<u>103,207,656</u>	<u>88,516,059</u>
Net current assets		<u>14,682,106</u>	<u>23,523,516</u>	<u>37,520,022</u>	<u>33,136,010</u>
Total assets less current					
liabilities		<u>22,381,274</u>	<u>33,326,910</u>	<u>55,645,578</u>	<u>52,756,246</u>
Non-current liabilities					
Long-term bonds	47	–	6,979,468	15,953,231	15,959,286
Deferred tax liabilities	27(c)	–	65,205	134,459	–
Financial assets sold under					
repurchase agreements	46	–	1,340,000	230,000	–
Total non-current liabilities		<u>–</u>	<u>8,384,673</u>	<u>16,317,690</u>	<u>15,959,286</u>
Net assets		<u>22,381,274</u>	<u>24,942,237</u>	<u>39,327,888</u>	<u>36,796,960</u>

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

4 Statements of financial position (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Equity				
Share capital	3,418,000	3,418,000	3,906,699	3,906,699
Reserves	14,870,680	16,098,154	25,669,911	24,766,571
Retained profits	4,092,594	5,426,083	9,751,278	8,123,690
Total equity	22,381,274	24,942,237	39,327,888	36,796,960

I FINANCIAL INFORMATION (Continued)

5 Consolidated statements of changes in equity

(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company							Total	Non-controlling interests	Total equity
	Reserves									
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve	Retained profits			
(Note 49)	(Note 50)	(Note 50)	(Note 50)	(Note 50)	(Note 50)	(Note 50)				
As at 1 January 2013	3,418,000	11,185,895	1,485,637	3,010,847	(945,774)	(25,244)	4,374,069	22,503,430	737,050	23,240,480
Change in equity for 2013										
Profit for the year	-	-	-	-	-	-	205,837	205,837	77,786	283,623
Other comprehensive income	-	-	-	-	468,397	(26,981)	-	441,416	(17,557)	423,859
Total comprehensive income	-	-	-	-	468,397	(26,981)	205,837	647,253	60,229	707,482
Capital injection by non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	4,900	4,900
Appropriation to surplus reserve	-	-	10,032	-	-	-	(10,032)	-	-	-
Appropriation to general reserve	-	-	-	52,309	-	-	(52,309)	-	-	-
Dividends approved in respect of the previous year	-	-	-	-	-	-	(314,456)	(314,456)	(32,379)	(346,835)
As at 31 December 2013	<u>3,418,000</u>	<u>11,185,895</u>	<u>1,495,669</u>	<u>3,063,156</u>	<u>(477,377)</u>	<u>(52,225)</u>	<u>4,203,109</u>	<u>22,836,227</u>	<u>769,800</u>	<u>23,606,027</u>

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

5 Consolidated statements of changes in equity (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company							Total	Non-controlling interests	Total equity
	Reserves									
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve	Retained profits			
(Note 49)	(Note 50)	(Note 50)	(Note 50)	(Note 50)	(Note 50)	(Note 50)				
As at 1 January 2014	3,418,000	11,185,895	1,495,669	3,063,156	(477,377)	(52,225)	4,203,109	22,836,227	769,800	23,606,027
Change in equity for 2014										
Profit for the year	-	-	-	-	-	-	2,068,307	2,068,307	68,316	2,136,623
Other comprehensive income	-	-	-	-	981,581	(8,693)	-	972,888	(1,692)	971,196
Total comprehensive income	-	-	-	-	981,581	(8,693)	2,068,307	3,041,195	66,624	3,107,819
Capital injection by non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	23,813	23,813
Recognition on disposal of a subsidiary	-	-	-	-	-	-	-	-	(4,803)	(4,803)
Appropriation to surplus reserve	-	-	200,264	-	-	-	(200,264)	-	-	-
Appropriation to general reserve	-	-	-	450,881	-	-	(450,881)	-	-	-
Dividends approved in respect of the previous year	-	-	-	-	-	-	(68,360)	(68,360)	(44,182)	(112,542)
As at 31 December 2014	<u>3,418,000</u>	<u>11,185,895</u>	<u>1,695,933</u>	<u>3,514,037</u>	<u>504,204</u>	<u>(60,918)</u>	<u>5,551,911</u>	<u>25,809,062</u>	<u>811,252</u>	<u>26,620,314</u>

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

5 Consolidated statements of changes in equity (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company							Total	Non-controlling interests	Total equity
	Reserves									
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve	Retained profits			
(Note 49)	(Note 50)	(Note 50)	(Note 50)	(Note 50)	(Note 50)	(Note 50)				
As at 1 January 2015	3,418,000	11,185,895	1,695,933	3,514,037	504,204	(60,918)	5,551,911	25,809,062	811,252	26,620,314
Change in equity for 2015										
Profit for the year	-	-	-	-	-	-	7,646,516	7,646,516	100,339	7,746,855
Other comprehensive income	-	-	-	-	933,417	(61,623)	-	871,794	90,054	961,848
Total comprehensive income	-	-	-	-	933,417	(61,623)	7,646,516	8,518,310	190,393	8,708,703
Shares issued	488,699	7,479,839	-	-	-	-	-	7,968,538	-	7,968,538
Capital injection by non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	20	20
Changes due to business combination	-	(1,471,054)	-	-	-	-	-	(1,471,054)	990,114	(480,940)
Other movement in capital reserve	-	(68,817)	-	-	-	-	-	(68,817)	-	(68,817)
Appropriation to surplus reserve	-	-	656,947	-	-	-	(656,947)	-	-	-
Appropriation to general reserve	-	-	-	1,452,599	-	-	(1,452,599)	-	-	-
Dividends approved in respect of the previous year	-	-	-	-	-	-	(273,440)	(273,440)	(50,762)	(324,202)
As at 31 December 2015	3,906,699	17,125,863	2,352,880	4,966,636	1,437,621	(122,541)	10,815,441	40,482,599	1,941,017	42,423,616

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

5 Consolidated statements of changes in equity (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company							Total	Non-controlling interests	Total equity
	Reserves									
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve	Retained profits			
(Note 49)	(Note 50)	(Note 50)	(Note 50)	(Note 50)	(Note 50)	(Note 50)				
As at 1 January 2015	3,418,000	11,185,895	1,695,933	3,514,037	504,204	(60,918)	5,551,911	25,809,062	811,252	26,620,314
Change in equity for three months ended 31 March 2015										
Profit for the period	-	-	-	-	-	-	1,520,485	1,520,485	18,066	1,538,551
Other comprehensive income	-	-	-	-	215,396	(304)	-	215,092	6,487	221,579
Total comprehensive income	-	-	-	-	215,396	(304)	1,520,485	1,735,577	24,553	1,760,130
Appropriation to general reserve	-	-	-	6,993	-	-	(6,993)	-	-	-
As at 31 March 2015 (Unaudited)	<u>3,418,000</u>	<u>11,185,895</u>	<u>1,695,933</u>	<u>3,521,030</u>	<u>719,600</u>	<u>(61,222)</u>	<u>7,065,403</u>	<u>27,544,639</u>	<u>835,805</u>	<u>28,380,444</u>

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

5 Consolidated statements of changes in equity (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company							Total	Non-controlling interests	Total equity
	Reserves									
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve	Retained profits			
(Note 49)	(Note 50)	(Note 50)	(Note 50)	(Note 50)	(Note 50)	(Note 50)				
As at 1 January 2016	3,906,699	17,125,863	2,352,880	4,966,636	1,437,621	(122,541)	10,815,441	40,482,599	1,941,017	42,423,616
Change in equity for three months ended 31 March 2016										
Profit for the period	-	-	-	-	-	-	619,911	619,911	3,832	623,743
Other comprehensive income	-	-	-	-	(1,105,560)	3,838	-	(1,101,722)	(6,484)	(1,108,206)
Total comprehensive income	-	-	-	-	(1,105,560)	3,838	619,911	(481,811)	(2,652)	(484,463)
Other movement in capital reserve	-	(29,347)	-	-	-	-	-	(29,347)	-	(29,347)
Appropriation to general reserve	-	-	-	5,720	-	-	(5,720)	-	-	-
Dividends approved in respect of the previous year	-	-	-	-	-	-	(2,344,019)	(2,344,019)	-	(2,344,019)
As at 31 March 2016	<u>3,906,699</u>	<u>17,096,516</u>	<u>2,352,880</u>	<u>4,972,356</u>	<u>332,061</u>	<u>(118,703)</u>	<u>9,085,613</u>	<u>37,627,422</u>	<u>1,938,365</u>	<u>39,565,787</u>

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

6 Consolidated cash flow statements

(Expressed in thousands of Renminbi, unless otherwise stated)

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Cash flows from operating activities:					
Profit before income tax	486,428	2,849,432	9,846,289	1,954,883	774,888
Adjustments for:					
Interest expenses	131,746	253,679	1,842,444	173,157	577,869
Share of profit of associates and joint ventures	(58,293)	(60,928)	(73,570)	(17,394)	(7,752)
Depreciation and amortisation expenses	191,301	174,986	421,282	40,147	97,734
Provision for/(reversal of) impairment losses	372,001	300,596	(10,437)	7,931	28,786
Losses/(gains) on disposal of property and equipment and other intangible assets	3,664	10,411	(18)	284	(142)
Foreign exchange (gains)/losses	(1,400)	2,390	39,114	(524)	(7,537)
Dividend income and interest income from available-for-sale financial assets	(2,909)	(38,144)	(38,062)	(2,348)	(20,475)
Unrealised fair value changes of financial instruments at fair value through profit or loss	407,742	(666,038)	(694,632)	(227,239)	605,111
Unrealised fair value changes of derivative financial instruments	(265,712)	202,030	551,336	43,249	(595,344)
Operating cash flows before movements in working capital	1,264,568	3,028,414	11,883,746	1,972,146	1,453,138

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

6 Consolidated cash flow statements (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Cash flows from operating activities: (continued)					
<i>Changes in operating assets</i>					
Decrease/(increase) in refundable deposits	621,259	(2,298,106)	1,094,105	(535,866)	(1,407,132)
(Increase)/decrease in margin accounts receivable	(8,632,682)	(25,495,367)	(1,504,875)	(17,495,560)	11,771,074
Increase in accounts receivable, other receivables and prepayments	(773,239)	(1,064,244)	(1,201,516)	(6,393,022)	(363,572)
Decrease/(increase) in financial assets held under resale agreements	2,126,815	(2,950,799)	(2,516,953)	(794,061)	(349,964)
Decrease/(increase) in financial instruments at fair value through profit or loss	6,550,783	(3,767,730)	(13,736,296)	(1,432,602)	(7,674,495)
Decrease/(increase) in derivative financial instruments	275,625	(118,292)	226,446	(41,219)	(8,553)
(Increase)/decrease in restricted bank deposits	(23,535)	239,006	(379,215)	1,457	60,613
Decrease/(increase) in cash held on behalf of brokerage clients	459,903	(19,040,649)	(32,667,121)	(15,251,167)	6,278,364
Decrease/(increase) in other investments ⁽¹⁾	5,945,315	749,120	(10,513,568)	1,225,423	563,647

The accompanying notes form part of the Financial Information.

⁽¹⁾ The contribution to the designated accounts managed by China Securities Finance Corporation Limited is included in other investments for the year ended 31 December 2015.

I FINANCIAL INFORMATION (Continued)

6 Consolidated cash flow statements (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Cash flows from operating activities: (continued)					
<i>Changes in operating liabilities</i>					
(Decrease)/increase in accounts payable to brokerage clients . .	(127,950)	18,845,064	27,918,770	18,440,174	(3,261,476)
Increase in other payables and accruals	1,052,530	1,452,827	6,486,172	1,030,474	9,779,354
Increase/(decrease) in employee benefits payable	102,055	578,988	1,717,029	138,885	(697,223)
(Decrease)/increase in financial assets sold under repurchase agreements	(9,113,445)	29,029,035	(10,035,198)	5,611,980	(2,456,759)
Increase/(decrease) in placements from other financial institutions	3,100,000	335,000	(5,035,000)	600,000	–
Cash generated from/(used in) operations	2,828,002	(477,733)	(28,263,474)	(12,922,958)	13,687,016
Income taxes paid	(299,221)	(130,591)	(1,028,611)	(184,576)	(395,473)
Interest paid for operating activities	(439,366)	(926,861)	(2,832,363)	(622,422)	(543,150)
Net cash generated from/(used in) operating activities	2,089,415	(1,535,185)	(32,124,448)	(13,729,956)	12,748,393

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

6 Consolidated cash flow statements (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Cash flows from investing activities:					
Proceeds from disposal of property and equipment and other intangible assets	6,392	4,648	4,241	1,448	4,757
Dividends received from associates and joint ventures . .	57,500	–	12,500	–	–
Dividends and interest received from available-for-sale financial assets	2,909	38,144	38,062	2,348	20,475
Purchases of property and equipment, other intangible assets and other non-current assets	(118,807)	(124,234)	(260,356)	(28,979)	(52,214)
Purchases of held-to-maturity investments	–	–	(127,544)	–	–
Purchases of associates and joint ventures	–	(500,000)	(314,115)	(25,000)	–
Acquisition of subsidiaries, net of cash acquired	–	–	(2,603,936)	–	–
(Purchases of)/proceeds from disposal of available-for-sale financial assets for investment purpose	(1,166,742)	(330,840)	(71,819)	(1,393,411)	104,108
(Purchases of)/proceeds from disposal of investments classified as receivables and other investments	(1,904,928)	(225,651)	(1,188,395)	213,058	240,274
Net cash (used in)/generated from investing activities	(3,123,676)	(1,137,933)	(4,511,362)	(1,230,536)	317,400

The accompanying notes form part of the Financial Information.

I FINANCIAL INFORMATION (Continued)

6 Consolidated cash flow statements (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

	Section II Note	Year ended 31 December			Three months ended 31 March	
		2013	2014	2015	2015	2016
					(Unaudited)	
Cash flows from financing activities:						
Capital injection from non-controlling interests		4,900	19,010	20	–	–
Proceeds from issuance of ordinary shares		–	–	7,968,538	–	–
Proceeds from issuance of long-term bonds		–	6,972,000	32,767,412	11,959,000	–
Proceeds from issuance of short-term debt instruments		–	–	5,301,000	–	197,386
Proceeds from bank loans		215,869	243,121	9,413,907	3,934,097	457,447
Long-term bonds repaid . .		–	–	(1,996,391)	–	(6,000,000)
Short-term debt instruments repaid		–	–	(3,201,000)	–	(1,500,000)
Bank loans repaid		–	–	(5,579,714)	(15,175)	(306,419)
Loans, bonds and debt instruments interest paid		(131,746)	(11,863)	(647,916)	(5,413)	(692,413)
Dividends paid		(346,835)	(112,542)	(324,202)	–	–
Net cash (used in)/generated from financing activities		(257,812)	7,109,726	43,701,654	15,872,509	(7,843,999)
Net (decrease)/increase in cash and cash equivalents		(1,292,073)	4,436,608	7,065,844	912,017	5,221,794
Cash and cash equivalents at the beginning of the year/period		2,826,491	1,535,820	5,970,039	5,970,039	12,996,769
Effect of foreign exchange rate changes		1,402	(2,389)	(39,114)	524	7,537
Cash and cash equivalents at the end of the year/period	38	<u>1,535,820</u>	<u>5,970,039</u>	<u>12,996,769</u>	<u>6,882,580</u>	<u>18,226,100</u>

The accompanying notes form part of the Financial Information.

II NOTES TO THE FINANCIAL INFORMATION

(Expressed in thousands of Renminbi, unless otherwise stated)

1 GENERAL INFORMATION

Everbright Securities Company Limited (光大證券股份有限公司) (the “Company”), formerly known as Everbright Securities Limited Liability Company (光大證券有限責任公司), approved by the People’s Bank of China (“PBOC”), was incorporated in Beijing on 23 April 1996. The Company was renamed as Everbright Securities Company Limited (光大證券股份有限公司) on 14 July 2005 as a result of the conversion into a joint stock limited liability company.

As approved by the China Securities Regulatory Commission (“CSRC”), the Company publicly issued 520,000,000 ordinary shares (A shares) and was listed on the Shanghai Stock Exchange on 18 August 2009.

On 1 September 2015, the Company completed the change of registration procedures for securities sold in a private placement to certain investors. Following the completion of this private placement the total number of share capital of the Company increased from 3,418,000,000 A Shares to 3,906,698,839 A Shares, the registered share capital of the Company increased from RMB3,418,000,000 to RMB3,906,698,839. As at 31 March 2016, the Company’s registered capital was RMB3,906,698,839 and the Company has a total of 3,906,698,839 issued shares of RMB1.00 each.

The registered address of the Company is No. 1508 Xinzha Road, Shanghai, the PRC. The Company and its subsidiaries (the “Group”) principally engaged in securities and futures brokerage, securities proprietary trading, securities underwriting and sponsorship, securities investment advisory, asset management, margin financing and securities lending, distribution of financial products, and other business activities approved by CSRC.

2 SIGNIFICANT ACCOUNTING POLICIES**(1) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations, issued by the International Accounting Standards Board (the “IASB”). Further details of the significant accounting policies adopted are set out in the remainder of this Section II.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the Financial Information, the Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 March 2016. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period ended 31 March 2016 are set out in Note 59.

The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(2) Basis of measurement

The Financial Information has been prepared on the historical cost basis except that the following assets and liabilities are measured at their fair value: financial derivatives, non-derivative financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets. The measurement of fair value is stated in Note 2(9).

II NOTES TO THE FINANCIAL INFORMATION *(Continued)* *(Expressed in thousands of Renminbi, unless otherwise stated)*

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(3) Functional and presentation currency

The Financial Information is presented in Renminbi ("RMB"), which is the functional currency of the Company and its subsidiaries established in the PRC. All financial information presented in RMB has been rounded to the nearest thousand, except when otherwise indicated. The Group translates the financial statements of subsidiaries from their respective functional currencies into the Group's functional currency if the subsidiaries' functional currencies are not the same as that of the Group.

(4) Use of estimates and judgments

The preparation of Financial Information in conformity with IFRSs requires management to make judgements, 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 about 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 period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 2(27).

(5) Basis of consolidation

(i) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, 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 Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised gains arising from intra-group transactions are eliminated in full in preparing the consolidated Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability.

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 income statements and 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 Relevant Periods 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.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)* *(Expressed in thousands of Renminbi, unless otherwise stated)*

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Basis of consolidation *(Continued)*

(i) Subsidiaries and non-controlling interests (Continued)

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) (ii)).

(ii) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the Financial Information 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 Note 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 as other comprehensive income.

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

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are 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 venture of the Company are accounted for using the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

II NOTES TO THE FINANCIAL INFORMATION *(Continued)**(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.

(7) Foreign currency

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

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

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the Relevant Periods. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the resulting exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which are recognised as other comprehensive income in capital reserve.

The assets and liabilities of foreign operation are translated to RMB at the spot exchange rate at the end of the Relevant Periods. The equity items, excluding "retained profits", are translated to RMB at the spot exchange rates at the transaction dates. The income and expenses of foreign operations are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. Upon disposal of a foreign operation, the cumulative amount of the translation differences recognised in shareholders' equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

(8) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to insignificant risk of change in value.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)* *(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 or financial liabilities held for trading)

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

Financial assets and financial liabilities are designated as at fair value through profit or loss upon initial recognition in either of the following circumstances:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contain an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transaction costs that may occur on sale, and changes therein are recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are 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)).

II NOTES TO THE FINANCIAL INFORMATION (Continued)

(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)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than

- those that the Group, upon initial recognition, designated as at fair value through profit or loss or as available-for-sale; or
- those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses (see Note 2(9)(iii)). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend (see Note 2(21)(vi)). Foreign exchange gains or losses on available-for-sale financial assets are 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.

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.

- Put right liabilities arising from business combination

The Group recognizes the put option granted by the Group to the non-controlling shareholders providing for settlement in cash or in other financial asset as a financial liability. The financial liability is recognised initially at the present value of the redemption amount, and is reclassified from equity. Subsequently, the financial liability is measured at amortised cost. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)* *(Expressed in thousands of Renminbi, unless otherwise stated)*

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(9) Financial instruments *(Continued)*

(ii) Fair value measurement

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, the quoted price is the current asking price. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the Relevant Periods. Where other pricing models are used, inputs are based on market data at the end of the Relevant Periods.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

(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 Relevant Periods to determine whether there is objective evidence of impairment. If any such evidence exists, impairment losses are provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes, but not limited to:

- significant financial difficulty of the borrower or issuer;
- a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties of the issuer;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)* *(Expressed in thousands of Renminbi, unless otherwise stated)*

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(9) Financial instruments *(Continued)*

(iii) Impairment of financial assets (Continued)

Loans and receivables

Loans and receivables are assessed for impairment on an individual basis and/or on a collective group basis as follows.

Where impairment is assessed on an individual basis, an impairment loss in respect of a loan and receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. Impairment losses are recognised in profit or loss.

The assessment is made collectively where loans and receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable factors reflecting current economic conditions.

Held-to-maturity investments

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

Available-for-sale financial assets

The Group assess impairment losses on both individual and collective basis. 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, 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. A significant or prolonged decline in the fair value of an equity investment is an indicator of impairment in such investments where a decline in the fair value of equity investment below its initial cost by 50% or more; or fair value below cost in declining trend for one year or longer, upon which impairment loss is recognised.

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.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)* *(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 (Continued)

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.

(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 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.

(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 initially measured 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.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)* *(Expressed in thousands of Renminbi, unless otherwise stated)*

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(9) Financial instruments *(Continued)*

(vii) Derivative financial instruments (Continued)

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.

(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.

The collateral is not recognised on the statement of financial position, the transfer of the collateral from counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Securities trading on behalf of margin financing or securities lending customers are accounted for as securities brokerage business.

(11) Financial assets held under resale and sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the statement 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.

(12) Investments in subsidiaries

In the Group's Financial Information, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(5).

In the Company's statements of financial position, investments in subsidiaries are accounted for using the cost method. The investment is stated at cost less impairment loss (Note 2(15)) in the company level statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)*

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(13) Property and equipment and construction in progress

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Costs of construction in progress are determined based on the actual expenditures incurred which include all necessary expenditures incurred during the construction period, borrowing costs eligible for capitalisation and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives.

Depreciation is generally 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.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(13) Property and equipment and construction in progress (Continued)

(iii) Depreciation (Continued)

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

Up to 31 December 2014:

<u>Types of assets</u>	<u>Estimated useful lives</u>	<u>Estimated residual values</u>	<u>Depreciation rates</u>
Buildings	40 years	10%	2.25%
Motor vehicles	10 years	10%	9.00%
Electronic equipment	5-8 years	10%	11.25%-18.00%
Furniture and fixtures	8 years	10%	11.25%

From 1 January 2015 onwards:

<u>Types of assets</u>	<u>Estimated useful lives</u>	<u>Estimated residual values</u>	<u>Depreciation rates</u>
Buildings	40 years	–	2.50%
Motor vehicles	5 years	–	20.00%
Electronic equipment	3 years	–	33.33%
Furniture and fixtures	5 years	–	20.00%

Depreciation methods, useful lives and residual values are reviewed at each end of the Relevant Periods and adjusted if appropriate.

(14) Other 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 major intangible assets are as follows:

Up to 31 December 2014:

<u>Types of assets</u>	<u>Estimated useful lives</u>
Software	5 years
Customer relationship	10 years

From 1 January 2015 onwards:

<u>Types of assets</u>	<u>Estimated useful lives</u>
Software	3 years
Customer relationship	2.5-10 years

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.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)*

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(15) Impairment of non-financial assets

The carrying amounts of the following assets are reviewed at each end of the Relevant Periods to determine whether there is any indication of impairment:

- property and equipment
- investment property
- other intangible assets
- equity investment in subsidiaries
- goodwill
- leasehold improvements and long-term deferred expenses

If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are 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.

(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.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)* *(Expressed in thousands of Renminbi, unless otherwise stated)*

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(16) Employee benefits *(Continued)*

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the end of the Relevant Periods on corporate bonds, which have a credit rating of at least AA from rating agency, that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

(iv) 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 end of the Relevant Periods, 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.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the end of the Relevant Periods, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not 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 Relevant Periods, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)* *(Expressed in thousands of Renminbi, unless otherwise stated)*

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(17) Income tax *(Continued)*

(ii) Deferred tax (Continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the Relevant Periods.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is 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 Relevant Periods 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 and finance leases

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

(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.

(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(13)(iii). 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.

(iii) Assets leased out under finance leases

At the commencement of the lease term, the Group recognises the aggregate of the minimum lease receipts determined at the inception of a lease and the initial direct costs as finance lease receivable, and recognises unguaranteed residual value at the same time. The difference between the aggregate of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the aggregate of their present value is recognised as unearned finance income.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)* *(Expressed in thousands of Renminbi, unless otherwise stated)*

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(18) Operating leases and finance leases *(Continued)*

(iii) Assets leased out under finance leases (Continued)

Unearned finance income is allocated to each accounting period during the lease term using the effective interest method. At the balance sheet date, finance lease receivables, net of unearned finance income, are analysed and separately presented as long-term receivables or non-current assets due within one year. Contingent rentals are recognised as income when 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.

(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 sponsoring fees

Underwriting and sponsoring 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 measured reliably.

(iii) Advisory fees

Consultancy and financial advisory fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered.

(iv) Asset management fees

Asset management fees are recognised when the Group is entitled to receive the income under the asset management agreement.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)* *(Expressed in thousands of Renminbi, unless otherwise stated)*

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(21) Revenue recognition *(Continued)*

(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 ex-dividend date for equity investments.

(vii) Other income

Other income is recognised on an accrual basis.

(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.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(iv) Other expenses

Other expenses are recognised on an accrual basis.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)*

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(23) Dividend distribution

Dividends or profit distributions proposed in the profit appropriation plan, which will be authorised and declared after the end of the Relevant Periods, are not recognised as a liability at the end of the Relevant Periods but disclosed in the notes to the Financial Information separately.

(24) Government grants

Government grants 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) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group;
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) The entity is controlled or jointly controlled by a person identified in (a);
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)* *(Expressed in thousands of Renminbi, unless otherwise stated)*

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(26) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose financial performance are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and for which financial information regarding financial performance is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each products and service, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the Financial Information.

(27) Significant accounting estimates and judgements

The preparation of Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(i) Impairment of available-for-sale financial assets and held-to-maturity investments

In determining whether there is any objective evidence that impairment has occurred on available-for-sale financial assets and held-to-maturity investments, 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.

(ii) Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)**(Expressed in thousands of Renminbi, unless otherwise stated)***2 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(27) Significant accounting estimates and judgements** *(Continued)**(iii) 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).
- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intent and ability to hold the assets until their maturity date as required by accounting policy set out in Note 2(9)(i). In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgments. Failure in correctly assessing the Group's intent and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

(iv) Impairment of receivables

Receivables that are measured at amortised cost are reviewed at each end of the Relevant Periods 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.

(v) 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.

(vi) 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.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(27) Significant accounting estimates and judgements (Continued)

(vii) Depreciation and amortisation

Property and equipment, 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 Relevant Periods. 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.

(viii) Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group controls an entity. The principle of control includes three elements: (i) power over the entity; (ii) exposure, or rights, to variable returns from involvement with the entity; and (iii) the ability to use power over the entity to affect the amount of entity's returns. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For asset 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 asset management schemes that is of such significance indicating that the Group is a principal. The asset management scheme shall be consolidated if the Group acts in the role of principal.

(28) Change in accounting estimates

The Group continuously re-visits accounting estimates including depreciation of property and equipment and amortisation of other intangible assets.

In assessment of depreciation of property and equipment and amortisation of other intangible assets, the Group takes into account the impact of commercial and technological obsolescence as well as normal wear and tear under the relevant market circumstance. When more precise and objective facts and additional evidence are available, the Group will revise accounting estimates as appropriate to better reflect the economic benefit to the Group. Such changes do not have material impacts on the Financial Information.

3 TAXATION

The Group's main applicable taxes and tax rates are as follows:

Tax type	Tax basis	Tax rate
Corporate income tax	Taxable profits	16.5%-25%
Business tax	Taxable revenue	5%
Value added tax ("VAT")	Taxable revenue	6%-17%
City maintenance and construction tax	Business tax and value added tax paid	1%-7%
Education surcharge	Business tax and value added tax paid	3%

The income tax rate applicable to the Company and its domestic subsidiaries is 25%. The income tax rate applicable to subsidiaries in Hong Kong is 16.5%.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

4 FEE AND COMMISSION INCOME

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Income from securities brokerage and investment advisory business	2,575,182	3,517,553	9,314,867	1,712,199	1,056,177
Income from asset management business	608,116	775,007	1,393,135	173,286	207,791
Income from underwriting and sponsorship business	329,563	186,520	1,126,195	310,433	355,873
Income from futures brokerage business .	226,258	236,934	299,012	72,249	54,423
Income from financial advisory business	83,881	88,792	200,963	6,883	32,409
Total	<u>3,823,000</u>	<u>4,804,806</u>	<u>12,334,172</u>	<u>2,275,050</u>	<u>1,706,673</u>

5 INTEREST INCOME

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Interest income arising from					
– Deposit in financial institutions . . .	705,571	772,825	2,342,245	350,072	536,720
– Margin financing and securities lending	727,955	1,600,068	4,064,211	924,531	624,901
– Financial assets held under resale agreements	9,533	26,615	21,452	15,082	3,531
– Securities-backed lending and stock repurchases	62,464	150,468	319,701	75,041	102,442
– Finance lease	–	–	56,865	–	41,855
– Others	3,064	8,791	34,849	17,664	14,612
Total	<u>1,508,587</u>	<u>2,558,767</u>	<u>6,839,323</u>	<u>1,382,390</u>	<u>1,324,061</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

6 NET INVESTMENT (LOSSES)/GAINS

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Net realised (losses)/gains from disposal of available-for-sale financial assets . .	(570,054)	(462,944)	1,050,608	15,875	(48,097)
Dividend income and interest income from available-for-sale financial assets	139,391	275,650	252,740	49,722	51,806
Net realised (losses)/gains from disposal of financial instruments at fair value through profit or loss	(126,444)	620,880	546,501	321,004	(224,612)
Dividend income and interest income from financial instruments at fair value through profit or loss	311,808	590,397	1,585,801	317,112	455,637
Net realised gains/(losses) from disposal of derivative financial instruments . .	73,410	(385,623)	391,831	(173,300)	(75,267)
Unrealised fair value changes of financial instruments at fair value through profit or loss	(407,742)	666,038	694,632	227,239	(605,111)
Unrealised fair value changes of derivative financial instruments	265,712	(202,030)	(551,336)	(43,249)	595,344
Others	(13)	9,752	–	–	–
Total	<u>(313,932)</u>	<u>1,112,120</u>	<u>3,970,777</u>	<u>714,403</u>	<u>149,700</u>

7 OTHER INCOME AND GAINS

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Government grants	133,183	25,639	78,111	122	6,921
Rental income	10,989	14,004	12,466	5,520	4,575
Income from commodity sales	–	21,282	–	–	–
Income from agent business	4,463	7,990	48,486	1,246	9,012
Income from advisory business	120	1,810	4,708	4,277	7,200
Exchange gains/(losses).	1,400	(2,390)	(39,114)	524	7,537
Others	11,598	17,533	43,800	6,877	4,436
Total	<u>161,753</u>	<u>85,868</u>	<u>148,457</u>	<u>18,566</u>	<u>39,681</u>

8 FEE AND COMMISSION EXPENSES

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Expenses arising from					
– Securities brokerage and advisory business	398,989	617,192	1,877,939	302,438	238,474
– Futures brokerage business	44,493	45,696	56,802	15,497	8,585
– Underwriting and sponsorship business	34,194	21,460	109,837	60,767	17,091
– Financial advisory business	1,822	4,162	6,138	2,113	2,308
– Asset management business	13,590	13,967	21,149	4,371	15,904
Total	<u>493,088</u>	<u>702,477</u>	<u>2,071,865</u>	<u>385,186</u>	<u>282,362</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

9 INTEREST EXPENSES

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Interest expenses for					
– Financial assets sold under repurchase agreements	195,699	591,709	2,007,532	503,486	219,014
– Accounts payable to brokerage clients	65,758	72,603	239,090	35,127	51,702
– Placements from other financial institutions	186,558	314,911	337,299	84,129	2,815
– Short-term debt instruments issued	125,865	–	105,279	–	17,247
– Other structured entities' holders	8,163	49,561	177,283	34,310	237,164
– Loans and borrowings	5,881	11,483	122,302	5,263	35,489
– Long-term bonds	–	242,196	1,614,863	167,894	525,133
– Others	360	8,097	15,857	3,337	2,074
Total	<u>588,284</u>	<u>1,290,560</u>	<u>4,619,505</u>	<u>833,546</u>	<u>1,090,638</u>

10 STAFF COSTS

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Salaries, bonuses and allowances	1,258,849	1,740,546	3,757,769	698,172	487,198
Contribution to pension schemes	96,297	97,653	123,014	25,450	32,541
Other social welfare	157,326	157,546	228,917	44,884	51,419
Total	<u>1,512,472</u>	<u>1,995,745</u>	<u>4,109,700</u>	<u>768,506</u>	<u>571,158</u>

The domestic employees of the Group in the PRC participate in social welfare plans, including pension, medical, housing, and other welfare benefits, organised and administered by the governmental authorities. The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. According to the relevant regulations, the premiums and welfare benefits contributions that should be borne by the Group are calculated on regular basis and paid to the labor and social welfare authorities. These social welfare plans are defined contribution plans and contributions to the plans are expensed as incurred.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

11 DEPRECIATION AND AMORTISATION EXPENSES

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(unaudited)	
Depreciation of property and equipment	83,618	80,230	214,170	18,724	30,724
Amortisation of leasehold improvements and long-term deferred expenses	73,078	52,164	46,899	10,596	10,236
Amortisation of other intangible assets	34,605	42,592	160,213	10,827	56,774
Total	<u>191,301</u>	<u>174,986</u>	<u>421,282</u>	<u>40,147</u>	<u>97,734</u>

12 OTHER OPERATING EXPENSES

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(unaudited)	
Rental expenses and utilities	220,118	213,932	260,044	52,244	82,495
Promotion and entertainment expenses	150,818	124,842	151,389	22,373	20,998
IT expenses	130,556	142,895	190,676	34,059	45,026
Business travel expenses	82,839	90,174	113,120	21,258	26,640
Postal and communication expenses	54,477	64,079	64,216	11,897	12,689
Funds and asset management plans distribution expenses	120,745	107,675	206,445	20,009	15,384
Securities/futures investor protection funds	24,133	64,906	159,384	30,856	17,033
Stock exchanges management fees	24,672	29,222	72,970	6,720	8,152
Auditors' remuneration	3,772	3,090	4,180	977	1,308
Penalty ⁽¹⁾	440,468	–	–	–	–
Miscellaneous expenses	35,933	36,319	37,966	9,335	8,331
Others	55,422	80,800	76,487	17,193	21,254
Total	<u>1,343,953</u>	<u>957,934</u>	<u>1,336,877</u>	<u>226,921</u>	<u>259,310</u>

(1) It mainly represents penalty charged by regulators as a result of the regulatory non-compliance event involving the erroneous purchase of 180 ETFs and related hedging transactions that occurred on August 16, 2013 (the "8•16 Event").

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

13 PROVISION FOR/(REVERSAL OF) IMPAIRMENT LOSSES

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(unaudited)	
Provision for impairment losses against goodwill	–	166,393	–	–	–
Provision for impairment losses against available-for-sale financial assets	392,796	37,584	–	–	–
Provision for/(reversal of) for impairment losses against accounts receivable and other non-current assets	3,487	69,374	(52,407)	(3,771)	(74)
Provision for/(reversal of) for impairment losses against other receivables	1,113	5,293	(5,626)	(5,693)	(29)
Provision for impairment losses against accounts receivable of finance lease	–	–	26,759	–	40,098
(Reversal of)/provision for impairment losses against margin accounts receivable	(25,395)	21,952	20,837	17,395	(11,209)
Total	372,001	300,596	(10,437)	7,931	28,786

14 INCOME TAX EXPENSE

(a) Taxation in the consolidated income statements represents:

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(unaudited)	
Current tax					
– PRC income tax	287,418	571,229	2,177,664	354,569	151,773
– Hong Kong profits tax	13,031	9,808	28,454	329	4,018
	300,449	581,037	2,206,118	354,898	155,791
Adjustment in respect of prior years					
– PRC income tax	58,608	3,001	(76,319)	–	–
Deferred tax					
Origination and reversal of temporary differences	(156,252)	128,771	(30,365)	61,434	(4,646)
Total	202,805	712,809	2,099,434	416,332	151,145

According to the PRC Corporate Income Tax (“CIT”) Law that took effect on 1 January 2008, the Company and the Group’s PRC subsidiaries are subject to CIT at the statutory tax rate of 25%.

For the Group’s Hong Kong subsidiaries, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the year/period.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

14 INCOME TAX EXPENSE (Continued)

(b) Reconciliation between income tax expense and accounting profit at applicable tax rate:

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Profit before income tax	486,428	2,849,432	9,846,289	1,954,883	774,888
Notional tax calculated using the PRC statutory tax rate	121,607	712,358	2,461,571	488,721	193,722
Tax effect of non-deductible expenses	134,410	67,153	54,320	1,781	8,944
Tax effect of non-taxable income	(69,820)	(59,189)	(341,467)	(73,397)	(56,849)
Effect of different tax rates of subsidiaries	(6,242)	10,056	239	(773)	5,328
Recognition of deductible temporary differences previously not recognised	(35,758)	(20,607)	–	–	–
Adjustment for prior years	58,608	3,001	(76,319)	–	–
Others	–	37	1,090	–	–
Actual income tax expense	202,805	712,809	2,099,434	416,332	151,145

15 DIRECTORS' AND SUPERVISORS' REMUNERATION

The remuneration of directors and supervisors paid by the Group who held office during the Relevant Periods is as follows:

Name	Year ended 31 December 2013				
	Directors' fees	Salaries, allowances and benefits in kind	Contribution to pension schemes	Discretionary bonuses	Total
Directors					
Yuan Changqing ⁽¹⁾⁽²⁾	–	–	–	–	–
Luo Zhefu ⁽¹⁾⁽³⁾	–	–	–	–	–
Tang Shuangning ⁽¹⁾	–	–	–	–	–
Xu Haoming ⁽⁴⁾	–	1,769	52	571	2,392
Chen Shuang ⁽¹⁾⁽⁵⁾	–	–	–	–	–
Yang Guoping	–	–	–	–	–
Independent directors					
Ma Zhongzhi ⁽⁶⁾	121	–	–	–	121
Guo Rongli ⁽⁷⁾	121	–	–	–	121
Ni Xiaoting ⁽⁷⁾	121	–	–	–	121
Han Ping ⁽⁷⁾	121	–	–	–	121
Zhu Ning ⁽⁸⁾	121	–	–	–	121
Supervisors					
Liu Jiping ⁽¹⁾	–	–	–	–	–
Yao Zhongyou ⁽¹⁾⁽⁹⁾	–	–	–	–	–
Chan Ming Kin ⁽¹⁾	–	–	–	–	–
Zhao Jin	–	–	–	–	–
Zhao Xiaolu ⁽⁹⁾	83	–	–	–	83
Yi Renping ⁽¹⁰⁾	83	–	–	–	83
Li Haisong ⁽⁹⁾	–	643	120	500	1,263
Fan Zhentong ⁽⁹⁾	–	1,049	120	700	1,869
Wang Wenyi ⁽²⁰⁾	–	726	133	300	1,159
Total	771	4,187	425	2,071	7,454

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

15 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

Name	Year ended 31 December 2014				Total
	Directors' fees	Salaries, allowances and benefits in kind	Contribution to pension schemes	Discretionary bonuses	
Directors					
Guo Xinshuang ⁽¹⁾ ⁽¹¹⁾	-	-	-	-	-
Xue Feng ⁽¹¹⁾	-	2,603	81	1,110	3,794
Tang Shuangning ⁽¹⁾	-	-	-	-	-
Gao Yunlong ⁽¹⁾ ⁽¹¹⁾	-	-	-	-	-
Yin Lianchen ⁽¹⁾ ⁽¹¹⁾	-	-	-	-	-
Chan Ming Kin ⁽¹⁾ ⁽¹²⁾	-	-	-	-	-
Yang Guoping	-	-	-	-	-
Yuan Changqing ⁽¹⁾ ⁽²⁾	-	-	-	-	-
Luo Zhefu ⁽¹⁾ ⁽³⁾	-	-	-	-	-
Chen Shuang ⁽¹⁾ ⁽⁵⁾	-	-	-	-	-
Independent directors					
Zhu Ning ⁽⁸⁾	121	-	-	-	121
Xu Jingchang ⁽¹³⁾	41	-	-	-	41
Xiong Yan ⁽¹⁴⁾	41	-	-	-	41
Li Zheping ⁽¹⁵⁾	41	-	-	-	41
Ma Zhongzhi ⁽⁶⁾	50	-	-	-	50
Guo Rongli ⁽⁷⁾	91	-	-	-	91
Ni Xiaoting ⁽⁷⁾	91	-	-	-	91
Han Ping ⁽⁷⁾	91	-	-	-	91
Supervisors					
Liu Jiping ⁽¹⁶⁾	-	984	62	469	1,515
Jiang Bo ⁽¹⁾ ⁽¹⁷⁾	-	-	-	-	-
Liu Yan ⁽¹⁾ ⁽¹⁸⁾	-	-	-	-	-
Zhao Jin	-	-	-	-	-
Zhu Wuxiang ⁽¹⁷⁾	28	-	-	-	28
Zhang Limin ⁽¹⁷⁾	28	-	-	-	28
Wang Wenyi ⁽²⁰⁾	-	539	52	465	1,056
Li Bingtao ⁽¹⁷⁾	-	799	13	100	912
Huang Qin ⁽¹⁹⁾	-	643	57	503	1,203
Yao Zhongyou ⁽¹⁾ ⁽⁹⁾	-	-	-	-	-
Zhao Xiaoluo ⁽⁹⁾	62	-	-	-	62
Yi Renping ⁽¹⁰⁾	35	-	-	-	35
Li Haisong ⁽⁹⁾	-	645	57	503	1,205
Fan Zhentong ⁽⁹⁾	-	695	48	432	1,175
Total	720	6,908	370	3,582	11,580

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

15 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

Name	Year ended 31 December 2015				Total
	Directors' fees	Salaries, allowances and benefits in kind	Contribution to pension schemes	Discretionary bonuses	
Directors					
Guo Xinshuang ⁽¹⁾ ⁽¹¹⁾	–	–	–	–	–
Xue Feng ⁽¹¹⁾	–	2,618	60	1,009	3,687
Tang Shuangning ⁽¹⁾	–	–	–	–	–
Gao Yunlong ⁽¹⁾ ⁽¹¹⁾	–	–	–	–	–
Yin Lianchen ⁽¹⁾ ⁽¹¹⁾	–	–	–	–	–
Chan Ming Kin ⁽¹⁾ ⁽¹²⁾	–	–	–	–	–
Yang Guoping	–	–	–	–	–
Independent directors					
Zhu Ning ⁽⁸⁾	121	–	–	–	121
Xu Jingchang ⁽¹³⁾	121	–	–	–	121
Xiong Yan ⁽¹⁴⁾	121	–	–	–	121
Li Zheping ⁽¹⁵⁾	121	–	–	–	121
Supervisors					
Liu Jiping ⁽¹⁶⁾	–	1,687	58	614	2,359
Jiang Bo ⁽¹⁾ ⁽¹⁷⁾	–	–	–	–	–
Liu Yan ⁽¹⁾ ⁽¹⁸⁾	–	–	–	–	–
Zhao Jin ⁽²¹⁾	–	–	–	–	–
Zhu Wuxiang ⁽¹⁷⁾	83	–	–	–	83
Zhang Limin ⁽¹⁷⁾	83	–	–	–	83
Wang Wenyi ⁽²⁰⁾	–	587	48	1,381	2,016
Li Bingtao ⁽¹⁷⁾	–	1,555	46	1,487	3,088
Huang Qin ⁽¹⁹⁾	–	769	51	976	1,796
Total	650	7,216	263	5,467	13,596

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

15 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

Name	Three months ended 31 March 2015 (Unaudited)				Total
	Directors' fees	Salaries, allowances and benefits in kind	Contribution to pension schemes	Discretionary bonuses	
Directors					
Guo Xinshuang ⁽¹⁾ ⁽¹¹⁾	–	–	–	–	–
Xue Feng ⁽¹¹⁾	–	658	8	–	666
Tang Shuangning ⁽¹⁾	–	–	–	–	–
Gao Yunlong ⁽¹⁾ ⁽¹¹⁾	–	–	–	–	–
Yin Lianchen ⁽¹⁾ ⁽¹¹⁾	–	–	–	–	–
Chan Ming Kin ⁽¹⁾ ⁽¹²⁾	–	–	–	–	–
Yang Guoping	–	–	–	–	–
Independent directors					
Zhu Ning ⁽⁸⁾	30	–	–	–	30
Xu Jingchang ⁽¹³⁾	30	–	–	–	30
Xiong Yan ⁽¹⁴⁾	30	–	–	–	30
Li Zheping ⁽¹⁵⁾	30	–	–	–	30
Supervisors					
Liu Jiping ⁽¹⁶⁾	–	425	8	–	433
Jiang Bo ⁽¹⁾ ⁽¹⁷⁾	–	–	–	–	–
Liu Yan ⁽¹⁾ ⁽¹⁸⁾	–	–	–	–	–
Zhao Jin ⁽²¹⁾	–	–	–	–	–
Zhu Wuxiang ⁽¹⁷⁾	21	–	–	–	21
Zhang Limin ⁽¹⁷⁾	21	–	–	–	21
Wang Wenyi ⁽²⁰⁾	–	140	8	500	648
Li Bingtao ⁽¹⁷⁾	–	349	8	820	1,177
Huang Qin ⁽¹⁹⁾	–	179	8	480	667
Total	162	1,751	40	1,800	3,753

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

15 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

Name	Three months ended 31 March 2016				Total
	Directors' fees	Salaries, allowances and benefits in kind	Contribution to pension schemes	Discretionary bonuses	
Directors					
Guo Xinshuang ⁽¹⁾ ⁽¹¹⁾	–	–	–	–	–
Xue Feng ⁽¹¹⁾	–	659	10	–	669
Tang Shuangning ⁽¹⁾	–	–	–	–	–
Gao Yunlong ⁽¹⁾ ⁽¹¹⁾	–	–	–	–	–
Yin Lianchen ⁽¹⁾ ⁽¹¹⁾	–	–	–	–	–
Chan Ming Kin ⁽¹⁾ ⁽¹²⁾	–	–	–	–	–
Yang Guoping	–	–	–	–	–
Independent directors					
Zhu Ning ⁽⁸⁾	30	–	–	–	30
Xu Jingchang ⁽¹³⁾	30	–	–	–	30
Xiong Yan ⁽¹⁴⁾	30	–	–	–	30
Li Zheping ⁽¹⁵⁾	30	–	–	–	30
Supervisors					
Liu Jiping ⁽¹⁶⁾	–	426	10	–	436
Jiang Bo ⁽¹⁾ ⁽¹⁷⁾	–	–	–	–	–
Nie Tinming ⁽¹⁾ ⁽²²⁾	–	–	–	–	–
Zhu Wuxiang ⁽¹⁷⁾	21	–	–	–	21
Zhang Limin ⁽¹⁷⁾	21	–	–	–	21
Wang Wenyi ⁽²⁰⁾	–	179	10	1,190	1,379
Li Bingtao ⁽¹⁷⁾	–	384	10	1,041	1,435
Huang Qin ⁽¹⁹⁾	–	210	10	1,046	1,266
Total	162	1,858	50	3,277	5,347

II NOTES TO THE FINANCIAL INFORMATION *(Continued)*
*(Expressed in thousands of Renminbi, unless otherwise stated)***15 DIRECTORS' AND SUPERVISORS' REMUNERATION** *(Continued)*

- (1) The remunerations of these directors and supervisors of the Company were borne by its shareholders and other related parties including China Everbright (Group) Company Limited and China Everbright Limited. No allocation of the remunerations between these related parties and the Group has been made during the Relevant Periods.
- (2) Resigned as director on 15 September 2014.
- (3) Resigned as director on 11 July 2014.
- (4) Resigned as director on 22 August 2013.
- (5) Resigned as director on 16 October 2014.
- (6) Resigned as independent director on 14 May 2014.
- (7) Resigned as independent director on 15 September 2014.
- (8) Appointed as independent director on 19 February 2013.
- (9) Resigned as supervisor on 15 September 2014.
- (10) Resigned as supervisor on 8 May 2014.
- (11) Appointed as director on 15 September 2014.
- (12) Appointed as director on 13 November 2014.
- (13) Appointed as independent director on 15 September 2014.
- (14) Appointed as independent director on 18 September 2014.
- (15) Appointed as independent director on 13 November 2014.
- (16) The supervisor's remuneration had been borne by China Everbright Group Company before May 2014; since June 2014, his remuneration has been borne by the Company.
- (17) Appointed as supervisor on 15 September 2014.
- (18) Resigned as supervisor on 13 August 2015.
- (19) Appointed as supervisor on 23 September 2014.
- (20) Appointed as supervisor since 7 November 2011.
- (21) Resigned as supervisor on 24 August 2015.
- (22) Appointed as supervisor on 2 February 2016.

There were no amounts paid during the Relevant Periods to the directors and supervisors in connection with their retirement from employment or compensation for loss of office with the Company, or inducement to join. There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the Relevant Periods.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

16 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest paid emoluments, one director whose emoluments are disclosed in Note 15 for the year ended 31 December 2014 and one supervisor whose emoluments are disclosed in Note 15 for the three months ended 31 March 2015. The aggregate of the emoluments are as follows:

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Salaries and allowances	6,273	8,028	9,138	1,586	1,364
Discretionary bonuses	12,729	8,746	14,695	5,878	21,797
Employer's contribution to pension schemes	76	146	207	38	30
Total	19,078	16,920	24,040	7,502	23,191

The emoluments with the highest emoluments are within the following bands:

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
	Number of individuals	Number of individuals	Number of individuals	Number of individuals	Number of individuals
HKD nil to HKD 1,000,000	–	–	–	–	–
HKD 1,000,001 to HKD 1,500,000	–	–	–	–	–
HKD 1,500,001 to HKD 2,000,000	–	–	–	3	–
HKD 2,000,001 to HKD 2,500,000	–	–	–	2	–
HKD 2,500,001 to HKD 3,000,000	–	–	–	–	–
HKD 3,000,001 to HKD 3,500,000	–	–	–	–	–
HKD 3,500,001 to HKD 4,000,000	1	1	–	–	–
HKD 4,000,001 to HKD 4,500,000	2	4	–	–	–
HKD 4,500,001 to HKD 5,000,000	1	–	–	–	2
HKD 5,000,001 to HKD 5,500,000	–	–	–	–	1
HKD 5,500,001 to HKD 6,000,000	–	–	4	–	1
HKD 6,000,001 to HKD 6,500,000	–	–	–	–	–
HKD 6,500,001 to HKD 7,000,000	1	–	–	–	–
HKD 7,000,001 to HKD 7,500,000	–	–	1	–	1

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Company or as compensation for loss of office during the Relevant Periods.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

17 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year/period attributable to shareholders of the Company by the weighted average number of ordinary shares in issue. There has been no change in the number of ordinary shares during the Relevant Periods.

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Profit attributable to shareholders of the Company	205,837	2,068,307	7,646,516	1,520,485	619,911
Weighted average number of ordinary shares in issue (thousands)	3,418,000	3,418,000	3,580,007	3,418,000	3,906,699
Basic and diluted earnings per share attributable to equity shareholders (in Renminbi per share)	0.0602	0.6051	2.1359	0.4448	0.1587

During the Relevant Periods, there were no potential dilutive ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

18 PROPERTY AND EQUIPMENT

The Group

	Buildings	Motor vehicles	Electric equipment	Furniture and fixtures	Construction in progress	Total
Cost						
As at 1 January 2013	905,449	29,163	512,539	66,183	7,533	1,520,867
Additions	–	625	3,871	39,488	13,684	57,668
Transfer during the year (Note 29)	–	–	–	–	(15,193)	(15,193)
Disposals	–	(1,239)	(29,899)	(5,887)	–	(37,025)
As at 31 December 2013	905,449	28,549	486,511	99,784	6,024	1,526,317
Accumulated depreciation						
As at 1 January 2013	(158,239)	(16,260)	(301,831)	(25,315)	–	(501,645)
Charge for the year	(20,268)	(2,074)	(53,495)	(7,781)	–	(83,618)
Disposals	–	1,107	25,447	5,217	–	31,771
As at 31 December 2013	(178,507)	(17,227)	(329,879)	(27,879)	–	(553,492)
Carrying amount						
As at 31 December 2013	726,942	11,322	156,632	71,905	6,024	972,825
Cost						
As at 1 January 2014	905,449	28,549	486,511	99,784	6,024	1,526,317
Additions	9,509	1,974	45,898	9,073	8,182	74,636
Transfer during the year (Note 29)	–	–	2,705	530	(11,893)	(8,658)
Disposals	–	(5,715)	(99,433)	(3,755)	–	(108,903)
As at 31 December 2014	914,958	24,808	435,681	105,632	2,313	1,483,392

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

18 PROPERTY AND EQUIPMENT (Continued)

The Group (Continued)

	Buildings	Motor vehicles	Electric equipment	Furniture and fixtures	Construction in progress	Total
Accumulated depreciation						
As at 1 January 2014	(178,507)	(17,227)	(329,879)	(27,879)	–	(553,492)
Charge for the year	(20,268)	(2,199)	(48,432)	(9,331)	–	(80,230)
Disposals	–	5,139	86,670	2,088	–	93,897
As at 31 December 2014	<u>(198,775)</u>	<u>(14,287)</u>	<u>(291,641)</u>	<u>(35,122)</u>	<u>–</u>	<u>(539,825)</u>
Carrying amount						
As at 31 December 2014	<u>716,183</u>	<u>10,521</u>	<u>144,040</u>	<u>70,510</u>	<u>2,313</u>	<u>943,567</u>
Cost						
As at 1 January 2015	914,958	24,808	435,681	105,632	2,313	1,483,392
Additions through business combination	–	372	–	164,418	–	164,790
Additions	35	2,698	105,938	19,792	1,032	129,495
Transfer during the year (Note 29)	–	–	–	–	(2,925)	(2,925)
Disposals	–	(1,327)	(20,802)	(2,540)	–	(24,669)
As at 31 December 2015	<u>914,993</u>	<u>26,551</u>	<u>520,817</u>	<u>287,302</u>	<u>420</u>	<u>1,750,083</u>
Accumulated depreciation						
As at 1 January 2015	(198,775)	(14,287)	(291,641)	(35,122)	–	(539,825)
Additions through business combination	–	(30)	–	(140,153)	–	(140,183)
Charge for the year	(23,769)	(7,943)	(132,475)	(49,983)	–	(214,170)
Disposals	–	1,255	19,888	2,324	–	23,467
As at 31 December 2015	<u>(222,544)</u>	<u>(21,005)</u>	<u>(404,228)</u>	<u>(222,934)</u>	<u>–</u>	<u>(870,711)</u>
Carrying amount						
As at 31 December 2015	<u>692,449</u>	<u>5,546</u>	<u>116,589</u>	<u>64,368</u>	<u>420</u>	<u>879,372</u>
Cost						
As at 1 January 2016	914,993	26,551	520,817	287,302	420	1,750,083
Additions	–	397	23,648	2,526	34	26,605
Disposals	–	(759)	(8,377)	(1,213)	–	(10,349)
As at 31 March 2016	<u>914,993</u>	<u>26,189</u>	<u>536,088</u>	<u>288,615</u>	<u>454</u>	<u>1,766,339</u>
Accumulated depreciation						
As at 1 January 2016	(222,544)	(21,005)	(404,228)	(222,934)	–	(870,711)
Charge for the period	(5,937)	(787)	(16,457)	(7,543)	–	(30,724)
Disposals	–	579	8,077	1,213	–	9,869
As at 31 March 2016	<u>(228,481)</u>	<u>(21,213)</u>	<u>(412,608)</u>	<u>(229,264)</u>	<u>–</u>	<u>(891,566)</u>
Carrying amount						
As at 31 March 2016	<u>686,512</u>	<u>4,976</u>	<u>123,480</u>	<u>59,351</u>	<u>454</u>	<u>874,773</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

18 PROPERTY AND EQUIPMENT (Continued)

The Company

	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Electric equipment</u>	<u>Furniture and fixtures</u>	<u>Construction in progress</u>	<u>Total</u>
Cost						
As at 1 January 2013	905,449	25,328	446,818	57,858	7,533	1,442,986
Additions	–	625	2,880	23,679	13,684	40,868
Transfer during the year (Note 29)	–	–	–	–	(15,193)	(15,193)
Disposals	–	(1,137)	(28,689)	(923)	–	(30,749)
As at 31 December 2013	905,449	24,816	421,009	80,614	6,024	1,437,912
Accumulated depreciation						
As at 1 January 2013	(158,239)	(14,064)	(277,264)	(12,695)	–	(462,262)
Charge for the year	(20,268)	(1,536)	(47,810)	(3,722)	–	(73,336)
Disposals	–	1,097	24,485	532	–	26,114
As at 31 December 2013	(178,507)	(14,503)	(300,589)	(15,885)	–	(509,484)
Carrying amount						
As at 31 December 2013	726,942	10,313	120,420	64,729	6,024	928,428
Cost						
As at 1 January 2014	905,449	24,816	421,009	80,614	6,024	1,437,912
Additions	9,509	1,974	36,274	1,569	8,082	57,408
Transfer during the year (Note 29)	–	–	2,705	530	(11,793)	(8,558)
Disposals	–	(5,715)	(98,899)	(3,325)	–	(107,939)
As at 31 December 2014	914,958	21,075	361,089	79,388	2,313	1,378,823
Accumulated depreciation						
As at 1 January 2014	(178,507)	(14,503)	(300,589)	(15,885)	–	(509,484)
Charge for the year	(20,268)	(1,791)	(42,517)	(3,950)	–	(68,526)
Disposals	–	4,984	86,319	1,965	–	93,268
As at 31 December 2014	(198,775)	(11,310)	(256,787)	(17,870)	–	(484,742)
Carrying amount						
As at 31 December 2014	716,183	9,765	104,302	61,518	2,313	894,081
Cost						
As at 1 January 2015	914,958	21,075	361,089	79,388	2,313	1,378,823
Additions	35	1,966	97,034	5,298	1,032	105,365
Transfer during the year (Note 29)	–	–	–	–	(2,925)	(2,925)
Disposals	–	(613)	(20,706)	(2,045)	–	(23,364)
As at 31 December 2015	914,993	22,428	437,417	82,641	420	1,457,899
Accumulated depreciation						
As at 1 January 2015	(198,775)	(11,310)	(256,787)	(17,870)	–	(484,742)
Charge for the year	(23,769)	(7,269)	(121,001)	(19,270)	–	(171,309)
Disposals	–	613	19,810	1,861	–	22,284
As at 31 December 2015	(222,544)	(17,966)	(357,978)	(35,279)	–	(633,767)
Carrying amount						
As at 31 December 2015	692,449	4,462	79,439	47,362	420	824,132

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

18 PROPERTY AND EQUIPMENT (Continued)

The Company (Continued)

	Buildings	Motor vehicles	Electric equipment	Furniture and fixtures	Construction in progress	Total
Cost						
As at 1 January 2016	914,993	22,428	437,417	82,641	420	1,457,899
Additions	–	397	16,936	161	34	17,528
Disposals	–	(681)	(4,895)	(975)	–	(6,551)
As at 31 March 2016	914,993	22,144	449,458	81,827	454	1,468,876
Accumulated depreciation						
As at 1 January 2016	(222,544)	(17,966)	(357,978)	(35,279)	–	(633,767)
Charge for the period	(5,936)	(635)	(13,714)	(1,945)	–	(22,230)
Disposals	–	264	4,875	971	–	6,110
As at 31 March 2016	(228,480)	(18,337)	(366,817)	(36,253)	–	(649,887)
Carrying amount						
As at 31 March 2016	686,513	3,807	82,641	45,574	454	818,989

As at the end of 31 December 2013, 2014, 2015 and 31 March 2016, included in buildings, there is a carrying amount of RMB45,625 thousand, RMB1,703 thousand, RMB1,530 thousand and RMB1,513 thousand respectively, for which the Group and the Company have yet to obtain the relevant land or building certificates.

19 GOODWILL

The Group

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Cost	240,274	240,274	1,504,201	1,504,201
Effect of exchange rate changes for cost	(7,219)	(7,219)	83,516	74,982
Less: Provision for impairment losses	–	(166,394)	(166,394)	(166,394)
Effect of exchange rate changes for impairment provision	–	731	(9,540)	(8,589)
Carrying amount	233,055	67,392	1,411,783	1,404,200

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

19 GOODWILL (Continued)

Impairment testing on goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to operating segment as follows:

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Futures brokerage	9,380	9,380	9,380	9,380
Investment banking and brokerage . . .	223,675	223,675	231,104	229,854
Wealth management and brokerage . . .	–	–	1,347,233	1,339,949
Total	233,055	233,055	1,587,717	1,579,183

The Group acquired the futures brokerage business in the PRC together with the relevant assets and liabilities, and the interest in Everbright Futures Co., Ltd. in 2007. 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.

The Group acquired the investment banking business and brokerage business in Hong Kong together with the relevant assets and liabilities, and the interest in Everbright Securities (International) Limited in 2011. 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 investment banking and brokerage CGU. The recoverable amount of investment banking and brokerage CGU is determined based on the present value of expected future cash flows. As at 31 December 2013, based on the estimated recoverable amount, no impairment loss was recognised. As at 31 December 2014, based on the estimated recoverable amount, impairment loss of HKD210 million (RMB equivalent 166 million) was recognised. As at 31 December 2015 and 31 March 2016, based on the estimated recoverable amount, no further impairment loss was recognised.

The Group acquired the wealth management and brokerage business in Hong Kong together with the relevant assets and liabilities, and the interest in Sun Hung Kai Financial Group Limited in 2015. 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 wealth management and brokerage CGU. As at the end of the Relevant Periods, based on the estimated recoverable amount, no impairment loss for this CGU was recognised.

The recoverable amount of wealth management and brokerage CGU is based on the present value of expected future cash flows, which was determined on financial forecasts approved by management covering a six-year period and a pre-tax discount rate of 20.4%, which reflected specific risks related to the CGU.

Other major assumptions for the recoverable amount estimation relate to the estimation of cash inflows/outflows which include budgeted income and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development; and a long-term growth rate of 3%, which does not exceed the long-term average growth rate for the business in the country in which the CGU operates.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

20 OTHER INTANGIBLE ASSETS

The Group

	Customer relationship	Software and others	Total
Cost			
As at 1 January 2013	118,481	228,511	346,992
Additions	–	30,438	30,438
Disposals	(3,597)	(886)	(4,483)
As at 31 December 2013	114,884	258,063	372,947
Accumulated amortisation			
As at 1 January 2013	(19,253)	(163,219)	(182,472)
Charge for the year	(11,489)	(23,116)	(34,605)
Disposals	585	835	1,420
As at 31 December 2013	(30,157)	(185,500)	(215,657)
Carrying amount			
As at 31 December 2013	84,727	72,563	157,290
Cost			
As at 1 January 2014	114,884	258,063	372,947
Additions	386	32,235	32,621
Disposals	–	(1,006)	(1,006)
As at 31 December 2014	115,270	289,292	404,562
Accumulated amortisation			
As at 1 January 2014	(30,157)	(185,500)	(215,657)
Charge for the year	(11,628)	(30,964)	(42,592)
Disposals	–	1,006	1,006
As at 31 December 2014	(41,785)	(215,458)	(257,243)
Carrying amount			
As at 31 December 2014	73,485	73,834	147,319
Cost			
As at 1 January 2015	115,270	289,292	404,562
Additions through business combination	720,441	191,765	912,206
Additions	45,526	63,060	108,586
Disposals	–	(889)	(889)
As at 31 December 2015	881,237	543,228	1,424,465
Accumulated amortisation			
As at 1 January 2015	(41,785)	(215,458)	(257,243)
Additions through business combination	–	(122,081)	(122,081)
Charge for the year	(93,253)	(66,960)	(160,213)
Disposals	–	889	889
As at 31 December 2015	(135,038)	(403,610)	(538,648)
Carrying amount			
As at 31 December 2015	746,199	139,618	885,817

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

20 OTHER INTANGIBLE ASSETS (Continued)

The Group (Continued)

	Customer relationship	Software and others	Total
Cost			
As at 1 January 2016	881,237	543,228	1,424,465
Additions	–	10,042	10,042
Disposals	(3,790)	(1,396)	(5,186)
As at 31 March 2016	877,447	551,874	1,429,321
Accumulated amortisation			
As at 1 January 2016	(135,038)	(403,610)	(538,648)
Charge for the period	(39,504)	(17,270)	(56,774)
Disposals	–	1,051	1,051
As at 31 March 2016	(174,542)	(419,829)	(594,371)
Carrying amount			
As at 31 March 2016	702,905	132,045	834,950

The Company

	Software and others
Cost	
As at 1 January 2013	202,771
Additions	24,178
Disposals	–
As at 31 December 2013	226,949
Accumulated amortisation	
As at 1 January 2013	(150,204)
Charge for the year	(19,170)
Disposals	–
As at 31 December 2013	(169,374)
Carrying amount	
As at 31 December 2013	57,575
Cost	
As at 1 January 2014	226,949
Additions	24,065
Disposals	–
As at 31 December 2014	251,014
Accumulated amortisation	
As at 1 January 2014	(169,374)
Charge for the year	(25,103)
Disposals	–
As at 31 December 2014	(194,477)
Carrying amount	
As at 31 December 2014	56,537

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

20 OTHER INTANGIBLE ASSETS (Continued)

The Company (Continued)

	Software and others
Cost	
As at 1 January 2015	251,014
Additions	40,437
Disposals	(284)
As at 31 December 2015	291,167
Accumulated amortisation	
As at 1 January 2015	(194,477)
Charge for the year	(41,770)
Disposals	284
As at 31 December 2015	(235,963)
Carrying amount	
As at 31 December 2015	55,204
Cost	
As at 1 January 2016	291,167
Additions	5,515
Disposals	(28)
As at 31 March 2016	296,654
Accumulated amortisation	
As at 1 January 2016	(235,963)
Charge for the period	(8,313)
Disposals	28
As at 31 March 2016	(244,248)
Carrying amount	
As at 31 March 2016	52,406

21 INVESTMENTS IN SUBSIDIARIES

The Company

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Unlisted shares, carried at cost	4,820,328	5,876,933	5,876,933	6,676,933
Less: Impairment losses	–	–	–	–
Total	4,820,328	5,876,933	5,876,933	6,676,933

II NOTES TO THE FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

The following list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Equity interest held				Principal activity	Auditor ⁽²⁾ and GAAP			
			As at 31 December		As at 31 March			As at 31 December		As at 31 March	
			2013	2014	2015	2016		2013	2014	2015	2016
Everbright Futures Co., Ltd.* ⁽¹⁾ 光大期貨有限公司	PRC 8 April 1993	RMB 1,000,000,000	100%	100%	100%	100%	Futures brokerage	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	(8)
Everbright Pramerica Fund Management Co., Ltd.* ⁽¹⁾ 光大保德信基金管理有限公司	PRC 22 April 2004	RMB 160,000,000	55%	55%	55%	55%	Fund management	PwC PRC PRC GAAP	PwC PRC PRC GAAP	PwC PRC PRC GAAP	(8)
Everbright Capital Investment Co., Ltd.* ⁽¹⁾ 光大資本投資有限公司	PRC 7 November 2008	RMB 2,000,000,000	100%	100%	100%	100%	Direct investment	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	(8)
Everbright Securities Financial Holdings Limited ⁽¹⁾	Hong Kong 19 November 2010	HKD 1,765,000,000	100%	100%	100%	100%	Investment holding	KPMG HKFRS	KPMG HKFRS	KPMG HKFRS	(8)
Shanghai Everbright Securities Assets Management Co., Ltd.* ⁽¹⁾ 上海光大證券 資產管理有限公司	PRC 21 February 2012	RMB 200,000,000	100%	100%	100%	100%	Asset management	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	(8)
Everbright Fortune Investment Co., Ltd.* ⁽¹⁾ 光大富尊投資有限公司	PRC 26 September 2012	RMB 2,000,000,000	100%	100%	100%	100%	Alternative Investment	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	(8)
Everbright Securities (International) Limited	British Virgin Islands 14 July 1992	HKD 1,000	51%	51%	51%	51%	Investment holding	N/A	N/A	N/A	N/A

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Equity interest held			Principal activity	Auditor ⁽²⁾ and GAAP				
			As at 31 December		As at 31 March 2016		As at 31 December		As at 31 March 2016		
			2013	2014	2015		2016	2014	2015	2016	
China Everbright Capital (HK) Limited	Hong Kong 20 April 2012	HKD 1,000,000	100%	100%	--	Investment holding	KPMG HKFRS	KPMG HKFRS	(7)	N/A	N/A
Everbright BeiChuang (Beijing) Investment Management Co., Ltd.* ⁽⁶⁾ 光大北創(北京)投資管理有限公司	PRC 20 January 2013	RMB 10,000,000	51%	--	--	Investment management	N/A	N/A	N/A	N/A	N/A
Everbright Photon Investment Management Co., Ltd.* 光大光子投資管理有限公司	PRC 26 June 2014	RMB 120,000,000	--	100%	100%	Risk management service	N/A	KPMG PRC PRC GAAP	KPMG PRC PRC GAAP	(8)	(8)
Everbright Financial Investment Limited	Hong Kong 14 August 2014	HKD 650,000,000	--	100%	100%	Investment holding	N/A	N/A	KPMG HKFRS	(8)	(8)
China Everbright Securities (HK) Limited ⁽⁴⁾	Hong Kong 4 January 1991	HKD 650,000,000	100%	100%	100%	Securities brokerage and margin financing	KPMG HKFRS	KPMG HKFRS	KPMG HKFRS	(8)	(8)
China Everbright Research Limited ⁽⁴⁾	Hong Kong 30 July 1992	HKD 5,500,000	100%	100%	100%	Investment research	KPMG HKFRS	KPMG HKFRS	KPMG HKFRS	(8)	(8)
China Everbright Forex & Futures (HK) Limited ⁽⁴⁾	Hong Kong 19 August 1993	HKD 100,000,000	100%	100%	100%	Futures brokerage and leveraged foreign exchange	KPMG HKFRS	KPMG HKFRS	KPMG HKFRS	(8)	(8)
China Everbright Securities International Limited ⁽⁴⁾	Hong Kong 4 January 1994	HKD 5,000,000	100%	100%	100%	Investment holding and provision of management services	KPMG HKFRS	KPMG HKFRS	KPMG HKFRS	(8)	(8)

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Equity interest held				Principal activity	Auditor ⁽²⁾ and GAAP			
			As at 31 December		As at 31 March 2016	As at 31 December		As at 31 March			
			2013	2014	2015	2016		2013	2014	2015	2016
China Everbright Capital Limited ⁽⁴⁾	Hong Kong 4 January 1994	HKD 10,000,000	100%	100%	100%	100%	Corporate finance advisory	KPMG HKFRS	KPMG HKFRS	KPMG HKFRS	(8)
Luxfull Limited ⁽⁴⁾	British Virgin Islands 7 March 1997	USD 1	100%	100%	100%	100%	Investment holding	N/A	N/A	N/A	N/A
Timbo Investment Limited ⁽⁴⁾	British Virgin Islands 8 April 1997	USD 1	100%	100%	100%	100%	Investment holding	N/A	N/A	N/A	N/A
China Everbright Wealth Management Limited ⁽⁴⁾	Hong Kong 6 December 2002	HKD 500,000	100%	100%	100%	100%	Wealth management	KPMG HKFRS	KPMG HKFRS	KPMG HKFRS	(8)
China Everbright Bullion Investment Limited ⁽⁴⁾	Hong Kong 20 August 2004	HKD 1,000	100%	100%	100%	100%	Bullion trading services	KPMG HKFRS	KPMG HKFRS	KPMG HKFRS	(8)
Bolson Limited ⁽⁴⁾	Hong Kong 2 November 2007	HKD 10,000	100%	100%	100%	100%	Holding of motor vehicle and license	KPMG HKFRS	KPMG HKFRS	KPMG HKFRS	(8)
Shenzhen Baoyoudi Technology Co., Ltd. * ⁽⁴⁾ 深圳寶又迪科技有限公司	PRC 18 January 2008	HKD 8,000,000	100%	100%	100%	100%	Inactive	Pengsheng PRC GAAP	Pengsheng PRC GAAP	Pengsheng PRC GAAP	(8)
Majestic Luck Limited ⁽⁴⁾	British Virgin Islands 6 September 2011	USD 1	100%	100%	100%	100%	Investment holding	N/A	N/A	N/A	N/A
Everbright Fortune (Shenzhen) Financial Services Co., Ltd. * ⁽⁴⁾ 陽光富尊(深圳)金融服務諮詢有限公司	PRC 23 September 2011	HKD 30,000,000	100%	100%	100%	100%	Advisory services	Bozhong PRC GAAP	Bozhong PRC GAAP	Bozhong PRC GAAP	(8)

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Equity interest held			Principal activity	Auditor ⁽²⁾ and GAAP			
			As at 31 December		As at 31 March		As at 31 December		As at 31 March	
			2013	2014	2015		2016	2013	2014	2015
China Everbright Securities Asset Management Limited ⁽⁴⁾	Hong Kong 23 September 2011	HKD 10,000,000	100%	100%	100%	100%	Asset management	KPMG HKFRS	KPMG HKFRS	(8)
China Everbright Fortune Immigration Services Limited ⁽⁴⁾	Hong Kong 9 December 2011	HKD 1,000	100%	100%	100%	100%	Immigration services	KPMG HKFRS	KPMG HKFRS	(8)
Ever Rapid Limited ⁽⁴⁾	British Virgin Islands 18 April 2012	USD 1	100%	100%	100%	100%	Investment holding	N/A	N/A	(8)
China Everbright Securities Finance Limited ⁽⁴⁾	Hong Kong 23 May 2012	HKD 1,000,000	100%	100%	100%	100%	Money lending	KPMG HKFRS	KPMG HKFRS	(8)
China Everbright Fortune Investment Limited ⁽⁴⁾	Hong Kong 4 July 2013	HKD 1,000	100%	100%	100%	100%	Investment	N/A	KPMG HKFRS	(8)
China Everbright Property Agency Limited ⁽⁴⁾	Hong Kong 7 October 2013	HKD 1,000	100%	100%	100%	100%	Property agency	N/A	KPMG HKFRS	(8)
Sun Hung Kai Financial Group Limited	British Virgin Islands 14 September 2010	USD 301,217,140	-	-	70%	70%	Investment holding	(6)	(6) KPMG HKFRS	(8)
Everbright Fortune International Leasing Co., Ltd.* 光大幸福國際租賃有限公司	PRC 29 September 2014	RMB 1,000,000,000	-	-	85%	85%	Finance lease	N/A	KPMG PRC PRC GAAP	(8)
Sun Hung Kai Financial Limited ⁽⁵⁾	Hong Kong 27 February 1973	HKD 157,748,221	-	-	100%	100%	Investment holding	(6)	(6) KPMG HKFRS	(8)

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Equity interest held				Principal activity	Auditor ⁽²⁾ and GAAP			
			As at 31 December		As at 31 March 2016	As at 31 December		As at 31 March			
			2013	2014	2015	2016		2013	2014	2015	2016
Dynamic Force Investments Limited ⁽⁵⁾	British Virgin Islands 8 January 2004	USD 1	-	-	100%	100%	(6)	(6)	(6)	KPMG HKFRS	(8)
Lexshan Nominees Limited ⁽⁵⁾	Hong Kong 11 August 1978	HKD 2	-	-	100%	100%	(6)	(6)	(6)	KPMG HKFRS	(8)
SHK Absolute Return Managers Ltd. ⁽⁵⁾	Cayman Islands 15 April 2005	USD 10	-	-	100%	100%	(6)	(6)	(6)	KPMG HKFRS	(8)
SHK Alpha Managers Ltd. ⁽⁵⁾	Cayman Islands 14 February 2007	USD 10	-	-	100%	100%	(6)	(6)	(6)	KPMG HKFRS	(8)
SHK Alternative Managers Limited ⁽⁵⁾	Cayman Islands 11 January 2006	USD 1	-	-	100%	100%	(6)	(6)	(6)	KPMG HKFRS	(8)
SHK Dynamic Managers Ltd. ⁽⁵⁾	Cayman Islands 30 March 2006	USD 10	-	-	100%	100%	(6)	(6)	(6)	KPMG HKFRS	(8)
SHK Fund Management Limited ⁽⁵⁾	Hong Kong 20 January 1989	HKD 106,000,000	-	-	100%	100%	(6)	(6)	(6)	KPMG HKFRS	(8)
SHK Global Managers Limited ⁽⁵⁾	British Virgin Islands 23 April 2002	USD 5,000	-	-	100%	100%	(6)	(6)	(6)	KPMG IFRS	(8)
SHK Income Fund Manager ⁽⁵⁾	Cayman Islands 23 October 2008	USD 100	-	-	100%	100%	(6)	(6)	(6)	KPMG HKFRS	(8)

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Equity interest held				Principal activity	Auditor ⁽²⁾ and GAAP				
			As at 31 December		As at 31 March			As at 31 December		As at 31 March		
			2013	2014	2015	2016		2013	2014	2015	2016	
SHK Online (Securities) Limited ⁽⁵⁾	Hong Kong 23 December 1975	HKD 40,000,000	–	–	100%	100%	(6)	(6)	(6)	(6)	KPMG HKFRS	(8)
SHK Arbitrage Opportunities Limited ⁽⁵⁾	Hong Kong 2 May 1975	HKD 20,000,000	–	–	100%	100%	(6)	(6)	(6)	(6)	KPMG HKFRS	(8)
SHK Private Equity Managers Ltd. ⁽⁵⁾	Cayman Islands 14 February 2007	USD 10	–	–	100%	100%	(6)	(6)	(6)	(6)	KPMG HKFRS	(8)
SHK Private Limited ⁽⁵⁾	Hong Kong 11 July 1975	HKD 100,000	–	–	100%	100%	(6)	(6)	(6)	(6)	KPMG HKFRS	(8)
SHK Quant Managers Ltd. ⁽⁵⁾	Cayman Islands 15 April 2005	USD 10	–	–	100%	100%	(6)	(6)	(6)	(6)	KPMG HKFRS	(8)
SHK Solutions Limited ⁽⁵⁾	Hong Kong 6 March 2000	HKD 2	–	–	100%	100%	(6)	(6)	(6)	(6)	KPMG HKFRS	(8)
Shun Loong Forex Company Limited ⁽⁵⁾	Hong Kong 6 July 1973	HKD 32,000,000	–	–	100%	100%	(6)	(6)	(6)	(6)	KPMG HKFRS	(8)
Shun Loong Futures Limited ⁽⁵⁾	Hong Kong 16 August 1977	HKD 15,000,000	–	–	100%	100%	(6)	(6)	(6)	(6)	KPMG HKFRS	(8)
Shun Loong Holdings Limited ⁽⁵⁾	Hong Kong 1 August 1980	HKD 200,000,000	–	–	100%	100%	(6)	(6)	(6)	(6)	KPMG HKFRS	(8)

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Equity interest held			Principal activity	Auditor ⁽²⁾ and GAAP				
			As at 31 December		As at 31 March		As at 31 December		As at 31 March		
			2013	2014	2015		2016	2013	2014	2015	2016
Shun Loong Securities Company Limited ⁽⁵⁾	Hong Kong 4 May 1995	HKD 50,000,000	–	–	100%	100%	Securities broking	(6)	(6)	KPMG HKFRS	(8)
Sun Hing Bullion Company Limited ⁽⁵⁾	Hong Kong 24 November 1992	HKD 5,500,000	–	–	100%	100%	Bullion trading	(6)	(6)	KPMG HKFRS	(8)
Sun Hung Kai (Nominees) Limited ⁽⁵⁾	Hong Kong 18 April 1972	HKD 200	–	–	100%	100%	Nominee services	(6)	(6)	KPMG HKFRS	(8)
Sun Hung Kai Bullion Company Limited ⁽⁵⁾	Hong Kong 12 September 1972	HKD 210,000,000	–	–	100%	100%	Bullion trading and investment holding	(6)	(6)	KPMG HKFRS	(8)
Sun Hung Kai Commodities Limited ⁽⁵⁾	Hong Kong 4 August 1976	HKD 133,300,000	–	–	100%	100%	Commodities broking	(6)	(6)	KPMG HKFRS	(8)
Sun Hung Kai Insurance Consultants Limited ⁽⁵⁾	Hong Kong 5 July 1988	HKD 21,000,000	–	–	100%	100%	Insurance broking and consultancy services	(6)	(6)	KPMG HKFRS	(8)
Sun Hung Kai International Commodities Limited ⁽⁵⁾	Hong Kong 24 March 1972	HKD 25,000,000	–	–	100%	100%	Securities, futures and options trading	(6)	(6)	KPMG HKFRS	(8)
Sun Hung Kai International Limited ⁽⁵⁾	Hong Kong 3 May 1974	HKD 22,000,000	–	–	100%	100%	Corporate finance services	(6)	(6)	KPMG HKFRS	(8)
Sun Hung Kai Investment Services (Macau) Limited ⁽⁵⁾	Macau 5 February 1991	MOP 48,900,000	–	–	100%	100%	Inactive	(6)	(6)	KPMG Macau FRS	(8)

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Equity interest held			Principal activity	Auditor ⁽²⁾ and GAAP			
			As at 31 December		As at 31 March		As at 31 December		As at 31 March	
			2013	2014	2015		2016	2013	2014	2015
Sun Hung Kai Investment Services Limited ⁽⁵⁾	Hong Kong 4 August 1972	HKD 930,000,000	–	–	100%	100%	(6)	(6)	(8)	KPMG HKFRS
Sun Hung Kai Structured Products Limited ⁽⁵⁾	Hong Kong 21 March 1980	HKD 2	–	–	100%	100%	(6)	(6)	(8)	KPMG HKFRS
Sun Hung Kai Wealth Management Limited ⁽⁵⁾	Hong Kong 21 December 1990	HKD 5,000,000	–	–	100%	100%	(6)	(6)	(8)	KPMG HKFRS
Sun Tai Cheung Finance Company Limited ⁽⁵⁾	Hong Kong 24 December 1976	HKD 25,000,000	–	–	100%	100%	(6)	(6)	(8)	KPMG HKFRS
Sun Yi Company Limited ⁽⁵⁾	Hong Kong 19 November 1982	HKD 15,000,000	–	–	100%	100%	(6)	(6)	(8)	KPMG HKFRS
Sun Hung Kai (Shanghai) Investment Consultancy Limited ⁽⁴⁾⁽⁵⁾ 新鴻基(上海)投資顧問有限公司	PRC 24 December 2009	HKD 22,300,000	–	–	100%	100%	(6)	(6)	(8)	Fangyuan PRC GAAP
Sun Hung Kai Insurance Agency Limited ⁽⁵⁾	Hong Kong 30 October 2014	HKD 2,000,001	–	–	100%	100%	(6)	(6)	(8)	KPMG HKFRS
SWAT Management S.A.R.L. ⁽⁵⁾	Luxembourg 8 May 2013	EUR 12,500	–	–	100%	100%	(6)	(6)	N/A	N/A
Sun Hung Kai Financial Australia Pty Ltd ⁽⁵⁾	Australia 18 January 2010	AUD 1	–	–	100%	100%	(6)	(6)	(8)	Deloitte Australia FRS

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Equity interest held				Principal activity	Auditor ⁽²⁾ and GAAP			
			As at 31 December		As at 31 March 2016	As at 31 December		As at 31 March			
			2013	2014	2015	2016		2014	2015	2016	
Sun Tai Cheung Credits Limited 新泰昌投资有限公司 ⁽⁵⁾	Hong Kong 31 December 1973	HKD 167,400,000	-	-	100%	100%	Inactive	(6)	(6)	(8)	KPMG HKFRS
Shun Loong Bullion Limited 順隆金業有限公司 ⁽⁵⁾	Hong Kong 7 September 1995	HKD 6,000,000	-	-	100%	100%	Investment holding	(6)	(6)	(8)	KPMG HKFRS
Shun Loong Finance Limited 順隆財務有限公司 ⁽⁵⁾	Hong Kong 7 September 1995	HKD 1,000,000	-	-	100%	100%	Financial service	(6)	(6)	(8)	KPMG HKFRS
Grand Securities Company Limited 大唐證券有限公司 ⁽⁵⁾	Hong Kong 20 January 1993	HKD 20,000,000	-	-	100%	100%	Securities broking	(6)	(6)	(8)	KPMG HKFRS
Double Charm Limited 倍昌有限公司	British Virgin Islands 8 January 2015	USD 1	-	-	100%	100%	Inactive	N/A	N/A	N/A	N/A
Planup Limited 圖升有限公司	British Virgin Islands 12 January 2015	USD 1	-	-	100%	100%	Investment holding	N/A	N/A	N/A	N/A
High Harvest Investments Limited 崇豐投資有限公司	British Virgin Islands 21 May 2015	USD 1	-	-	100%	100%	Investment holding	N/A	N/A	N/A	N/A
China Everbright Sun Hung Kai Financial Company Limited 中國光大新鴻基金融有限公司	Hong Kong 23 June 2015	HKD 1	-	-	100%	100%	Investment holding	N/A	N/A	(8)	KPMG HKFRS
Everbright Jinhui Investment Management (Shanghai) Co., Ltd.* 光大浸輝投資管理(上海)有限公司	PRC 4 May 2015	RMB 2,050,000	-	-	100%	100%	Investment management	N/A	N/A	(8)	KPMG PRC PRC GAAP

II NOTES TO THE FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place and date of incorporation/ establishment	Issued and fully paid-up capital	Equity interest held			Principal activity	Auditor ⁽²⁾ and GAAP				
			As at 31 December		As at 31 March		As at 31 December		As at 31 March		
			2013	2014	2015		2016	2013	2014	2015	2016
Everbright Pramerica Assets Management Co., Ltd.* 光大保德信資產管理有限公司	PRC 27 August 2015	RMB 50,000,000	-	-	100%	100%	Asset management	N/A	N/A	PwC PRC PRC GAAP	(8)
Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd.* 光大富尊泰鋒投资管理(上海)有限公司	PRC 19 November 2015	RMB 2,570,000	-	-	85%	85%	Investment management	N/A	N/A	KPMG PRC PRC GAAP	(8)

* The English translation of the names is for reference only. The official names of these entities are in Chinese.

The Group acts as principal of several structured entities during the Relevant Periods, according to relevant accounting policies of the Group, these structured entities were included in the Financial Information. More detailed information of consolidated structured entities is disclosed in Note 53.

- (1) These subsidiaries are directly held by the Company.
- (2) Auditors of the respective subsidiaries of the Group are as follows:
 - KPMG PRC represents KPMG Huazhen LLP, a firm of certified public accountants registered in the PRC;
 - KPMG represents KPMG in Hong Kong, a firm of certified public accountants registered in Hong Kong;
 - PwC PRC represents PwC Zhong Tian LLP, a firm of certified public accountants registered in the PRC;
 - Bozhong represents Shenzhen Bozhong Certified Public Accountants, a firm of certified public accountants registered in the PRC;
 - Pengsheng represents Shenzhen Pengsheng Certified Public Accountants, a firm of certified public accountants registered in the PRC;
 - Fangyuan represents Fangyuan Certified Public Accountants, a firm of certified public accountants registered in Australia.
 - Deloitte Australia represents Deloitte in Australia, a firm of certified public accountants registered in Australia.
- (3) The subsidiary was established in 2013 and deregistered in 2014. No statutory financial statements have been issued for this subsidiary.
- (4) The equity interest in the subsidiary represents the equity interest held directly or indirectly by Everbright Securities (International) Limited.
- (5) The equity interest in the subsidiary represents the equity interest held directly or indirectly by Sun Hung Kai Financial Group Limited.
- (6) These companies are controlled by the Sun Hung Kai Financial Group Limited. The acquisition of Sun Hung Kai Financial Group Limited was completed on 2 June 2015. Auditor and Generally Accepted Accounting Principles information are not disclosed for the years ended 31 December 2013 and 2014 when the relevant companies were not controlled by the Group.
- (7) The subsidiaries were deregistered in 2015.
- (8) No statutory audit reports have been issued for the three months ended 31 March 2016.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

The following table lists out the information related to major subsidiaries of the Group which have material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

Everbright Securities (International) Limited

	As at 31 December			As at 31 March
	2013	2014	2015	2016
NCI percentage	49%	49%	49%	49%
Assets	3,828,043	4,144,896	4,879,494	5,896,913
Liabilities	(2,828,833)	(3,083,858)	(3,786,832)	(4,784,901)
Net assets	999,210	1,061,038	1,092,662	1,112,012
Carrying amount of NCI	489,613	519,909	535,404	544,886
Revenue	297,780	287,254	389,210	58,176
Profit/(losses) for the year/period	54,141	19,959	53,023	(4,322)
Other comprehensive income	(30,084)	(6,729)	–	–
Total comprehensive income	24,057	13,230	53,023	(4,322)
Total comprehensive income attributable to NCI	11,788	6,483	25,981	(2,118)
Dividend paid to NCI	–	–	–	–
Cash flows from operating activities	(303,118)	52,204	118,722	(67,762)
Cash flows from investing activities	787	3,247	(312,421)	2,948
Cash flows from financing activities	239,670	118,853	279,200	64,205

Everbright Pramerica Fund Management Co., Ltd.

	As at 31 December			As at 31 March
	2013	2014	2015	2016
NCI percentage	45%	45%	45%	45%
Assets	700,683	780,252	824,520	774,410
Liabilities	(88,718)	(132,824)	(135,540)	(64,853)
Net assets	611,965	647,428	688,980	709,557
Carrying amount of NCI	275,384	291,343	310,041	319,301
Revenue	397,636	408,751	499,697	110,808
Profit for the year/period	113,904	130,081	155,288	27,950
Other comprehensive income	(6,257)	3,566	(932)	(7,386)
Total comprehensive income	107,647	133,647	154,356	20,564
Total comprehensive income attributable to NCI	48,441	60,141	69,460	9,254
Dividend paid to NCI	32,379	44,182	50,762	–
Cash flows from operating activities	96,131	95,284	64,007	(5,328)
Cash flows from investing activities	(175,874)	(10,073)	128,172	17,776
Cash flows from financing activities	(71,953)	(68,182)	(112,804)	–

II NOTES TO THE FINANCIAL INFORMATION *(Continued)*
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Sun Hung Kai Financial Group Limited

	As at 31 December			As at 31 March
	2013	2014	2015	2016
NCI percentage	–	–	30%	30%
Assets	–	–	11,474,068	5,676,028
Liabilities	–	–	(8,368,647)	(2,633,626)
Net assets	–	–	3,105,421	3,042,402
Carrying amount of NCI	–	–	931,626	912,721
Revenue	–	–	485,016	173,986
Loss for the period since acquisition	–	–	(6,048)	(7,789)
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	(6,048)	(7,789)
Total comprehensive income attributable to NCI	–	–	(1,814)	(2,337)
Dividend paid to NCI	–	–	–	–
Cash flows from operating activities	–	–	(333,680)	68,429
Cash flows from investing activities	–	–	3,984	7,350
Cash flows from financing activities	–	–	195,593	50,630

Acquisition of subsidiaries

Sun Hung Kai Financial Group Limited

On 1 February 2015, the Company's subsidiary, Everbright Securities Financial Holdings Limited, entered into a sale and purchase agreement with Sun Hung Kai & Co., Limited, pursuant to which, Sun Hung Kai & Co., Limited agreed to sell and Everbright Securities Financial Holdings Limited agreed to purchase the 70% allotted issued share capital of Sun Hung Kai Financial Group Limited for a consideration of HKD 4.087 billion (RMB3.223 billion). The acquisition was completed on 2 June 2015.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Acquisition of subsidiaries (Continued)

Sun Hung Kai Financial Group Limited (Continued)

This acquisition has been accounted for using the acquisition method of accounting.

	RMB'000
Consideration transferred	
Cash	3,222,846
	<u>3,222,846</u>
Assets acquired and liabilities recognised at the date of acquisition	
Property and equipment	23,627
Other intangible assets	789,545
Interest in associates and joint ventures	34,094
Available-for-sale financial assets	9,364
Refundable deposits	35,734
Deferred tax assets	2,278
Other receivables and prepayments	229,705
Financial assets at fair value through profit or loss	165
Margin accounts receivable	3,454,646
Accounts receivable	1,831,644
Cash and bank balances	425,317
Loans and borrowings	(883,318)
Accounts payable to brokerage clients	(2,685,888)
Other payables and accruals	(294,715)
Employee benefits payable	(27,066)
Current tax liabilities	(37,468)
Deferred tax liabilities	(119,520)
	<u>2,788,144</u>
Goodwill arising from acquisition	
Consideration transferred	3,222,846
Add: Non-controlling interest	836,444
Less: Fair value of identifiable net assets acquired	(2,788,144)
	<u>1,271,146</u>

Goodwill arose in the acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

	RMB'000
Net cash outflow on acquisition of subsidiary	
Consideration paid in cash	3,222,846
Less: Cash and bank balances	(425,317)
	<u>2,797,529</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Acquisition of subsidiaries (Continued)

Sun Hung Kai Financial Group Limited (Continued)

Included in the Group's revenue and net profit for the year ended 31 December 2015 are RMB485 million and a loss amount of RMB19 million attributable to the business generated by Sun Hung Kai Financial Group Limited since acquisition respectively.

Had the acquisition been completed on 1 January 2015, the Group's revenue for the year ended 31 December 2015 would have been RMB23,696 million, and the Group's profit for the period would have been RMB7,919 million. The pro forma financial information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

Everbright Fortune International Leasing Co., Ltd.

In May 2015, the Group acquired 350 million shares of Everbright Fortune International Leasing Co., Ltd. ("Fortune Leasing") from an existing shareholder for a consideration of RMB350 million. The equity interest held by the Group increased from 50% to 85% after the completion of acquisition on 31 May 2015, when the Group gained control over Fortune Leasing. Fortune Leasing has been reclassified from an associate to a subsidiary and consolidated in the Group's Financial Information thereafter.

This acquisition has been accounted for using the acquisition method of accounting.

	RMB'000
Consideration transferred	
Cash	350,000
	<u>350,000</u>
Assets acquired and liabilities recognised at the date of acquisition	
Property and equipment	980
Other intangible assets	580
Available-for-sale financial assets	100,700
Other receivables and prepayments	507,855
Other non-current assets	523
Deferred tax assets	2,825
Cash and bank balances	543,593
Loans and borrowings	(100,000)
Employee benefits payable	(1,637)
Other payables and accruals	(26,052)
Current tax liabilities	(4,896)
	<u>1,024,471</u>
Gains arising from acquisition	
Consideration paid in cash	350,000
Fair value of previously held interests of 50% in Fortune Leasing	512,236
Add: Non-controlling interests	153,671
Less: Net assets acquired	(1,024,471)
	<u>(8,564)</u>

The non-controlling interests at the acquisition date was measured at the proportionate share of the fair value of identifiable net assets of Fortune Leasing.

In the opinion of the directors of the Company, the fair values of the receivables acquired (which principally comprised accounts receivable and other receivables) approximate to the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables which are expected to be collected.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (Continued)

Acquisition of subsidiaries (Continued)

Everbright Fortune International Leasing Co., Ltd. (Continued)

	RMB'000
Net cash inflow on acquisition of subsidiary	
Consideration paid in cash	350,000
Less: bank balances and cash acquired	(543,593)
	<u>(193,593)</u>

Included in the Group's revenue and net profit for the year ended 31 December 2015 are RMB157 million and RMB68 million attributable to the business generated by Everbright Fortune International Leasing Co., Ltd since acquisition respectively.

Had the acquisition been completed on 1 January 2015, the Group's revenue for the year ended 31 December 2015 would have been RMB23,159 million, and Group's profit for the year would have been RMB7,821 million. The pro forma financial information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

Disposal of subsidiary

Everbright BeiChuang (Beijing) Investment Management Co., Ltd.

On 12 December 2014, the Company disposed of Everbright BeiChuang (Beijing) Investment Management Co., Ltd. which carried out investment management activities.

Information on disposal of subsidiary:

	RMB'000
Proceeds from disposal of subsidiary	<u>5,112</u>
Cash and cash equivalents received this year from disposal of subsidiary	10,023
Less: Cash and cash equivalents held by non-controlling interests	(4,911)
Net cash received from disposal of subsidiary	<u>5,112</u>
Non-cash assets and liabilities held by disposed subsidiary	
– Current assets	–
– Non-current assets	–
– Current liabilities	–
– Non-current liabilities	–

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

22 INTEREST IN ASSOCIATES AND JOINT VENTURES

The Group

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Share of net assets	409,583	970,640	874,763	887,157

The Company

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Share of net assets	409,583	468,097	640,889	642,754

The following list contains the particulars of material associates and joint ventures, all of which are unlisted corporate entities whose quoted market price is not available:

Name of associates and joint ventures	Place of incorporation	Registered capital	Equity interest held				Principal activity
			As at 31 December		As at 31 March		
			2013	2014	2015	2016	
Dacheng Fund Management Co., Ltd.*大成基金管理有限公司	Shenzhen	RMB200,000,000	25%	25%	25%	25%	Fund management
Everbright Fortune International Leasing Co., Ltd. ⁽¹⁾ *光大幸福國際租賃有限公司	Shanghai	RMB1,000,000,000	–	50%	–	–	Finance leasing
Rothschild Everbright Limited	Hong Kong	HKD200	50%	50%	– ⁽³⁾	– ⁽³⁾	Dormant
Everbright Yunfu Internet Co., Ltd.*光大雲付互聯網股份有限公司	Shanghai	RMB200,000,000	–	–	40%	40%	Financial data processing
Everbright Easecreate Internet Co., Ltd.*光大易創網絡科技股份有限公司	Shanghai	RMB100,000,000	–	–	40%	40%	Financial data processing
Everbright Ivy Investment Management (Shanghai) Co., Ltd.* ⁽²⁾ 光大常春藤投資管理(上海)有限公司	Shanghai	RMB10,000,000	–	–	51%	51%	Investment management
Everbright LeadBank Assets Management (Shanghai) Co., Ltd.* ⁽²⁾ 光大利得資產管理(上海)有限公司	Shanghai	RMB2,000,000	–	–	51%	51%	Investment management
Everbright Ivy (Shanghai) Investment Center (limited partnership)*光大常春藤一期(上海)股權投資基金合夥企業(有限合伙)	Shanghai	RMB18,500,000,000	–	–	27%	27%	Funds management
Shanghai Everbright Sports & Culture Equity Fund (limited partnership)*上海光大體育文化投資合夥企業(有限合伙)	Shanghai	RMB200,000,000	–	–	25%	25%	Funds management

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

22 INTEREST IN ASSOCIATES AND JOINT VENTURES (Continued)

Name of associates and joint ventures	Place of incorporation	Registered capital	Equity interest held				Principal activity
			As at 31 December		As at 31 March		
			2013	2014	2015	2016	
Sun Hung Kai Forex Limited ⁽²⁾	Hong Kong	HKD75,166,707	-	-	51%	51%	Foreign exchange dealing
Tribridge Capital Management (Cayman) Limited	Cayman Islands	USD1,001	-	-	20.13%	20.13%	Funds management
Sun Hung Kai Insurance Brokers (Shanghai) Co., Ltd.* 新鴻基保險經紀(上海)有限公司	Shanghai	RMB10,000,000	-	-	24.90%	24.90%	Insurance broking and consultancy services
Jiaxing Everbright BoPu Investment LLP (Limited Partnership)* 嘉興光大礪璞投資合夥企業(有限合夥)	Jiaxing	RMB100,000,000	-	-	25%	25%	Investment management
EBS Fund Management Co., Ltd.* ⁽²⁾ 上海光大光證股權投資基金管理有限公司	Shanghai	RMB20,000,000	-	-	51%	51%	Investment management
Jiaxing Everbright Meiyin Investment Management Co., Ltd.* ⁽²⁾ 嘉興光大美銀投資管理有限公司	Jiaxing	RMB2,000,000	-	-	51%	51%	Investment management
Jiaxing Everbright Meiyin No. 1 Investment LLP* 嘉興光大美銀壹號投資合夥企業	Jiaxing	RMB500,000,000	-	-	25%	25%	Investment management
Shenzhen Qianhai Tunlan Investment Co., Ltd.* ⁽²⁾ 深圳前海光大瞰瀾投資管理有限公司	Shenzhen	RMB5,000,000	-	-	51%	51%	Investment management
Hangzhou Everbright Tunlan Investment LLP* ⁽²⁾ 杭州光大瞰瀾投資合夥企業(有限合夥)	Hangzhou	RMB200,000,000	-	-	60%	60%	Investment management
Beijing Wenzhi Guangda Cultural and Creative Industries Investment Management Co., Ltd.* ⁽²⁾ 北京文資光大文創產業投資管理有限公司	Beijing	RMB5,000,000	-	-	51%	51%	Investment management
Shanghai Everbright Fortune Jingsheng Investment Center (Limited Partnership)* ⁽⁴⁾ 上海光大富尊璟晟投資中心(有限合夥)	Shanghai	RMB63,700,000	-	-	-	16.89%	Investment management
Shanghai Everbright Fortune Jingtian Investment Center (Limited Partnership)* ⁽⁴⁾ 上海光大富尊璟天投資中心(有限合夥)	Shanghai	RMB52,350,000	-	-	-	0.19%	Investment management

* The English translation of the names is for reference only. The official names of these entities are in Chinese.

All of the above associates and joint ventures are accounted for using equity method in the Financial Information.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

22 INTEREST IN ASSOCIATES AND JOINT VENTURES (Continued)

- (1) Everbright Fortune International Leasing Co., Ltd. became a subsidiary of the Company in 2015, details are set out in Note 21.
- (2) The Group's shareholding of these investees is higher than 50%, however these investees are jointly controlled by the Group as a result of relevant arrangements stipulated in the Articles of Association and other corporate governance documents.
- (3) This company was deregistered in 2015.
- (4) The Group's shareholding of these investees is lower than 20%, however these investees are jointly controlled by the Group as a result of relevant arrangements stipulated in the Articles of Association and other corporate governance documents.

Summarised financial information of the Group's material associates and joint ventures, and reconciled to the carrying amounts in the Financial Information, are disclosed below:

Dacheng Fund Management Co., Ltd.

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Gross amounts of the associate:				
Assets	2,106,564	2,478,813	2,739,436	2,704,422
Liabilities	(465,567)	(606,976)	(648,487)	(599,288)
Net assets	1,640,997	1,871,837	2,090,949	2,105,134
Revenue	913,231	849,499	1,104,423	191,123
Profit for the year/period	233,173	206,344	281,121	29,795
Other comprehensive income	3,353	27,711	(8,704)	(21,499)
Total comprehensive income	236,526	234,055	272,417	8,296
Dividend received from the associate	57,500	–	12,500	–
Reconciled to the Group's interest in the associate:				
Net assets	1,640,997	1,871,837	2,090,949	2,105,134
The Group's effective interest	25%	25%	25%	25%
The Group's share of net assets of the associate	410,249	467,959	522,737	526,284
Other adjustment	(666)	138	964	2,038
Carrying amount in the Financial Information	<u>409,583</u>	<u>468,097</u>	<u>523,701</u>	<u>528,322</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

22 INTEREST IN ASSOCIATES AND JOINT VENTURES (Continued)

Everbright Fortune International Leasing Co., Ltd.

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Gross amounts of the associate:				
Assets	–	1,165,844	–	–
Liabilities	–	(147,159)	–	–
Net assets	–	1,018,685	–	–
Revenue	–	41,590	14,651	–
Profit for the year/period	–	18,685	5,613	–
Other comprehensive income	–	(14,063)	–	–
Total comprehensive income	–	4,622	5,613	–
Dividend received from the associate	–	–	–	–
Reconciled to the Group's interest in the associate:				
Net assets	–	1,018,685	–	–
The Group's effective interest	–	50%	–	–
The Group's share of net assets of the associate	–	509,343	–	–
Other adjustment	–	(6,800)	–	–
Carrying amount in the Financial Information	–	502,543	–	–

Everbright Yunfu Internet Co., Ltd.

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Gross amounts of the associate:				
Assets	–	–	892,005	2,007,231
Liabilities	–	–	(699,140)	(1,815,987)
Net assets	–	–	192,865	191,244
Revenue	–	–	166	20,324
Loss for the year/period	–	–	(7,135)	(1,621)
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	(7,135)	(1,621)
Dividend received from the associate	–	–	–	–
Reconciled to the Group's interest in the associate:				
Net assets	–	–	192,865	191,244
The Group's effective interest	–	–	40%	40%
The Group's share of net assets of the associate	–	–	77,146	76,498
Other adjustment	–	–	–	–
Carrying amount in the Financial Information	–	–	77,146	76,498

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

22 INTEREST IN ASSOCIATES AND JOINT VENTURES (Continued)

Everbright Eascreate Internet Co., Ltd.

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Gross amounts of the associate:				
Assets	–	–	781,100	1,856,765
Liabilities	–	–	(680,996)	(1,755,561)
Net assets	–	–	100,104	101,204
Revenue	–	–	2,751	8,925
Profit for the year/period	–	–	104	1,099
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	104	1,099
Dividend received from the associate	–	–	–	–
Reconciled to the Group's interest in the associate				
Net assets	–	–	100,104	101,204
The Group's effective interest	–	–	40%	40%
The Group's share of net assets of the associate	–	–	40,042	40,482
Other adjustment	–	–	–	–
Carrying amount in the Financial Information	–	–	40,042	40,482

Aggregated information of associates and joint ventures that are not individually material:

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Aggregate carrying amount of individually immaterial associates and joint ventures in the Financial Information	–	–	233,874	241,855
Aggregate amounts of the Group's share of those associates and joint ventures' profits	–	–	3,296	512
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	3,296	512

23 HELD-TO-MATURITY INVESTMENTS

The Group

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Listed outside Hong Kong:				
– Debt securities	–	–	129,531	128,921

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group

Non-current

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Equity securities	892,576	1,050,426	1,270,375	1,561,300
Debt securities	–	–	33,943	93,716
Wealth management products and others	495,483	820,291	6,651,534	6,160,066
Less: Impairment losses	(58,522)	(93,449)	(90,868)	(90,868)
Total	1,329,537	1,777,268	7,864,984	7,724,214
Analysed as:				
Listed outside Hong Kong	–	–	443,701	739,126
Unlisted	1,329,537	1,777,268	7,421,283	6,985,088
Total	1,329,537	1,777,268	7,864,984	7,724,214

Current

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Equity securities	2,123,182	431,605	6,296,474	5,620,274
Debt securities	733,722	2,656,270	1,832,728	1,851,719
Funds	388,497	686,886	774,014	205,491
Wealth management products	152,990	144,799	874,701	96,480
Less: Impairment losses	(394,736)	(3,943)	(102)	(102)
Total	3,003,655	3,915,617	9,777,815	7,773,862
Analysed as:				
Listed outside Hong Kong	2,296,421	1,691,581	7,108,748	6,633,364
Unlisted	707,234	2,224,036	2,669,067	1,140,498
Total	3,003,655	3,915,617	9,777,815	7,773,862

The Company

Non-current

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Equity securities	–	–	225,000	225,000
Wealth management products and others	375,094	495,011	7,492,579	7,298,381
Less: Impairment losses	–	–	–	–
Total	375,094	495,011	7,717,579	7,523,381
Analysed as:				
Unlisted	375,094	495,011	7,717,579	7,523,381

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

The Company (Continued)

Current

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Equity securities	2,123,182	226,705	4,963,264	4,596,253
Debt securities	733,722	2,656,270	1,832,728	1,851,718
Funds	64,559	111,453	643,240	4,352
Wealth management products	1,055,740	1,151,545	112,011	9,740
Less: Impairment losses	(394,736)	(3,943)	(102)	(102)
Total	3,582,467	4,142,030	7,551,141	6,461,961
Analysed as:				
Listed outside Hong Kong	2,296,421	1,486,681	5,775,538	5,609,341
Unlisted	1,286,046	2,655,349	1,775,603	852,620
Total	3,582,467	4,142,030	7,551,141	6,461,961

As at 31 December 2015 and 31 March 2016, the above non-current available-for-sale financial assets includes the Company's contributed funds, with various PRC securities firms, to designated accounts managed by China Securities Finance Corporation Limited (CSFC). Under the relevant agreements with CSFC, the Company contributed RMB4,380.0 million and RMB1,476.8 million in July and September 2015, respectively. CSFC manages operation and investment of the designated accounts and securities firms will share the risks and returns from the investments in proportion to their respective contributions. As at 31 December 2015 and 31 March 2016, the Company recorded the contributions as non-current available-for-sale financial assets based on the investment account statement provided by CSFC. The usage of the investment is at discretion of CSFC, and it is unclear how CSFC will invest the funds contributed and when the investment will be returned.

As at 31 December 2013, 2014, 2015 and 31 March 2016, the fund investments with lock-up periods held by the Group were RMB33,525 thousand, RMB260,539 thousand, nil and nil, respectively.

As at 31 December 2013, 2014, 2015 and 31 March 2016, there was no fund investments with lock-up period included in the available-for-sale financial assets held by the Company.

As at 31 December 2013, 2014, 2015 and 31 March 2016, the equity securities in the available-for-sale financial assets with lock-up periods held by the Group were nil, RMB204,900 thousand, RMB1,539,101 thousand and RMB1,530,751 thousand, respectively.

As at 31 December 2013, 2014, 2015 and 31 March 2016, there was no equity securities with lock-up period included in the available-for-sale financial assets held by the Company.

In the opinion of the directors of the Company, non-current available-for-sale investments are expected to be realised or restricted for sale beyond one year from the end of the Relevant Periods. The fair value of the Group's investments in unlisted funds, which mainly invest in publicly traded equities listed in the PRC, are valued based on the net asset values of the funds calculated by the respective fund managers by reference to their underlying assets and liabilities' fair values.

The fair value of the Group's investments in equity securities without restriction, exchange-listed funds and debt securities are determined with reference to their quoted prices as at the end of the Relevant Periods.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)
(*Expressed in thousands of Renminbi, unless otherwise stated*)

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS (*Continued*)

As at 31 December 2013, 2014, 2015 and 31 March 2016, the Group and the Company entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale investments with a total fair value of RMB85,178 thousand, RMB43,349 thousand, RMB207 thousand and RMB108 thousand to external clients, respectively. These have not resulted in the derecognition of the financial assets in accordance with the accounting policy detailed in Note 2(10). The fair value of collaterals received in respect of the securities lending business is analysed in Note 32(c) together with the fair value of collaterals of margin financing business.

25 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) **Analysed by collateral type:**

The Group

Non-current

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Equity securities	414,600	345,209	1,344,690	1,315,123
Total	<u>414,600</u>	<u>345,209</u>	<u>1,344,690</u>	<u>1,315,123</u>

Current

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Debt securities	31,964	735,614	808,451	889,953
Equity securities	434,305	2,750,845	4,195,480	4,493,509
Total	<u>466,269</u>	<u>3,486,459</u>	<u>5,003,931</u>	<u>5,383,462</u>

The Company

Non-current

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Equity securities	403,600	345,209	1,344,690	1,315,123
Total	<u>403,600</u>	<u>345,209</u>	<u>1,344,690</u>	<u>1,315,123</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

25 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

(a) **Analysed by collateral type:** (Continued)

The Company (Continued)

Current

	As at 31 December			As at
	2013	2014	2015	31 March
Debt securities	164	680,614	759,451	–
Equity securities	434,305	2,639,845	3,700,780	3,267,309
Total	<u>434,469</u>	<u>3,320,459</u>	<u>4,460,231</u>	<u>3,267,309</u>

(b) **Analysed by market:**

The Group

Non-current

	As at 31 December			As at
	2013	2014	2015	31 March
Shenzhen Stock Exchange	414,600	342,922	1,322,712	1,306,138
Shanghai Stock Exchange	–	2,287	21,978	8,985
Total	<u>414,600</u>	<u>345,209</u>	<u>1,344,690</u>	<u>1,315,123</u>

Current

	As at 31 December			As at
	2013	2014	2015	31 March
Inter-bank market	–	680,614	759,451	889,953
Shanghai Stock Exchange	141,282	926,053	1,133,796	660,443
Shenzhen Stock Exchange	324,987	1,879,792	3,110,684	3,833,066
Total	<u>466,269</u>	<u>3,486,459</u>	<u>5,003,931</u>	<u>5,383,462</u>

The Company

Non-current

	As at 31 December			As at
	2013	2014	2015	31 March
Shenzhen Stock Exchange	403,600	342,922	1,322,712	1,306,138
Shanghai Stock Exchange	–	2,287	21,978	8,985
Total	<u>403,600</u>	<u>345,209</u>	<u>1,344,690</u>	<u>1,315,123</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

25 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

(b) **Analysed by market:** (Continued)

The Company (Continued)

Current

	As at 31 December			As at
	2013	2014	2015	31 March
Inter-bank market	–	680,614	759,451	–
Shanghai Stock Exchange	109,482	871,053	1,048,096	623,743
Shenzhen Stock Exchange	324,987	1,768,792	2,652,684	2,643,566
Total	<u>434,469</u>	<u>3,320,459</u>	<u>4,460,231</u>	<u>3,267,309</u>

26 REFUNDABLE DEPOSITS

The Group

	As at 31 December			As at
	2013	2014	2015	31 March
Deposits with stock exchanges and clearing house				
– China Securities Depository and Clearing Corporation Limited	104,605	127,088	450,284	319,703
– The Stock Exchange of Hong Kong Limited	314	316	6,414	4,176
– Hong Kong Securities Clearing Company Limited	4,160	5,890	8,057	4,155
	<u>109,079</u>	<u>133,294</u>	<u>464,755</u>	<u>328,034</u>
Deposits with futures and commodity exchanges				
– China Financial Futures Exchange	702,469	1,598,020	1,526,630	2,787,998
– Shanghai Futures Exchange	629,405	709,842	435,265	587,703
– Dalian Commodity Exchange	534,201	506,032	448,600	755,057
– Zhengzhou Commodity Exchange	592,260	741,840	484,034	371,926
– Hong Kong Futures Exchange	2,027	1,987	8,131	8,430
	<u>2,460,362</u>	<u>3,557,721</u>	<u>2,902,660</u>	<u>4,511,114</u>
Deposits with other institutions				
– China Securities Finance Corporation Limited	181,592	1,321,886	74,401	–
– Shanghai Clearing House	2,678	38,910	40,943	41,147
– Securities & Futures Commission of Hong Kong	1,572	1,578	4,585	2,074
– Other institutions	–	–	507,674	519,781
	<u>185,842</u>	<u>1,362,374</u>	<u>627,603</u>	<u>563,002</u>
Total	<u>2,755,283</u>	<u>5,053,389</u>	<u>3,995,018</u>	<u>5,402,150</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

27 INCOME TAX (Continued)

(a) **Current taxation:** (Continued)

The Company

	Section II Note	As at 31 December			As at 31 March
		2013	2014	2015	2016
Current tax assets	31	(6,165)	–	–	–
Current tax liabilities		–	389,490	1,337,531	1,272,533
Current tax (assets)/liabilities		(6,165)	389,490	1,337,531	1,272,533
		As at 31 December			As at 31 March
		2013	2014	2015	2016
At the beginning of the year/period . . .		(50,834)	(6,165)	389,490	1,337,531
Provision for the year/period		239,928	417,241	1,666,958	130,959
Tax paid		(195,259)	(21,586)	(718,917)	(195,957)
At the end of the year/period		(6,165)	389,490	1,337,531	1,272,533

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

27 INCOME TAX (Continued)

(b) Deferred tax assets/(liabilities) recognised

The Group

The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

Deferred tax arising from:	Provision for impairment losses	Employee benefits payable	Changes in fair value of financial instruments at fair value through profit or loss	Changes in fair value of derivative financial instruments	Changes in fair value of available-for-sale financial assets	Intangible assets recognised in the acquisition	Others	Total
As at 1 January 2013 .	53,994	7,225	(76,868)	65,651	313,892	–	13,351	377,245
Recognised in profit or loss	65,419	52,558	103,093	(66,428)	–	–	1,610	156,252
Recognised in reserves	–	–	–	–	(154,801)	–	–	(154,801)
As at 31 December 2013	<u>119,413</u>	<u>59,783</u>	<u>26,225</u>	<u>(777)</u>	<u>159,091</u>	<u>–</u>	<u>14,961</u>	<u>378,696</u>
As at 1 January 2014 .	119,413	59,783	26,225	(777)	159,091	–	14,961	378,696
Recognised in profit or loss	(64,020)	40,634	(161,994)	45,210	–	–	11,399	(128,771)
Recognised in reserves	–	–	–	–	(325,442)	–	–	(325,442)
As at 31 December 2014	<u>55,393</u>	<u>100,417</u>	<u>(135,769)</u>	<u>44,433</u>	<u>(166,351)</u>	<u>–</u>	<u>26,360</u>	<u>(75,517)</u>
As at 1 January 2015 .	55,393	100,417	(135,769)	44,433	(166,351)	–	26,360	(75,517)
Additions through business combination	1,250	160	–	–	–	(116,404)	577	(114,417)
Recognised in profit or loss	(9,156)	83,706	(196,859)	163,147	–	6,905	(17,378)	30,365
Recognised in reserves	–	–	–	–	(311,646)	–	–	(311,646)
As at 31 December 2015	<u>47,487</u>	<u>184,283</u>	<u>(332,628)</u>	<u>207,580</u>	<u>(477,997)</u>	<u>(109,499)</u>	<u>9,559</u>	<u>(471,215)</u>
As at 1 January 2016 .	47,487	184,283	(332,628)	207,580	(477,997)	(109,499)	9,559	(471,215)
Recognised in profit or loss	7,125	(29,768)	167,067	(148,836)	–	6,568	2,490	4,646
Recognised in reserves	–	–	–	–	367,579	–	–	367,579
As at 31 March 2016 .	<u>54,612</u>	<u>154,515</u>	<u>(165,561)</u>	<u>58,744</u>	<u>(110,418)</u>	<u>(102,931)</u>	<u>12,049</u>	<u>(98,990)</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

27 INCOME TAX (Continued)

(b) Deferred tax assets/(liabilities) recognised (Continued)

The Company

The components of deferred tax assets/(liabilities) recognised in the Company's statements of financial position and the movements during the Relevant Periods are as follows:

Deferred tax arising from:	Provision for impairment losses	Employee benefits payable	Changes in fair value of financial instruments at fair value through profit or loss	Changes in fair value of derivative financial instruments	Changes in fair value of available-for-sale financial assets	Others	Total
As at 1 January 2013 . . .	44,448	64,984	(70,105)	(4,345)	318,751	–	353,733
Recognised in profit or loss	59,901	(15,512)	95,362	2,478	–	18	142,247
Recognised in reserves . .	–	–	–	–	(159,976)	–	(159,976)
As at 31 December 2013 .	104,349	49,472	25,257	(1,867)	158,775	18	336,004
As at 1 January 2014 . . .	104,349	49,472	25,257	(1,867)	158,775	18	336,004
Recognised in profit or loss	(89,639)	997	(142,795)	36,831	–	(18)	(194,624)
Recognised in reserves . .	–	–	–	–	(206,585)	–	(206,585)
As at 31 December 2014 .	14,710	50,469	(117,538)	34,964	(47,810)	–	(65,205)
As at 1 January 2015 . . .	14,710	50,469	(117,538)	34,964	(47,810)	–	(65,205)
Recognised in profit or loss	(2,777)	29,155	(193,299)	138,751	–	–	(28,170)
Recognised in reserves . .	–	–	–	–	(41,084)	–	(41,084)
As at 31 December 2015 .	11,933	79,624	(310,837)	173,715	(88,894)	–	(134,459)
As at 1 January 2016 . . .	11,933	79,624	(310,837)	173,715	(88,894)	–	(134,459)
Recognised in profit or loss	(2,892)	–	169,590	(153,637)	–	–	13,061
Recognised in reserves . .	–	–	–	–	299,322	–	299,322
As at 31 March 2016. . . .	9,041	79,624	(141,247)	20,078	210,428	–	177,924

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

27 INCOME TAX (Continued)

(c) **Reconciliation to the statements of financial position**

The Group

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Net deferred tax assets recognised in the consolidated statement of financial position	378,696	36,240	79,969	253,061
Net deferred tax liabilities recognised in the consolidated statement of financial position	–	(111,757)	(551,184)	(352,051)
Total	<u>378,696</u>	<u>(75,517)</u>	<u>(471,215)</u>	<u>(98,990)</u>

The Company

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Net deferred tax assets recognised in the statement of financial position	336,004	–	–	177,924
Net deferred tax liabilities recognised in the statement of financial position	–	(65,205)	(134,459)	–
Total	<u>336,004</u>	<u>(65,205)</u>	<u>(134,459)</u>	<u>177,924</u>

(d) **Recognised in other comprehensive income**

The Group

	Year ended 31 December 2013		
	Before tax	Tax benefit/ (expense)	Net of tax
Available-for-sale financial assets			
– Net changes in fair value	(323,645)	80,911	(242,734)
– Reclassified to profit or loss	942,850	(235,712)	707,138
Share of other comprehensive income of associates	838	–	838
Exchange differences on translation of financial statements in foreign currencies	(41,383)	–	(41,383)
Total	<u>578,660</u>	<u>(154,801)</u>	<u>423,859</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

27 INCOME TAX (Continued)

(d) Recognised in other comprehensive income (Continued)

The Group (Continued)

	Year ended 31 December 2014		
	Before tax	Tax (expense)/ benefit	Net of tax
Available-for-sale financial assets			
– Net changes in fair value	1,767,374	(441,844)	1,325,530
– Reclassified to profit or loss	(465,606)	116,402	(349,204)
Share of other comprehensive income of associates	(104)	–	(104)
Exchange differences on translation of financial statements in foreign currencies	(5,026)	–	(5,026)
Total	1,296,638	(325,442)	971,196
	Year ended 31 December 2015		
	Before tax	Tax (expense)/ benefit	Net of tax
Available-for-sale financial assets			
– Net changes in fair value	2,292,229	(572,569)	1,719,660
– Reclassified to profit or loss	(1,044,186)	260,923	(783,263)
Share of other comprehensive income of associates	(2,176)	–	(2,176)
Exchange differences on translation of financial statements in foreign currencies	27,627	–	27,627
Total	1,273,494	(311,646)	961,848
	Three months ended 31 March 2015 (Unaudited)		
	Before tax	Tax (expense)/ benefit	Net of tax
Available-for-sale financial assets			
– Net changes in fair value	306,987	(76,747)	230,240
– Reclassified to profit or loss	(16,815)	4,204	(12,611)
Share of other comprehensive income of associates	501	–	501
Exchange differences on translation of financial statements in foreign currencies	3,449	–	3,449
Total	294,122	(72,543)	221,579

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

27 INCOME TAX (Continued)

(d) **Recognised in other comprehensive income** (Continued)

The Group (Continued)

	Three months ended 31 March 2016		
	Before tax	Tax benefit/ (expense)	Net of tax
Available-for-sale financial assets			
– Net changes in fair value	(1,519,289)	381,004	(1,138,285)
– Reclassified to profit or loss	48,097	(13,425)	34,672
Share of other comprehensive income of associates	(5,375)	–	(5,375)
Exchange differences on translation of financial statements in foreign currencies	782	–	782
Total	(1,475,785)	367,579	(1,108,206)

(e) **Deferred tax assets not recognised**

As at 31 December 2013, 2014, 2015, and 31 March 2016, in accordance with the accounting policy set out in Note 2(17)(ii), the Group has not recognised deferred tax assets in respect of cumulative tax losses, provision for bad debts, impairment losses against margin accounts and impairment losses against goodwill with timing difference amounting to RMB30,411 thousand, RMB211,665 thousand, RMB399,319 thousand and RMB394,642 thousand respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

28 FINANCE LEASE RECEIVABLES

(a) **Analysed by nature:**

The Group

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Minimum lease payments to be received	–	–	4,325,092	4,180,666
Less: unrealised finance income	–	–	(391,491)	(355,176)
Balance of finance lease receivables	–	–	3,933,601	3,825,490
Allowance for impairment	–	–	(31,759)	(71,857)
Finance lease receivables, net	–	–	3,901,842	3,753,633
Analysis for presentation purpose:				
Current assets	–	–	1,450,942	1,331,371
Non-current assets	–	–	2,450,900	2,422,262
	–	–	3,901,842	3,753,633

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

28 FINANCE LEASE RECEIVABLES (Continued)

(a) **Analysed by nature:** (Continued)

Minimum lease payments to be received and the corresponding present value are as follows:

	As at 31 December 2015		As at 31 March 2016	
	Minimum lease payments	Present value	Minimum lease payments	Present value
Within 1 year	1,671,344	1,462,752	1,515,164	1,356,858
1–2 years	1,007,998	896,601	1,057,747	949,106
2–3 years	984,729	920,604	927,452	868,826
Over 3 years	661,021	653,644	680,303	650,700
Total	4,325,092	3,933,601	4,180,666	3,825,490
Unrealised finance income	(391,491)	–	(355,176)	–
Balance of finance lease receivables	3,933,601	3,933,601	3,825,490	3,825,490
Allowance for impairment	(31,759)	(31,759)	(71,857)	(71,857)
Finance lease receivables, net	3,901,842	3,901,842	3,753,633	3,753,633

(b) **Analysis of the movement of provision for impairment losses:**

The Group

	As at 31 December			As at
	2013	2014	2015	31 March 2016
At the beginning of the year/period	–	–	–	31,759
Charge for the year/period	–	–	26,759	40,098
Additions through business combination	–	–	5,000	–
At the end of the year/period	–	–	31,759	71,857

29 OTHER NON-CURRENT ASSETS

(a) **Analysed by nature:**

The Group

	As at 31 December			As at
	2013	2014	2015	31 March 2016
Long-term deferred expenses ⁽¹⁾	122,085	99,927	75,207	80,537
Investments classified as receivables	–	50,000	185,000	502,542
Deposits	–	–	9,111	173,805
Total	122,085	149,927	269,318	756,884

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

29 OTHER NON-CURRENT ASSETS (Continued)

(a) **Analysed by nature:** (Continued)

The Company

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Long-term deferred expenses ⁽¹⁾	94,081	76,128	58,163	53,935
Deposits	–	–	–	16,103
Other receivables	–	–	–	900,000
Total	<u>94,081</u>	<u>76,128</u>	<u>58,163</u>	<u>970,038</u>

(1) The movements of long-term deferred expenses are as below:

The Group

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Balance at beginning of the year/period.	151,061	122,085	99,927	75,207
Additions	28,909	21,348	19,254	15,566
Transfer in from property and equipment (Note 18)	15,193	8,658	2,925	–
Amortisation	(73,078)	(52,164)	(46,899)	(10,236)
Balance at end of the year/period.	<u>122,085</u>	<u>99,927</u>	<u>75,207</u>	<u>80,537</u>

The Company

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Balance at beginning of the year/period.	125,718	94,081	76,128	58,163
Additions	16,745	13,935	15,880	2,992
Transfer in from property and equipment (Note 18)	15,193	8,558	2,925	–
Amortisation	(63,575)	(40,446)	(36,770)	(7,220)
Balance at end of the year/period.	<u>94,081</u>	<u>76,128</u>	<u>58,163</u>	<u>53,935</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

30 ACCOUNTS RECEIVABLE

(a) **Analysed by nature:**

The Group

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Accounts receivable of:				
– Brokers and dealers	441,153	738,949	1,354,407	1,285,270
– Settlement	494,700	333,316	491,555	570,659
– Fee and commission	160,712	119,664	227,015	189,921
– Investees	–	80,500	19,400	19,400
– Others	–	–	3,443	158
Less: Provision for impairment losses . .	(7,155)	(75,756)	(26,522)	(26,408)
Total	<u>1,089,410</u>	<u>1,196,673</u>	<u>2,069,298</u>	<u>2,039,000</u>

The Company

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Accounts receivable of:				
– Fee and commission	44,945	52,589	99,559	84,475
– Settlement	–	–	2,185	2,059
– others	–	–	3,351	68
Less: Provision for impairment losses . .	(1,130)	(2,721)	–	–
Total	<u>43,815</u>	<u>49,868</u>	<u>105,095</u>	<u>86,602</u>

(b) **Analysed by aging:**

The Group

As at the end of the Relevant Periods, the aging analysis of accounts receivable, based on the trade date, is as follows:

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Within 1 year	1,089,410	1,194,662	2,069,298	2,039,000
1 to 2 years	–	2,011	–	–
Total	<u>1,089,410</u>	<u>1,196,673</u>	<u>2,069,298</u>	<u>2,039,000</u>

The Company

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Within 1 year	<u>43,815</u>	<u>49,868</u>	<u>105,095</u>	<u>86,602</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

30 ACCOUNTS RECEIVABLE (Continued)

(c) **Analysis of the movement of provision for impairment losses:**

The Group

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
At the beginning of the year	3,709	7,155	75,756	26,522
Charge for the year/period	4,128	69,491	–	–
Additions through business combination	–	–	2,768	–
Reversal of impairment	(641)	(117)	(52,407)	(74)
Amounts written-off	–	(785)	–	–
Others	(41)	12	405	(40)
At the end of the year/period	<u>7,155</u>	<u>75,756</u>	<u>26,522</u>	<u>26,408</u>

The Company

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
At the beginning of the year	1,771	1,130	2,721	–
Charge for the year/period	–	1,591	–	–
Reversal of impairment	(641)	–	(2,721)	–
At the end of the year/period	<u>1,130</u>	<u>2,721</u>	<u>–</u>	<u>–</u>

(d) **Accounts receivable that is not impaired**

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

31 OTHER RECEIVABLES AND PREPAYMENTS

(a) **Analysed by nature:**

The Group

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Investments classified as receivables . . .	917,928	1,070,593	1,213,987	1,214,850
Interest receivable	350,886	640,587	1,551,169	1,839,048
Other receivables ⁽¹⁾	110,593	551,556	525,421	368,767
Prepayment for investment	–	–	257,690	454,143
Trade receivable	–	143,163	–	–
Current tax assets	6,433	–	–	–
Dividend receivables	–	–	3,238	411
Prepayments ⁽¹⁾	7,168	8,671	85,054	95,223
Others	32,401	44,642	66,078	68,459
Less: Provision for impairment losses . .	(10,458)	(15,729)	(9,664)	(9,632)
Total	<u>1,414,951</u>	<u>2,443,483</u>	<u>3,692,973</u>	<u>4,031,269</u>

(1) The balance of other receivables and prepayments mainly represents receivables from securities investor protection fund, rental deposits and sundry receivables and prepayments arising from normal course of business.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

31 OTHER RECEIVABLES AND PREPAYMENTS (Continued)

(a) **Analysed by nature:** (Continued)

The Company

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Interest receivable	252,224	464,745	1,125,715	1,268,114
Other receivables	124,688	124,669	1,394,759	4,874,086
Prepayment for investment	–	–	–	67,903
Dividend receivable	947	–	2,514	402
Current tax assets	6,165	–	–	–
Prepayments	2,690	3,249	4,586	5,818
Others	11,433	12,563	54,760	60,862
Less: Impairment on other receivables	(9,485)	(14,786)	(8,832)	(8,832)
Total	<u>388,662</u>	<u>590,440</u>	<u>2,573,502</u>	<u>6,268,353</u>

(b) **Analysis of the movement of provision for impairment losses:**

The Group

	As at 31 December			As at 31 March
	2013	2014	2015	2016
At the beginning of the year/period	63,315	10,458	15,729	9,664
Charge for the year/period	1,131	5,358	917	–
Reversal of impairment	(18)	(65)	(6,543)	(29)
Amounts written-off	(53,970)	(25)	–	–
Others	–	3	(439)	(3)
At the end of the year/period	<u>10,458</u>	<u>15,729</u>	<u>9,664</u>	<u>9,632</u>

The Company

	As at 31 December			As at 31 March
	2013	2014	2015	2016
At the beginning of the year/period	63,271	9,485	14,786	8,832
Charge for the year/period	184	5,326	917	–
Reversal of impairment	–	–	(6,394)	–
Amounts written-off	(53,970)	(25)	(477)	–
At the end of the year/period	<u>9,485</u>	<u>14,786</u>	<u>8,832</u>	<u>8,832</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

32 MARGIN ACCOUNTS RECEIVABLE

(a) **Analysed by nature:**

The Group

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Individuals	11,846,250	37,046,318	39,886,081	28,656,142
Institutions	1,165,157	1,460,456	3,658,349	3,117,214
Less: Provision for impairment losses . .	(18,834)	(40,991)	(139,963)	(128,210)
Total	<u>12,992,573</u>	<u>38,465,783</u>	<u>43,404,467</u>	<u>31,645,146</u>

The Company

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Individuals	10,763,785	36,343,500	36,875,653	25,818,361
Institutions	1,165,157	1,048,027	1,924,984	1,414,064
Less: Provision for impairment losses . .	(11,928)	(37,392)	(38,801)	(27,232)
Total	<u>11,917,014</u>	<u>37,354,135</u>	<u>38,761,836</u>	<u>27,205,193</u>

(b) **Analysis of the movement of provision for impairment losses:**

The Group

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
At the beginning of the year/period . . .	44,446	18,834	40,991	139,963
Charge for the year/period	–	25,274	20,837	–
Additions through business combination	–	–	74,754	–
Reversal of impairment	(25,395)	(3,322)	–	(11,209)
Others	(217)	205	3,381	(544)
At the end of the year/period	<u>18,834</u>	<u>40,991</u>	<u>139,963</u>	<u>128,210</u>

The Company

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
At the beginning of the year/period . . .	37,325	11,928	37,392	38,801
Charge for the year/period	–	25,464	1,409	–
Reversal of impairment	(25,397)	–	–	(11,569)
At the end of the year/period	<u>11,928</u>	<u>37,392</u>	<u>38,801</u>	<u>27,232</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

32 MARGIN ACCOUNTS RECEIVABLE (Continued)

(c) The fair value of collaterals for margin financing and securities lending business is analysed as follows:

The Group

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Fair value of collaterals:				
– Equity securities	31,085,959	84,359,444	135,708,305	107,168,966
– Cash	981,530	3,537,465	7,764,149	6,940,773
– Funds	96,712	928,348	351,379	291,788
– Debt securities	9,318	3,509	478,091	492,430
Total	<u>32,173,519</u>	<u>88,828,766</u>	<u>144,301,924</u>	<u>114,893,957</u>

The Company

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Fair value of collaterals:				
– Equity securities	27,056,921	84,166,960	112,674,447	81,532,705
– Cash	765,256	3,537,465	7,764,149	6,940,773
– Funds	96,712	928,348	351,379	291,788
– Debt securities	9,318	3,509	4,542	715
Total	<u>27,928,207</u>	<u>88,636,282</u>	<u>120,794,517</u>	<u>88,765,981</u>

33 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Analysed by type:

The Group

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Held for trading:				
– Debt securities	2,157,849	4,899,414	11,382,057	22,230,715
– Equity securities	3,038,992	2,244,855	4,313,565	3,490,649
– Funds	1,269,464	1,677,191	7,611,305	2,104,673
– Wealth management products	195,946	1,889,992	1,642,098	2,957,168
– Others	53,233	82,933	9,633	13,679
Designated at fair value through profit or loss:				
– Wealth management products	–	474,914	581,239	2,068,351
Total	<u>6,715,484</u>	<u>11,269,299</u>	<u>25,539,897</u>	<u>32,865,235</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

33 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(a) **Analysed by type:** (Continued)

The Company

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Held for trading:				
– Debt securities	2,156,510	4,816,567	3,302,601	5,540,344
– Equity securities	2,811,703	1,215,104	4,110,475	3,304,834
– Funds	1,194,437	1,588,435	6,598,300	1,366,532
– Wealth management products	197,371	1,755,018	3,985,074	5,118,781
Total	<u>6,360,021</u>	<u>9,375,124</u>	<u>17,996,450</u>	<u>15,330,491</u>

(b) **Analysed as:**

The Group

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Held for trading:				
– Listed outside Hong Kong	4,548,689	3,483,039	10,233,180	15,293,208
– Listed inside Hong Kong	72,890	28,433	204,010	287,228
– Unlisted	2,093,905	7,282,913	14,521,468	15,216,448
Designated at fair value through profit or loss:				
– Unlisted	–	474,914	581,239	2,068,351
Total	<u>6,715,484</u>	<u>11,269,299</u>	<u>25,539,897</u>	<u>32,865,235</u>

The Company

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Held for trading:				
– Listed outside Hong Kong	4,341,057	2,409,101	4,990,123	4,100,142
– Listed inside Hong Kong	–	–	3,354	–
– Unlisted	2,018,964	6,966,023	13,002,973	11,230,349
Total	<u>6,360,021</u>	<u>9,375,124</u>	<u>17,996,450</u>	<u>15,330,491</u>

As at 31 December 2013, 2014, 2015, and 31 March 2016, the Group has entered into securities lending arrangement with clients that resulted in the transfer of financial assets at fair value through profit or loss with total fair value of RMB75,775 thousand, RMB85,318 thousand, RMB267 thousand and RMB204 thousand to external clients, respectively. These have not resulted in the derecognition of the financial assets in accordance with the accounting policy detailed in Note 2(10). The fair value of collaterals for the securities lending business is analysed in Note 32(c) together with the fair value of collaterals of margin financing business.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)*
(Expressed in thousands of Renminbi, unless otherwise stated)

34 DERIVATIVE FINANCIAL INSTRUMENTS

The Group

	As at 31 December 2013		
	Notional amount	Fair Value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	41,860,000	567,186	(559,719)
Equity derivatives			
– Stock index futures	154,332	25	(4,365)
Others			
– Commodity futures	1,577	9	(26)
Total	<u>42,015,909</u>	567,220	(564,110)
Less: Cash (received)/paid as settlement		(559,753)	564,110
Net position		<u>7,467</u>	<u>–</u>

The Company

	As at 31 December 2013		
	Notional amount	Fair Value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	41,860,000	567,186	(559,719)
Total	<u>41,860,000</u>	567,186	(559,719)
Less: Cash (received)/paid as settlement		(559,719)	559,719
Net position		<u>7,467</u>	<u>–</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

34 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The Group

	As at 31 December 2014		
	Notional amount	Fair Value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	28,641,000	71,396	(124,804)
– Treasury bond futures	19,342	–	(1)
Equity derivatives			
– Stock index futures	1,266,479	6	(145,895)
– Equity return swaps	1,404,549	–	(44,762)
– Over-the-counter (“OTC”) stock index options	78,700	–	(1,939)
Others			
– Commodity futures	1,375,719	44,914	(121)
Total	<u>32,785,789</u>	<u>116,316</u>	<u>(317,522)</u>
Less: Cash (received)/paid as settlement		(75,068)	200,003
Net position		<u>41,248</u>	<u>(117,519)</u>

The Company

	As at 31 December 2014		
	Notional amount	Fair Value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	28,641,000	71,396	(124,804)
– Treasury bond futures	19,342	–	(1)
Equity derivatives			
– Stock index futures	200,911	6	(89,856)
– Equity return swaps	200,000	1,632	–
– OTC stock index options	177,400	3,710	(1,939)
Total	<u>29,238,653</u>	<u>76,744</u>	<u>(216,600)</u>
Less: Cash (received)/paid as settlement		(30,154)	143,843
Net position		<u>46,590</u>	<u>(72,757)</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

34 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The Group

	As at 31 December 2015		
	Notional amount	Fair Value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	26,582,000	127,563	(164,385)
– Treasury bond futures	402,220	2,733	(720)
Equity derivatives			
– Stock index futures	192,019	275	(214)
– Equity return swaps	2,435,556	14,824	(857,719)
– Stock option	56,726	44	(468)
– OTC stock index options	801,000	13,657	–
Others			
– Currency forward contracts	782,803	33,746	–
Total	<u>31,252,324</u>	192,842	(1,023,506)
Less: Cash (received)/paid as settlement		(24,323)	934
Net position		<u>168,519</u>	<u>(1,022,572)</u>

The Company

	As at 31 December 2015		
	Notional amount	Fair Value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	26,582,000	127,563	(164,385)
– Treasury bond futures	402,220	2,733	(720)
Equity derivatives			
– Equity return swaps	3,120,955	184,090	(857,719)
– OTC stock index options	801,000	13,657	–
– Stock option	56,335	42	(462)
Total	<u>30,962,510</u>	328,085	(1,023,286)
Less: Cash (received)/paid as settlement		(24,049)	720
Net position		<u>304,036</u>	<u>(1,022,566)</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

34 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The Group

	As at 31 March 2016		
	Notional amount	Fair Value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	35,653,000	123,086	(152,066)
– Treasury bond futures	728,377	329	(281)
Equity derivatives			
– Stock index futures	186,676	2,297	(11,159)
– Equity return swaps	2,623,161	7,384	(249,339)
– OTC stock index options	801,000	22,066	–
– Stock option	61,304	812	(788)
Others			
– Currency forward contracts	731,085	23,115	–
– Embedded option instruments	197,992	–	(882)
– Precious metal derivatives	965	–	(17)
Total	<u>40,983,560</u>	179,089	(414,532)
Less: Cash (received)/paid as settlement		(26,360)	11,647
Net position		<u>152,729</u>	<u>(402,885)</u>

The Company

	As at 31 March 2016		
	Notional amount	Fair Value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swaps	35,653,000	123,086	(152,066)
– Treasury bond futures	728,377	329	(281)
Equity derivatives			
– Stock index futures	170,852	202	(11,159)
– Equity return swaps	3,308,560	187,267	(249,339)
– OTC stock index options	801,000	22,066	–
– Stock option	21,205	273	(522)
Others			
– Embedded option instruments	197,992	–	(882)
– Precious metal derivatives	965	–	(17)
Total	<u>40,881,951</u>	333,223	(414,266)
Less: Cash (received)/paid as settlement		(24,265)	11,647
Net position		<u>308,958</u>	<u>(402,619)</u>

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in interest rate swap contracts settled in Shanghai Clearing House, stock index futures, treasury bond futures and commodity futures were settled daily and the corresponding receipts and payments were included in "clearing settlement funds".

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

35 CLEARING SETTLEMENT FUNDS

The Group

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Deposits with				
– China Securities Depository and Clearing Corporation Limited	23,513	37,131	348,099	69,862
– China Financial Futures Exchange	–	25,674	–	–
– Others	2,445	8,417	11,935	11,961
Total	<u>25,958</u>	<u>71,222</u>	<u>360,034</u>	<u>81,823</u>

The Company

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Deposits with				
– China Securities Depository and Clearing Corporation Limited	9,596	4,865	321,484	43,216
– Everbright Futures Company Limited	–	18,757	7,519,403	2,182,132
– Others	–	–	308	311
Total	<u>9,596</u>	<u>23,622</u>	<u>7,841,195</u>	<u>2,225,659</u>

36 CASH HELD ON BEHALF OF BROKERAGE CLIENTS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of brokerage business. The Group has classified its brokerage clients' monies as cash held on behalf of brokerage clients under the current assets section of the consolidated statements of financial position, and recognised the corresponding accounts payable to the respective brokerage clients on the grounds that it is liable for any loss or misappropriation of its brokerage clients' monies. In the PRC, cash held on behalf of brokerage clients for their transaction and settlement funds is restricted and governed by relevant third-party deposit regulations issued by the CSRC. In Hong Kong, cash held on behalf of brokerage clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

37 CASH AND BANK BALANCES

The Group

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Cash on hand	312	181	567	303
Bank balances	2,743,839	6,903,883	15,091,125	19,959,188
Total	<u>2,744,151</u>	<u>6,904,064</u>	<u>15,091,692</u>	<u>19,959,491</u>

The Company

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Cash on hand	115	125	156	73
Bank balances	1,355,946	5,267,511	4,576,697	10,455,335
Total	<u>1,356,061</u>	<u>5,267,636</u>	<u>4,576,853</u>	<u>10,455,408</u>

Bank balances comprise time and demand deposits which bear interest at the prevailing market rates.

38 CASH AND CASH EQUIVALENTS

The Group

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Cash on hand	312	181	567	303
Bank balances	2,743,839	6,903,883	15,091,125	19,959,188
Clearing settlement funds	25,958	71,222	360,034	81,823
Bond investment with original maturity in 3 months	–	240,036	79,541	99,993
Less: restricted bank deposits	(1,234,289)	(1,245,283)	(2,534,498)	(1,915,207)
Total	<u>1,535,820</u>	<u>5,970,039</u>	<u>12,996,769</u>	<u>18,226,100</u>

The restricted bank deposits include bank deposits with original maturity of more than three months held by the Group and risk reserve deposits.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

39 LOANS AND BORROWINGS

The Group

Current

	Currency	Nominal Interest Rate	Year of Maturity	As at 31 December			As at 31 March
				2013 Carrying Amount	2014 Carrying Amount	2015 Carrying Amount	2016 Carrying Amount
Unsecured Bank Loans	HKD	0.89%-2.88%	2016	215,869	331,325	1,449,436	1,422,118
Secured Bank Loans	HKD	0.86%-2.25%	2016	–	–	858,725	922,584
Secured Bank Loan	USD	1.15%	2017	–	–	–	188,021
Unsecured Bank Loans	RMB	4.09%-5.6%	2016	–	–	520,000	500,000
Secured Bank Loans	RMB	4.28%-5.50%	2017	–	–	186,000	367,956
Secured Borrowing from Zhengzhou Commodity Exchange	RMB	1.80%	2015	–	127,665	–	–
Total				215,869	458,990	3,014,161	3,400,679

Non-current

	Currency	Nominal Interest Rate	Year of Maturity	As at 31 December			As at 31 March
				2013 Carrying Amount	2014 Carrying Amount	2015 Carrying Amount	2016 Carrying Amount
Secured Bank Loans	RMB	4.275%-5.5%	2020	–	–	567,119	575,499
Secured Bank Loan	USD	1.15%	2018	–	–	782,803	543,064
Unsecured Bank Loan	HKD	Hibor +2.85%	2018	–	–	912,419	908,288
Total				–	–	2,262,341	2,026,851

40 SHORT-TERM DEBT INSTRUMENTS ISSUED

The Group and the Company

	Nominal Interest rate	Book value as at 1 January 2013	Issuance	Redemption	Book value as at 31 December 2013
Short-term financing bill payables	3.60%-5.10%	–	12,500,000	(12,500,000)	–
	Nominal Interest rate	Book value as at 1 January 2015	Issuance	Redemption	Book value as at 31 December 2015
Structured notes	5.50%-5.80%	–	5,301,000	(3,201,000)	2,100,000

II NOTES TO THE FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

40 SHORT-TERM DEBT INSTRUMENTS ISSUED (Continued)

The Group and the Company (Continued)

Nominal interest rate	Book value as	Issuance	Amount of	Redemption	Book value as
	at 1 January				at 31 March
	2016		amortisation		2016
Fixed rate 2.80%-5.80% plus floating rate	2,100,000	197,386	171	(1,500,000)	797,557

In 2013, the Company has issued 5 tranches of short term financing bills, bearing interest rate ranging from 3.60%-5.10% per annum, repayable within 1 year.

In 2015, the Company has issued 7 tranches of structured note, and repaid 4 tranches of structured note during the year. The rest bears interest rate ranging from 5.50%-5.80% per annum, repayable within 1 year.

In the period of three months ended 31 March 2016, the Company has issued 8 tranches of structured note, and repaid 3 tranches of structured note during the period. The rest bears fixed interest rate ranging from 2.80%-5.80% per annum plus floating rate, repayable within 1 year.

41 PLACEMENTS FROM OTHER FINANCIAL INSTITUTIONS

The Group and the Company

Note	As at 31 December			As at	
	2013	2014	2015	31 March	
				2016	
Placements from China Securities Finance Corporation Limited	(1)	5,200,000	5,135,000	–	–
Interbank lending	(2)	–	400,000	500,000	500,000
Total		5,200,000	5,535,000	500,000	500,000

(1) As at 31 December 2013 and 2014, the placements from China Securities Finance Corporation Limited bear interest rate at 6.9% and 5.8% per annum respectively, with original maturities within 28 days and 182 days respectively.

(2) As at 31 December 2014, the interbank lending are unsecured and bears interest rate at 4.78% and 5.14% per annum respectively, with maturities within 5 days and 6 days respectively. As at 31 December 2015, the interbank lending is unsecured and bears interest rate at 2.74% per annum, with maturity within 5 days. As at 31 March 2016, the interbank lending is unsecured and bears interest rate at 2.15% per annum, with maturity within 1 day.

42 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Held for trading				
– Debt securities	–	–	–	30,267
Designated at fair value through profit or loss				
– Structured entities	–	–	–	205,235
Total	–	–	–	235,502

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

42 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The Group (Continued)

In the consolidated financial statements, the financial liabilities arising from consolidation of structured entities are designated at fair value through profit or loss by the Group, as the Group has the obligation to pay other investors upon maturity dates of the structured entities based on net book value and related terms of those consolidated asset management schemes.

The Company

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Held for trading				
– Debt securities	–	–	–	30,267

43 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

The Group

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Clients' deposits for margin financing and securities lending	1,456,670	4,962,216	10,500,595	11,347,857
Clients' deposits for other brokerage business	20,195,652	35,535,170	60,601,449	56,492,711
Total	21,652,322	40,497,386	71,102,044	67,840,568

The Company

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Clients' deposits for margin financing and securities lending	765,256	3,537,847	7,764,149	6,940,773
Clients' deposits for other brokerage business	14,285,790	28,100,871	45,907,575	41,636,640
Total	15,051,046	31,638,718	53,671,724	48,577,413

Accounts payable to brokerage clients represent the monies received from and repayable to brokerage clients, which are mainly held at banks and at clearing houses by the Group and the Company. Accounts payable to securities brokerage clients are interest bearing at the prevailing interest rate.

The majority of the accounts payable balances are repayable on demand except where certain accounts payable to brokerage clients represent monies received from clients for their margin financing activities under normal course of business, such as margin financing and securities lending. Only the excess amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of these businesses.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

44 EMPLOYEE BENEFITS PAYABLE

The Group

Current

	As at 31 December 2013			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	198,400	1,258,849	(1,159,648)	297,601
Contribution to pension schemes	(300)	96,297	(96,398)	(401)
Other social welfare	17,886	157,326	(154,371)	20,841
Total	<u>215,986</u>	<u>1,512,472</u>	<u>(1,410,417)</u>	<u>318,041</u>

	As at 31 December 2014			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	297,601	1,740,546	(1,178,086)	860,061
Contribution to pension schemes	(401)	97,652	(97,842)	(591)
Other social welfare	20,841	157,547	(140,829)	37,559
Total	<u>318,041</u>	<u>1,995,745</u>	<u>(1,416,757)</u>	<u>897,029</u>

	As at 31 December 2015				
	As at 1 January	Additions through business combinations	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	860,061	28,561	3,757,769	(2,051,261)	2,595,130
Contribution to pension schemes	(591)	72	123,014	(122,363)	132
Other social welfare	37,559	70	228,917	(219,047)	47,499
Total	<u>897,029</u>	<u>28,703</u>	<u>4,109,700</u>	<u>(2,392,671)</u>	<u>2,642,761</u>

	As at 31 March 2016			
	As at 1 January	Accrued for the period	Payments made	As at 31 March
Salaries, bonuses and allowance	2,595,130	487,198	(1,173,443)	1,908,885
Contribution to pension schemes	132	32,541	(32,530)	143
Other social welfare	47,499	51,419	(62,408)	36,510
Total	<u>2,642,761</u>	<u>571,158</u>	<u>(1,268,381)</u>	<u>1,945,538</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

44 EMPLOYEE BENEFITS PAYABLE (Continued)

The Company

Current

	As at 31 December 2013			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	130,495	946,535	(879,141)	197,889
Contribution to pension schemes	147	78,533	(78,566)	114
Other social welfare	16,870	130,893	(129,683)	18,080
Total	147,512	1,155,961	(1,087,390)	216,083
	As at 31 December 2014			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	197,889	1,325,791	(861,151)	662,529
Contribution to pension schemes	114	73,274	(73,278)	110
Other social welfare	18,080	120,959	(106,659)	32,380
Total	216,083	1,520,024	(1,041,088)	695,019
	As at 31 December 2015			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	662,529	3,033,817	(1,579,300)	2,117,046
Contribution to pension schemes	110	89,107	(89,198)	19
Other social welfare	32,380	185,287	(179,016)	38,651
Total	695,019	3,308,211	(1,847,514)	2,155,716
	As at 31 March 2016			
	As at 1 January	Accrued for the period	Payments made	As at 31 March
Salaries, bonuses and allowance	2,117,046	301,811	(852,393)	1,566,464
Contribution to pension schemes	19	22,179	(22,180)	18
Other social welfare	38,651	39,316	(51,215)	26,752
Total	2,155,716	363,306	(925,788)	1,593,234

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

45 OTHER PAYABLES AND ACCRUALS

The Group

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Payables to interest holders of consolidated structured entities	–	862,884	5,037,671	14,068,760
Business tax and other tax payable	135,243	180,749	432,787	427,297
Payable on behalf of staff	33,454	39,588	41,267	45,016
Distribution expenses payable	83,492	81,956	133,018	138,317
Risk reserve for futures brokerage business . .	39,043	49,756	64,079	64,972
Settlement payables	112,718	176,784	586,202	854,272
Interest payable	32,093	383,929	1,520,308	1,375,385
Payable to custodian	18,811	23,773	62,622	49,853
Receipts from investees	32,986	115,151	–	–
Account executive commission payable	12,381	15,601	25,103	7,867
Payable to the securities and futures investor protection fund	7,077	46,270	61,096	17,033
Accrued expenses	12,835	15,470	54,235	33,329
Penalty payable	442,521	–	–	–
Payable for derivative business	–	331,983	992,278	1,024,817
Deferred revenue	–	–	77,868	56,877
Commission payables	–	5,803	42,059	22,868
Temporary receipts	9,775	27,853	20,608	624
Finance lease deposit.	–	–	27,500	27,500
Dividend payables	–	–	–	2,344,019
Others ⁽¹⁾	53,820	60,022	168,719	207,596
Total	<u>1,026,249</u>	<u>2,417,572</u>	<u>9,347,420</u>	<u>20,766,402</u>

The Company

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Amount due to related parties	1,669,010	538,115	986,750	822,650
Business tax and other tax payable	118,127	164,166	396,042	397,802
Payable on behalf of staff	33,454	39,588	41,000	39,503
Settlement payables	109,773	143,913	56,217	479,057
Interest payable	32,093	383,929	1,484,891	1,356,317
Payable to custodian	18,811	23,773	62,622	49,853
Payable to the securities investor protection fund	4,785	37,950	52,967	14,628
Account executive commission payable	5,852	7,371	25,103	4,384
Accrued expenses	10,039	14,303	26,240	7,711
Penalty payable	442,521	–	–	–
Payable for derivative business	–	78,700	1,005,145	1,063,317
Temporary receipts	9,775	27,853	20,608	624
Dividend payables.	–	–	–	2,344,019
Others ⁽¹⁾	20,739	20,854	97,854	86,122
Total	<u>2,474,979</u>	<u>1,480,515</u>	<u>4,255,439</u>	<u>6,665,987</u>

(1) The balance of others mainly represents sundry payables arising from normal course of business.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

46 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by collateral type:

The Group

Current

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Debt securities	1,301,604	5,691,609	4,717,063	6,985,022
Margin loans receivable backed repurchase agreements	490,000	22,057,860	15,789,439	11,294,658
Securities-backed lending repurchase agreements	–	1,731,170	40,000	40,000
Others	–	–	8,939	9,002
Total	1,791,604	29,480,639	20,555,441	18,328,682

Non-current

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Margin loans receivable backed repurchase agreements	–	1,340,000	230,000	–

The Company

Current

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Debt securities	1,301,604	5,691,609	3,349,064	4,346,325
Margin loans receivable backed repurchase agreements	490,000	22,057,860	15,789,439	11,294,658
Securities-backed lending repurchase agreements	–	1,731,170	40,000	40,000
Total	1,791,604	29,480,639	19,178,503	15,680,983

Non-current

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Margin loans receivable backed repurchase agreements	–	1,340,000	230,000	–

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

46 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (Continued)

(b) Analysed by market:

The Group

Current

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Inter-bank market	816,239	5,239,772	3,266,064	5,158,322
Stock exchanges	485,365	451,837	1,450,999	1,826,700
OTC market	490,000	23,789,030	15,838,378	11,343,660
Total	<u>1,791,604</u>	<u>29,480,639</u>	<u>20,555,441</u>	<u>18,328,682</u>

Non-current

	As at 31 December			As at 31 March
	2013	2014	2015	2016
OTC market	<u>–</u>	<u>1,340,000</u>	<u>230,000</u>	<u>–</u>

The Company

Current

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Inter-bank market	816,239	5,239,772	3,266,064	4,288,325
Stock exchanges	485,365	451,837	83,000	58,000
OTC market	490,000	23,789,030	15,829,439	11,334,658
Total	<u>1,791,604</u>	<u>29,480,639</u>	<u>19,178,503</u>	<u>15,680,983</u>

Non-current

	As at 31 December			As at 31 March
	2013	2014	2015	2016
OTC market	<u>–</u>	<u>1,340,000</u>	<u>230,000</u>	<u>–</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

47 LONG-TERM BONDS

The Group

As at 31 December 2014

<u>Name</u>	<u>Par value</u>	<u>Issuance date</u>	<u>Due date</u>	<u>Issue amount</u>	<u>Nominal interest rate</u>
	Original currency			Original currency	
14 EVERBRIGHT 01 ⁽¹⁾ . . .	7,000,000	11/06/2014	11/06/2016	6,972,000	5.99%
	Book value as at 1 January 2014	Increase	Amount of amortisation	Decrease	Book value as at 31 December 2014
14 EVERBRIGHT 01 ⁽¹⁾ . . .	–	6,972,000	7,468	–	6,979,468

As at 31 December 2015

<u>Name</u>	<u>Par value</u>	<u>Issuance date</u>	<u>Due date</u>	<u>Issue amount</u>	<u>Nominal interest rate</u>	
	Original currency			Original currency		
14 EVERBRIGHT 01 ⁽¹⁾ . . .	7,000,000	11/06/2014	11/06/2016	6,972,000	5.99%	
15 EVERBRIGHT 01 ⁽²⁾ . . .	4,000,000	29/01/2015	29/01/2018	3,976,000	5.85%	
15 EVERBRIGHT 02 ⁽³⁾ . . .	2,000,000	29/01/2015	29/07/2017	1,995,000	5.30%-8.30%	
15 EVERBRIGHT 03 ⁽⁴⁾ . . .	6,000,000	30/03/2015	30/03/2017	5,988,000	5.40%-8.40%	
15 EVERBRIGHT 04 ⁽⁵⁾ . . .	6,000,000	27/04/2015	27/04/2020	5,982,000	5.70%-8.70%	
15 EVERBRIGHT 05 ⁽⁶⁾ . . .	6,000,000	26/05/2015	26/05/2017	5,989,000	4.80%-7.80%	
15 EVERBRIGHT 06 ⁽⁷⁾ . . .	6,000,000	26/05/2015	26/05/2018	5,978,000	5.30%-8.30%	
EVBSF Corp ⁽⁸⁾	USD450,000	27/08/2015	27/08/2018	USD446,191	2.875%	
	Book value as at 1 January 2015	Increase	Amount of amortisation	Decrease	Foreign exchange impact	Book value as at 31 December 2015
14 EVERBRIGHT 01 ⁽¹⁾ . . .	6,979,468	–	14,042	–	–	6,993,510
15 EVERBRIGHT 01 ⁽²⁾ . . .	–	3,976,000	6,968	–	–	3,982,968
15 EVERBRIGHT 02 ⁽³⁾ . . .	–	1,995,000	1,391	(1,996,391)	–	–
15 EVERBRIGHT 03 ⁽⁴⁾ . . .	–	5,988,000	9,067	–	–	5,997,067
15 EVERBRIGHT 04 ⁽⁵⁾ . . .	–	5,982,000	3,839	–	–	5,985,839
15 EVERBRIGHT 05 ⁽⁶⁾ . . .	–	5,989,000	6,600	–	–	5,995,600
15 EVERBRIGHT 06 ⁽⁷⁾ . . .	–	5,978,000	6,424	–	–	5,984,424
EVBSF Corp ⁽⁸⁾	–	2,859,412	3,036	–	37,676	2,900,124
Total	6,979,468	32,767,412	51,367	(1,996,391)	37,676	37,839,532

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

47 LONG-TERM BONDS (Continued)

The Group (Continued)

As at 31 March 2016

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
14 EVERBRIGHT 01 ⁽¹⁾ . . .	7,000,000	11/06/2014	11/06/2016	6,972,000	5.99%
15 EVERBRIGHT 01 ⁽²⁾ . . .	4,000,000	29/01/2015	29/01/2018	3,976,000	5.85%
15 EVERBRIGHT 03 ⁽⁴⁾ . . .	6,000,000	30/03/2015	30/03/2017	5,988,000	5.40%-8.40%
15 EVERBRIGHT 04 ⁽⁵⁾ . . .	6,000,000	27/04/2015	27/04/2020	5,982,000	5.70%-8.70%
15 EVERBRIGHT 05 ⁽⁶⁾ . . .	6,000,000	26/05/2015	26/05/2017	5,989,000	4.80%-7.80%
15 EVERBRIGHT 06 ⁽⁷⁾ . . .	6,000,000	26/05/2015	26/05/2018	5,978,000	5.30%-8.30%
EVBSF Corp ⁽⁸⁾	USD450,000	27/08/2015	27/08/2018	USD446,191	2.875%

Name	Book value as at 1 January 2016	Increase	Amount of Amortisation	Decrease	Foreign exchange impact	Book value as at 31 March 2016
14 EVERBRIGHT 01 ⁽¹⁾ . . .	6,993,510	–	3,606	–	–	6,997,116
15 EVERBRIGHT 01 ⁽²⁾ . . .	3,982,968	–	1,963	–	–	3,984,931
15 EVERBRIGHT 03 ⁽⁴⁾ . . .	5,997,067	–	2,933	(6,000,000)	–	–
15 EVERBRIGHT 04 ⁽⁵⁾ . . .	5,985,839	–	1,416	–	–	5,987,255
15 EVERBRIGHT 05 ⁽⁶⁾ . . .	5,995,600	–	2,750	–	–	5,998,350
15 EVERBRIGHT 06 ⁽⁷⁾ . . .	5,984,424	–	2,676	–	–	5,987,100
EVBSF Corp ⁽⁸⁾	2,900,124	–	2,231	–	(14,982)	2,887,373
Total	37,839,532	–	17,575	(6,000,000)	(14,982)	31,842,125

	Book value as at 31 December 2013	Book value as at 31 December 2014	Book value as at 31 December 2015	Book value as at 31 March 2016
Long-term bonds due within one year . . .	–	–	18,986,177	12,995,466
Long-term bonds due after one year . . .	–	6,979,468	18,853,355	18,846,659
Total	–	6,979,468	37,839,532	31,842,125

The Company

As at 31 December 2014

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
14 EVERBRIGHT 01 ⁽¹⁾ . . .	7,000,000	11/06/2014	11/06/2016	6,972,000	5.99%

Name	Book value as at 1 January 2014	Increase	Amount of amortisation	Decrease	Book value as at 31 December 2014
14 EVERBRIGHT 01 ⁽¹⁾ . . .	–	6,972,000	7,468	–	6,979,468

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

47 LONG-TERM BONDS (Continued)

The Company (Continued)

As at 31 December 2015

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
14 EVERBRIGHT 01 ⁽¹⁾ . . .	7,000,000	11/06/2014	11/06/2016	6,972,000	5.99%
15 EVERBRIGHT 01 ⁽²⁾ . . .	4,000,000	29/01/2015	29/01/2018	3,976,000	5.85%
15 EVERBRIGHT 02 ⁽³⁾ . . .	2,000,000	29/01/2015	29/07/2017	1,995,000	5.30%-8.30%
15 EVERBRIGHT 03 ⁽⁴⁾ . . .	6,000,000	30/03/2015	30/03/2017	5,988,000	5.40%-8.40%
15 EVERBRIGHT 04 ⁽⁵⁾ . . .	6,000,000	27/04/2015	27/04/2020	5,982,000	5.70%-8.70%
15 EVERBRIGHT 05 ⁽⁶⁾ . . .	6,000,000	26/05/2015	26/05/2017	5,989,000	4.80%-7.80%
15 EVERBRIGHT 06 ⁽⁷⁾ . . .	6,000,000	26/05/2015	26/05/2018	5,978,000	5.30%-8.30%

Name	Book value as at 1 January 2015	Increase	Amount of amortisation	Decrease	Foreign exchange impact	Book value as at 31 December 2015
14 EVERBRIGHT 01 ⁽¹⁾ . . .	6,979,468	–	14,042	–	–	6,993,510
15 EVERBRIGHT 01 ⁽²⁾ . . .	–	3,976,000	6,968	–	–	3,982,968
15 EVERBRIGHT 02 ⁽³⁾ . . .	–	1,995,000	1,391	(1,996,391)	–	–
15 EVERBRIGHT 03 ⁽⁴⁾ . . .	–	5,988,000	9,067	–	–	5,997,067
15 EVERBRIGHT 04 ⁽⁵⁾ . . .	–	5,982,000	3,839	–	–	5,985,839
15 EVERBRIGHT 05 ⁽⁶⁾ . . .	–	5,989,000	6,600	–	–	5,995,600
15 EVERBRIGHT 06 ⁽⁷⁾ . . .	–	5,978,000	6,424	–	–	5,984,424
Total	6,979,468	29,908,000	48,331	(1,996,391)	–	34,939,408

As at 31 March 2016

Name	Par value	Issuance date	Due date	Issue amount	Nominal interest rate
	Original currency			Original currency	
14 EVERBRIGHT 01 ⁽¹⁾ . . .	7,000,000	11/06/2014	11/06/2016	6,972,000	5.99%
15 EVERBRIGHT 01 ⁽²⁾ . . .	4,000,000	29/01/2015	29/01/2018	3,976,000	5.85%
15 EVERBRIGHT 03 ⁽⁴⁾ . . .	6,000,000	30/03/2015	30/03/2017	5,988,000	5.40%-8.40%
15 EVERBRIGHT 04 ⁽⁵⁾ . . .	6,000,000	27/04/2015	27/04/2020	5,982,000	5.70%-8.70%
15 EVERBRIGHT 05 ⁽⁶⁾ . . .	6,000,000	26/05/2015	26/05/2017	5,989,000	4.80%-7.80%
15 EVERBRIGHT 06 ⁽⁷⁾ . . .	6,000,000	26/05/2015	26/05/2018	5,978,000	5.30%-8.30%

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

47 LONG-TERM BONDS (Continued)

The Company (Continued)

As at 31 March 2016 (Continued)

Name	Book value as at 1 January 2016	Increase	Amount of Amortisation	Decrease	Foreign exchange impact	Book value as at 31 March 2016
14 EVERBRIGHT 01 ⁽¹⁾	6,993,510	–	3,606	–	–	6,997,116
15 EVERBRIGHT 01 ⁽²⁾	3,982,968	–	1,963	–	–	3,984,931
15 EVERBRIGHT 03 ⁽⁴⁾	5,997,067	–	2,933	(6,000,000)	–	–
15 EVERBRIGHT 04 ⁽⁵⁾	5,985,839	–	1,416	–	–	5,987,255
15 EVERBRIGHT 05 ⁽⁶⁾	5,995,600	–	2,750	–	–	5,998,350
15 EVERBRIGHT 06 ⁽⁷⁾	5,984,424	–	2,676	–	–	5,987,100
Total	<u>34,939,408</u>	<u>–</u>	<u>15,344</u>	<u>(6,000,000)</u>	<u>–</u>	<u>28,954,752</u>

	Book value as at 31 December 2013	Book value as at 31 December 2014	Book value as at 31 December 2015	Book value as at 31 March 2016
Long-term bonds due within one year	–	–	18,986,177	12,995,466
Long-term bonds due after one year	–	6,979,468	15,953,231	15,959,286
Total	<u>–</u>	<u>6,979,468</u>	<u>34,939,408</u>	<u>28,954,752</u>

As approved by the Board and related regulatory authorities, the Group has issued the following subordinated bonds ((1)–(7) issued by the Company):

- (1) 2-year subordinated bond amounting to RMB7 billion on 11 June 2014. 14 EVERBRIGHT 01 was repaid on 8 June 2016.
- (2) 3-year subordinated bond amounting to RMB4 billion on 29 January 2015.
- (3) 30-month subordinated bond amounting to RMB2 billion on 29 January 2015 with early redemption right on 29 July 2015. 15 EVERBRIGHT 02 was early redeemed on 29 July 2015.
- (4) 2-year subordinated bond amounting to RMB6 billion on 30 March 2015 with early redemption right on 30 March 2016. 15 EVERBRIGHT 03 was early redeemed on 30 March 2016.
- (5) 5-year subordinated bond amounting to RMB6 billion on 27 April 2015 with early redemption right on 27 April 2018.
- (6) 2-year subordinated bond amounting to RMB6 billion on 26 May 2015 with early redemption right on 26 May 2016. 15 EVERBRIGHT 05 was early redeemed on 26 May 2016.
- (7) 3-year subordinated bond amounting to RMB6 billion on 26 May 2015 with early redemption right on 26 May 2017.
- (8) Double Charm Limited, the Company's indirectly-owned subsidiary registered in British Virgin Islands, has issued a 3-year redeemable bond with a par value of USD0.45 billion in August 2015.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

48 OTHER NON-CURRENT LIABILITIES

Analysed by nature:

The Group

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Deposits for finance lease	–	–	184,030	184,030
Club membership and trading payable	–	–	15,759	15,674
Put right liabilities arising from business combination ⁽¹⁾	–	–	1,644,562	1,664,834
Deferred revenue	–	–	–	49,002
Others	–	–	9,630	9,576
Total	–	–	1,853,981	1,923,116

(1) It is related to the acquisition of Sun Hung Kai Financial Group Limited in June 2015.

49 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:

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Number of shares registered, issued and fully paid (at RMB1 per share)	3,418,000	3,418,000	3,906,699	3,906,699

As at 31 December 2013, 2014, 2015 and 31 March 2016, the number of non-trade restricted A shares of the Company was nil, nil, 488,698,839 and 488,698,839 respectively.

50 RESERVES AND RETAINED PROFITS

(a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of face value and the difference between the considerations of acquisition of equity interests from non-controlling shareholders and the carrying amount of the proportionate net assets.

(b) Surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its net profit to the statutory surplus reserve until the balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory reserve may be used to offset accumulated losses, or converted into capital of the company provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before the capitalisation.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

50 RESERVES AND RETAINED PROFITS (Continued)

(c) General reserve

General reserve includes general risk reserve and transaction risk reserve.

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No. 320) issued on 18 December 2007, the Company appropriates 10% of its annual net profit to the general risk reserve.

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No. 320) issued on 18 December 2007 and in compliance with the Securities Law, for the purpose of covering securities trading losses, the Company appropriates 10% of its annual net profit to the transaction risk reserve.

(d) Fair value reserve

The fair value reserve comprises the cumulative net changes in fair values of available-for-sale financial assets until the assets are derecognised or impaired.

(e) Translation reserve

The translation reserve mainly comprises foreign currency differences arising from the translation of the financial statements of foreign currencies.

(f) Retained profits

As at December 2013, 2014 and 2015, the consolidated retained profits attributable to the Company included an appropriation of RMB107 million, RMB132 million and RMB257 million to surplus reserve made by the subsidiaries respectively.

(g) Other comprehensive income accumulated in reserves, net of tax

The Group

	As at 31 December 2013				
	Fair value reserve	Translation reserve	Sub-total	NCI	Total
Available-for-sale financial assets					
– Net changes in fair value	(239,918)	–	(239,918)	(2,816)	(242,734)
– Reclassified to profit or loss	707,138	–	707,138	–	707,138
Share of other comprehensive income of associates	1,177	(339)	838	–	838
Exchange differences on translation of financial statements in foreign currencies	–	(26,642)	(26,642)	(14,741)	(41,383)
Total	<u>468,397</u>	<u>(26,981)</u>	<u>441,416</u>	<u>(17,557)</u>	<u>423,859</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

50 RESERVES AND RETAINED PROFITS (Continued)

(g) **Other comprehensive income accumulated in reserves, net of tax** (Continued)

The Group (Continued)

	As at 31 December 2014				
	Fair value reserve	Translation reserve	Sub-total	NCI	Total
Available-for-sale financial assets					
– Net changes in fair value	1,323,925	–	1,323,925	1,605	1,325,530
– Reclassified to profit or loss	(349,204)	–	(349,204)	–	(349,204)
Share of other comprehensive income of associates	6,860	(6,964)	(104)	–	(104)
Exchange differences on translation of financial statements in foreign currencies	–	(1,729)	(1,729)	(3,297)	(5,026)
Total	<u>981,581</u>	<u>(8,693)</u>	<u>972,888</u>	<u>(1,692)</u>	<u>971,196</u>

	As at 31 December 2015				
	Fair value reserve	Translation reserve	Sub-total	NCI	Total
Available-for-sale financial assets					
– Net changes in fair value	1,716,435	–	1,716,435	3,225	1,719,660
– Reclassified to profit or loss	(779,619)	–	(779,619)	(3,644)	(783,263)
Share of other comprehensive income of associates	(3,399)	1,223	(2,176)	–	(2,176)
Exchange differences on translation of financial statements in foreign currencies	–	(62,846)	(62,846)	90,473	27,627
Total	<u>933,417</u>	<u>(61,623)</u>	<u>871,794</u>	<u>90,054</u>	<u>961,848</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

50 RESERVES AND RETAINED PROFITS (Continued)

(g) **Other comprehensive income accumulated in reserves, net of tax** (Continued)

The Group (Continued)

	As at 31 March 2015 (Unaudited)				
	Fair value reserve	Translation reserve	Sub-total	NCI	Total
Available-for-sale financial assets					
– Net changes in fair value	227,166	–	227,166	3,074	230,240
– Reclassified to profit or loss	(12,190)	–	(12,190)	(421)	(12,611)
Share of other comprehensive income of associates	420	81	501	–	501
Exchange differences on translation of financial statements in foreign currencies	–	(385)	(385)	3,834	3,449
Total	<u>215,396</u>	<u>(304)</u>	<u>215,092</u>	<u>6,487</u>	<u>221,579</u>

	As at 31 March 2016				
	Fair value reserve	Translation reserve	Sub-total	NCI	Total
Available-for-sale financial assets					
– Net changes in fair value	(1,135,034)	–	(1,135,034)	(3,251)	(1,138,285)
– Reclassified to profit or loss	34,737	–	34,737	(65)	34,672
Share of other comprehensive income of associates	(5,263)	(112)	(5,375)	–	(5,375)
Exchange differences on translation of financial statements in foreign currencies	–	3,950	3,950	(3,168)	782
Total	<u>(1,105,560)</u>	<u>3,838</u>	<u>(1,101,722)</u>	<u>(6,484)</u>	<u>(1,108,206)</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

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.

(1) Repurchase agreements

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under repurchase agreements. The Group transfers the contractual rights to receive the cash flows of these securities, but has an obligation to repurchase them at the agreed date and price. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it is recognised as financial assets sold under repurchase agreements.

Transferred financial assets that do not qualify for derecognition also include margin accounts receivable and securities-backed lending under repurchase agreements. The Group retains the contractual rights to receive the cash flows of these financial assets, but assumes a contractual obligation to pay the cash flows to one or more recipients according to relevant agreements. The Group has determined that it retains substantially all the risks and rewards of these financial assets and therefore has not derecognised them. In addition, it is recognised as financial assets sold under repurchase agreements.

(2) Securities lending

Transferred financial assets that do not qualify for derecognition include securities lent to customers for securities lending business, 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.

	As at 31 December			
	2013		2014	
	Carrying amount of transferred assets	Carrying amount of related liabilities	Carrying amount of transferred assets	Carrying amount of related liabilities
Repurchase agreements	1,524,489	(1,022,610)	31,218,991	(27,646,183)
Securities lending	160,953	–	128,667	–
	As at 31 December		As at 31 March	
	2015		2016	
	Carrying amount of transferred assets	Carrying amount of related liabilities	Carrying amount of transferred assets	Carrying amount of related liabilities
Repurchase agreements	19,222,101	(16,589,485)	13,403,273	(11,846,090)
Securities lending	474	–	312	–

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

52 COMMITMENTS

(a) Capital commitments

The Group

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Contracted but not provided for.	–	–	63,975	144,807

The Group's capital commitments were mainly for the proposed investments of unlisted equity.

(b) Operating lease commitments

As at 31 December 2013, 2014, 2015 and 31 March 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

The Group

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Within 1 year (inclusive)	94,468	91,899	118,743	130,238
1-2 years (inclusive)	69,938	61,497	86,488	91,194
2-3 years (inclusive)	42,902	35,892	60,117	52,051
After 3 years	67,718	24,825	63,875	48,558
Total	275,026	214,113	329,223	322,041

The Company

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Within 1 year (inclusive)	84,820	77,956	81,470	93,621
1-2 years (inclusive)	61,858	54,335	56,541	61,144
2-3 years (inclusive)	41,564	32,526	34,003	25,834
After 3 years	67,718	24,077	30,020	17,220
Total	255,960	188,894	202,034	197,819

53 INTERESTS IN STRUCTURED ENTITIES

(a) Interests in structured entities consolidated by the Group

The Group had consolidated certain structured entities, mainly wealth management products. For those structured entities where the Group is involved as manager or as investor, the Group assesses the controlling power according to accounting policies stated in note 2(5)(i).

As at 31 December 2013, 2014, 2015 and 31 March 2016 the net assets of the consolidated asset management products are RMB1,254,787 thousand, RMB2,867,426 thousand, RMB10,333,489 thousand and RMB21,193,315 thousand respectively, and the carrying amount of interests held by the Group in the consolidated structured entities are RMB1,254,787 thousand, RMB2,004,542 thousand, RMB5,295,818 thousand and RMB6,919,320 thousand respectively.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

53 INTERESTS IN STRUCTURED ENTITIES (Continued)

(a) Interests in structured entities consolidated by the Group (Continued)

Interests held by other investors in these consolidated structured entities were classified as fair value changes, net investment gains, interest income, or interest expenses of the consolidated income statements, and other payables and accruals of the consolidated statements of financial position.

At the end of the Relevant Periods, the Group reassessed the control of structured entities and decided whether the Group is still a principal.

(b) Structured entities sponsored by third party institutions which the Group does not consolidate but holds an interest in

The types of structured entities that the Group does not consolidate but in which it holds an interest include funds and wealth management products issued by banks or other financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These vehicles are financed through the issued units to investors.

The carrying amount of the related accounts in the consolidated statements of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at the end of the Relevant Periods, which are listed as below:

As at 31 December 2013			
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	64,559	1,069,464	1,134,023
Wealth management products	130,808	9,000	139,808
Total	195,367	1,078,464	1,273,831
As at 31 December 2014			
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	111,453	1,180,855	1,292,308
Wealth management products	227,487	1,762,066	1,989,553
Total	338,940	2,942,921	3,281,861
As at 31 December 2015			
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	652,176	5,261,305	5,913,481
Wealth management products and others	6,398,486	1,097,128	7,495,614
Total	7,050,662	6,358,433	13,409,095

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

53 INTERESTS IN STRUCTURED ENTITIES (Continued)

- (b) Structured entities sponsored by third party institutions which the Group does not consolidate but holds an interest in (Continued)

	As at 31 March 2016		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	4,352	2,104,673	2,109,025
Wealth management products and others	5,219,573	2,304,342	7,523,915
Total	5,223,925	4,409,015	9,632,940

- (c) Structured entities sponsored by the Group which the Group does not consolidate

The types of structured entities sponsored by the Group which the Group does not consolidate but in which it holds an interest include funds and asset management products.

The carrying amount of the related accounts in the consolidated statements of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by the Group as at the end of the Relevant Periods, which are listed as below:

	As at 31 December 2013		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	323,938	200,000	523,938
Wealth management products	517,665	186,946	704,611
Total	841,603	386,946	1,228,549

	As at 31 December 2014		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	575,433	496,336	1,071,769
Wealth management products	737,603	602,840	1,340,443
Total	1,313,036	1,099,176	2,412,212

	As at 31 December 2015		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	121,838	2,350,000	2,471,838
Wealth management products	1,127,749	1,126,209	2,253,958
Total	1,249,587	3,476,209	4,725,796

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

53 INTERESTS IN STRUCTURED ENTITIES (Continued)

(c) Structured entities sponsored by the Group which the Group does not consolidate (Continued)

	As at 31 March 2016		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	201,139	–	201,139
Wealth management products	1,036,973	2,721,177	3,758,150
Total	1,238,112	2,721,177	3,959,289

As at 31 December 2013, 2014, 2015 and 31 March 2016, the net assets of these unconsolidated structured entities in which the Group acted as asset manager but did not have any interests amounted to RMB158,231,022 thousand, RMB213,545,231 thousand, RMB247,643,584 thousand and RMB277,465,884 thousand respectively.

During the years ended 31 December 2013, 2014, 2015 and 31 March 2016, the Group recognised the income from asset management business of RMB608,116 thousand, RMB775,007 thousand, RMB1,393,135 thousand and RMB207,791 thousand respectively. As at 31 December 2013, 2014, 2015 and 31 March 2016, the corresponding remuneration receivables totaled RMB54,989 thousand, RMB58,766 thousand, RMB117,593 thousand and RMB98,631 thousand respectively.

54 CONTINGENCIES

As at 31 December 2013, 2014, 2015 and 31 March 2016, the Company was being sued as a result of the “8•16 Event” with a total number of 7, 133, 155 and 502 lawsuits respectively and total claimed amount of RMB1,046 thousand, RMB15,973 thousand, RMB17,420 thousand and RMB70,681 thousand respectively.

The statute of limitations of litigations resulting from the “8•16 Event” expired on 14 November 2015. The Company was informed by the court that additional claims were filed in February 2016, and these claims were submitted before the expiry of statute of limitations.

No lawsuit was sentenced in 2013 and 2014. As at 31 December 2015, there were 108 lawsuits sentenced by an intermediate court in Shanghai, among which the Company won 26 lawsuits, lost 71 lawsuits and 11 lawsuits were withdrawn by plaintiffs. The Company will appeal the aforementioned first-sentence judgments to a higher court in Shanghai. Remaining 47 cases are pending for court trial. As at 31 March 2016, there were 146 lawsuits sentenced by an intermediate court in Shanghai and 4 lawsuits final sentenced by a higher court in Shanghai, among which the Company won 31 lawsuits, lost 95 lawsuits and 24 lawsuits were withdrawn by plaintiffs. Remaining 352 cases are pending for court trial. The final outcomes of these lawsuits are uncertain at the end of Relevant Periods. As at the reporting date, there were 476 lawsuits first sentenced by an intermediate court in Shanghai and 5 lawsuits final sentenced by a higher court in Shanghai, among which the Company won 90 lawsuits, lost 341 lawsuits and 50 lawsuits were withdrawn by plaintiffs. The remaining 21 cases are pending for court trial.

As at 31 March 2016, the Company was being sued as a result of a margin trading dispute with a total claimed amount of RMB39,390 thousand. The case is pending for court trial. The final outcome of the lawsuit is uncertain as at 31 March 2016, and the Company cannot reasonably estimate any provision for the lawsuit.

Except for the aforementioned case, as at 31 December 2013, 2014, 2015 and 31 March 2016, the Group was not involved in any material legal, arbitration or administrative proceedings that if adversely determined, the Group expect would materially adversely affect their financial position or results of operations.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(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.

Share percentage in the Company:

	As at 31 December			As at 31 March
	2013	2014	2015	2016
China Everbright Group Company	33.92%	33.92%	29.68%	29.68%
China Everbright Limited	33.33%	33.33%	29.16%	29.16%

(ii) Associates and joint ventures of the Company

The detailed information of the Company's associates and joint ventures is set out in Note 22.

(iii) Other related parties

Other related parties include subsidiaries of major shareholders, minority shareholders of major subsidiaries of the Company and individuals 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 between the Group and major shareholders:

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Balances at the end of the year/period:				
Accounts receivable	1,432	2,991	10	–
Other payables and accruals	38,868	160	498	397
			Three months ended	Three months ended
	Year ended 31 December			31 March
	2013	2014	2015	2015
				2016
				(Unaudited)

Transactions during the
year/period:

Other income and gains	2,854	2,879	1,768	–	561
Other operating expenses	–	204	–	–	–
Fee and commission income	8	–	500	500	–
Fee and commission expense	–	–	247	38	57

II NOTES TO THE FINANCIAL INFORMATION *(Continued)*
(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 with associates, joint ventures and other related parties:

	As at 31 December			As at 31 March	
	2013	2014	2015	2016	
Balances at the end of the year/period:					
Cash and bank balances	3,802,662	7,600,671	9,068,051	11,070,652	
Other payables and accruals	24,248	23,528	174,825	139,293	
Accounts receivable	38,747	4,526	7,679	4,095	
Other receivables and prepayments	1,301	1,301	7,441	3,536	
Financial assets at fair value through profit or loss	81,409	19,520	–	–	
Refundable deposits	–	–	496,000	496,000	
Derivative financial assets	–	–	13,657	22,066	
Financial assets sold under repurchase agreements	–	–	8,939	224,601	
Other non-current liabilities	–	–	1,644,562	1,664,834	
Financial liabilities at fair value through profit or loss	–	–	–	101,970	
				Three months ended 31 March	Three months ended 31 March
	Year ended 31 December	2014	2015	2015	2016
	2013	2014	2015	2015	2016
				(Unaudited)	
Transactions during the year/period:					
Transaction amount for financial assets sold under repurchase agreement	22,456,700	29,449,456	48,411,839	7,392,100	224,601
Inter-bank funds borrowed	9,060,000	600,000	5,800,000	1,600,000	–
Fee and commission income	100,342	149,799	222,296	27,217	11,614
Interest income	122,772	120,490	329,412	48,080	65,050
Other operating expenses	58,175	67,531	107,811	5,666	9,068
Loans borrowed	–	–	1,266,363	356,441	–
Investment in financial assets at fair value through profit or loss	200,007	50,128	147,999	–	–
Dividend received	30,500	–	–	–	–
Interest expenses	9,364	7,554	14,483	5,042	356
Fee and commission expenses	5,315	6,256	17,082	4,603	11,644
Other income and gains	4,236	5,915	3,049	2,224	1,739
Net investment gains	1,142	128	17,537	–	12,268
(Losses)/gains on disposal of financial assets at fair value through profit or loss	(3,287)	(2,378)	15,658	6,252	–
Dividend income from financial assets at fair value through profit or loss	382	5,290	782	–	–

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

55 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(c) **Key management personnel remuneration**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and supervisors as disclosed in Note 15, is as follows:

	Year ended 31 December			Three months ended 31 March	
	2013	2014	2015	2015	2016
				(Unaudited)	
Short-term employee benefits					
– Fees, salaries, allowances and bonuses	28,874	37,432	38,265	7,943	9,183
Post-employment benefits					
– Contributions to pension scheme	1,144	604	565	103	131
Total	<u>30,018</u>	<u>38,036</u>	<u>38,830</u>	<u>8,046</u>	<u>9,314</u>

Total remuneration is included in “staff costs” (see Note 10).

56 SEGMENT REPORTING

During the year of 2015, the Management commenced to allocate resources and assess the segment performance based on the revised grouping of operating segments. Accordingly, the Relevant Periods' segment reporting presentation has been presented in accordance with the new approach adopted by the Management in the Financial Information.

- Brokerage and wealth management segment earn fees and commissions from providing brokerage and investment advisory services to retail clients, interest income from holding cash on behalf of clients, and fees from selling financial products developed by the Group and other financial institutions;
- Credit business segment earn interest income from margin financing and securities lending, reverse repurchase transactions and other credit granting business, as well as income from the financial lease business;
- Institutional securities services segment earn fees and commissions from underwriting and financial advisory services, investment gains and interest income from market-making and proprietary activities, as well as fees and commission from providing investment research and prime brokerage services to institutional clients;
- Investment management segment earn management and advisory fees from providing asset management, fund management and private equity investment management services to clients, as well as investment gains from the Group's private equity and alternative investments;
- Overseas business segment earn fees and commission, advisory fees, interest income and investment gains from overseas businesses; and
- Other segments include other operations of head office, including interest income and interest expense incurred for general working capital purpose.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

56 SEGMENT REPORTING (Continued)

(a) Business segments

For the year ended 31 December 2013

	Brokerage and wealth management	Credit Business	Institutional client services	Investment management	Overseas business	Others	Segment total
Fee and commission income							
– External	2,436,812	–	529,677	608,116	216,286	32,109	3,823,000
– Inter-segment	8,018	–	–	–	–	–	8,018
Interest income							
– External	411,418	802,462	13,553	26,523	64,358	190,273	1,508,587
– Inter-segment	–	–	–	37	206	–	243
Net investment (losses)/ gains							
– External	(225)	–	(86,906)	9,511	12,302	(248,614)	(313,932)
– Inter-segment	–	–	(1,184)	(1,361)	–	–	(2,545)
Total Revenue							
– External	2,848,005	802,462	456,324	644,150	292,946	(26,232)	5,017,655
– Inter-segment	8,018	–	(1,184)	(1,324)	206	–	5,716
Other income and gains							
– External	19,764	319	400	20,585	9,605	111,080	161,753
– Inter-segment	–	–	–	–	–	1,682	1,682
Segment revenue and other income							
– External	2,867,769	802,781	456,724	664,735	302,551	84,848	5,179,408
– Inter-segment	8,018	–	(1,184)	(1,324)	206	1,682	7,398
Segment expenses							
– External	(1,898,387)	(310,276)	(999,807)	(434,489)	(223,752)	(884,562)	(4,751,273)
– Inter-segment	(244)	–	–	(1,583)	(5,571)	–	(7,398)
Segment operating profit/ (loss)							
– External	969,382	492,505	(543,083)	230,246	78,799	(799,714)	428,135
– Inter-segment	7,774	–	(1,184)	(2,907)	(5,365)	1,682	–
Share of profit of associates	–	–	–	58,293	–	–	58,293
Profit/(loss) before income tax							
– External	969,382	492,505	(543,083)	288,539	78,799	(799,714)	486,428
– Inter-segment	7,774	–	(1,184)	(2,907)	(5,365)	1,682	–
Interest income	411,418	802,462	13,553	26,523	64,358	190,273	1,508,587
Interest expenses	(60,709)	(282,879)	(188,164)	(8,163)	(3,584)	(44,785)	(588,284)
(Provision for)/reversal of impairment losses	(80)	28,739	(376,138)	(20,852)	(3,937)	267	(372,001)

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

56 SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

For the year ended 31 December 2014

	Brokerage and wealth management	Credit business	Institutional client services	Investment management	Overseas business	Others	Segment total
Fee and commission income							
– External	3,392,436	–	463,448	775,006	170,736	3,180	4,804,806
– Inter-segment	15,042	–	–	9,278	–	–	24,320
Interest income							
– External	469,129	1,771,591	25,684	18,949	87,960	185,454	2,558,767
– Inter-segment	–	–	–	52	1,251	–	1,303
Net investment gains							
– External	2,612	–	801,980	138,917	17,189	151,422	1,112,120
– Inter-segment	–	–	–	(1,540)	–	–	(1,540)
Total Revenue							
– External	3,864,177	1,771,591	1,291,112	932,872	275,885	340,056	8,475,693
– Inter-segment	15,042	–	–	7,790	1,251	–	24,083
Other income and gains							
– External	49,610	1,008	20	14,387	5,736	15,107	85,868
– Inter-segment	–	–	–	–	–	789	789
Segment revenue and other income							
– External	3,913,787	1,772,599	1,291,132	947,259	281,621	355,163	8,561,561
– Inter-segment	15,042	–	–	7,790	1,251	789	24,872
Segment expenses							
– External	(2,156,888)	(1,102,002)	(551,763)	(678,063)	(396,768)	(887,573)	(5,773,057)
– Inter-segment	(1,303)	–	–	(9,821)	(13,748)	–	(24,872)
Segment operating profit/ (loss)							
– External	1,756,899	670,597	739,369	269,196	(115,147)	(532,410)	2,788,504
– Inter-segment	13,739	–	–	(2,031)	(12,497)	789	–
Share of profit of associates	–	9,342	–	51,586	–	–	60,928
Profit/(loss) before income tax							
– External	1,756,899	679,939	739,369	320,782	(115,147)	(532,410)	2,849,432
– Inter-segment	13,739	–	–	(2,031)	(12,497)	789	–
Interest income	469,129	1,771,591	25,684	18,949	87,960	185,454	2,558,767
Interest expenses	(65,320)	(970,698)	(155,415)	(50,748)	(9,195)	(39,184)	(1,290,560)
Reversal of/(provision for) impairment losses	56	(25,366)	(2,657)	(102,541)	(163,071)	(7,017)	(300,596)

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

56 SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

For the year ended 31 December 2015

	Brokerage and wealth management	Credit business	Institutional client services	Investment management	Overseas business	Others	Segment total
Fee and commission income							
– External	8,387,245	103,040	1,825,505	1,381,933	590,493	45,956	12,334,172
– Inter-segment	2,556	–	20,680	–	–	–	23,236
Interest income							
– External	1,247,860	4,547,761	2,739	56,847	235,850	748,266	6,839,323
– Inter-segment	(34,307)	–	34,307	33,560	–	7,983	41,543
Net investment (losses)/ gains							
– External	(2,159)	34,047	2,637,594	885,545	(537)	416,287	3,970,777
– Inter-segment	(14,727)	–	(192)	(988)	–	14,189	(1,718)
Total Revenue							
– External	9,632,946	4,684,848	4,465,838	2,324,325	825,806	1,210,509	23,144,272
– Inter-segment	(46,478)	–	54,795	32,572	–	22,172	63,061
Other income and gains							
– External	20,783	(26,762)	12	33,818	46,205	74,401	148,457
– Inter-segment	–	–	–	–	–	869	869
Segment revenue and other income							
– External	9,653,729	4,658,086	4,465,850	2,358,143	872,011	1,284,910	23,292,729
– Inter-segment	(46,478)	–	54,795	32,572	–	23,041	63,930
Segment expenses							
– External	(4,525,957)	(3,233,591)	(1,128,962)	(969,732)	(889,307)	(2,772,461)	(13,520,010)
– Inter-segment	(7,435)	(5,373)	–	(358)	(24,639)	(26,125)	(63,930)
Segment operating profit/ (loss)							
– External	5,127,772	1,424,495	3,336,888	1,388,411	(17,296)	(1,487,551)	9,772,719
– Inter-segment	(53,913)	(5,373)	54,795	32,214	(24,639)	(3,084)	–
Share of profit of associates and joint ventures							
– External	–	2,925	–	69,926	3,532	(2,813)	73,570
– Inter-segment	–	–	–	–	–	–	–
Profit/(loss) before income tax							
– External	5,127,772	1,427,420	3,336,888	1,458,337	(13,764)	(1,490,364)	9,846,289
– Inter-segment	(53,913)	(5,373)	54,795	32,214	(24,639)	(3,084)	–
Interest income	1,247,860	4,547,761	2,739	56,847	235,850	748,266	6,839,323
Interest expenses	(196,770)	(2,898,124)	(133,262)	(180,558)	(140,054)	(1,070,737)	(4,619,505)
Reversal of/(provision for) impairment losses	100	(28,994)	–	49,658	(19,292)	8,965	10,437

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

56 SEGMENT REPORTING (Continued)

(a) **Business segments** (Continued)

For the three months ended 31 March 2015 (Unaudited)

	Brokerage and wealth management	Credit business	Institutional client services	Investment management	Overseas business	Others	Segment total
Fee and commission income							
– External	1,639,354	–	410,268	169,930	49,841	5,657	2,275,050
– Inter-segment	20	–	1,804	–	–	–	1,824
Interest income							
– External	210,813	1,008,347	15,360	18,546	19,693	109,631	1,382,390
– Inter-segment	1,427	–	–	–	–	–	1,427
Net investment (losses)/gains							
– External	(9,538)	–	475,399	179,279	3,867	65,396	714,403
– Inter-segment	–	–	(8)	(372)	–	–	(380)
Total Revenue							
– External	1,840,629	1,008,347	901,027	367,755	73,401	180,684	4,371,843
– Inter-segment	1,447	–	1,796	(372)	–	–	2,871
Other income and gains							
– External	3,427	–	1	4,832	1,715	8,591	18,566
– Inter-segment	–	–	–	–	–	143	143
Segment revenue and other income							
– External	1,844,056	1,008,347	901,028	372,587	75,116	189,275	4,390,409
– Inter-segment	1,447	–	1,796	(372)	–	143	3,014
Segment expenses							
– External	(824,405)	(787,283)	(227,816)	(138,925)	(65,021)	(409,470)	(2,452,920)
– Inter-segment	–	–	–	(1,320)	(1,694)	–	(3,014)
Segment operating profit/(loss)							
– External	1,019,651	221,064	673,212	233,662	10,095	(220,195)	1,937,489
– Inter-segment	1,447	–	1,796	(1,692)	(1,694)	143	–
Share of profit of associates and joint ventures							
– External	–	700	–	16,694	–	–	17,394
– Inter-segment	–	–	–	–	–	–	–
Profit/(loss) before income tax							
– External	1,019,651	221,764	673,212	250,356	10,095	(220,195)	1,954,883
– Inter-segment	1,447	–	1,796	(1,692)	(1,694)	143	–
Interest income	210,813	1,008,347	15,360	18,546	19,693	109,631	1,382,390
Interest expenses	(34,621)	(682,152)	(65,148)	(33,074)	(3,872)	(14,679)	(833,546)
(Provision for)/reversal of impairment losses	(219)	(17,395)	–	1,158	–	8,525	(7,931)

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

56 SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

For the three months ended 31 March 2016

	Brokerage and wealth management	Credit business	Institutional client services	Investment management	Overseas business	Others	Segment total
Fee and commission income							
– External	844,726	15,030	495,489	210,257	141,127	44	1,706,673
– Inter-segment	453	–	2,628	–	186	–	3,267
Interest income							
– External	261,792	769,508	5,427	24,240	80,057	183,037	1,324,061
– Inter-segment	(42,053)	10,769	–	4,756	–	42,250	15,722
Net investment gains/ (losses)							
– External	34	(9,731)	(113,644)	254,600	(5,415)	23,856	149,700
– Inter-segment	–	–	(34)	(61)	–	–	(95)
Total Revenue							
– External	1,106,552	774,807	387,272	489,097	215,769	206,937	3,180,434
– Inter-segment	(41,600)	10,769	2,594	4,695	186	42,250	18,894
Other income and gains							
– External	7,936	4,760	–	8,019	15,080	3,886	39,681
– Inter-segment	–	–	–	–	–	217	217
Segment revenue and other income							
– External	1,114,488	779,567	387,272	497,116	230,849	210,823	3,220,115
– Inter-segment	(41,600)	10,769	2,594	4,695	186	42,467	19,111
Segment expenses							
– External	(616,085)	(414,037)	(276,068)	(391,873)	(297,057)	(457,859)	(2,452,979)
– Inter-segment	(2)	–	–	(137)	(3,449)	(15,523)	(19,111)
Segment operating profit/ (loss)							
– External	498,403	365,530	111,204	105,243	(66,208)	(247,036)	767,136
– Inter-segment	(41,602)	10,769	2,594	4,558	(3,263)	26,944	–
Share of profit of associates and joint ventures							
– External	–	–	–	6,732	1,020	–	7,752
– Inter-segment	–	–	–	–	–	–	–
Profit/(loss) before income tax							
– External	498,403	365,530	111,204	111,975	(65,188)	(247,036)	774,888
– Inter-segment	(41,602)	10,769	2,594	4,558	(3,263)	26,944	–
Interest income	261,792	769,508	5,427	24,240	80,057	183,037	1,324,061
Interest expenses	(42,682)	(330,248)	(26,443)	(249,041)	(46,697)	(395,527)	(1,090,638)
Reversal of/(provision for) impairment losses	29	(28,530)	–	–	(285)	–	(28,786)

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

56 SEGMENT REPORTING (Continued)

(b) Geographical segments

The following table sets out (i) information about the geographical location of the Group's revenue from external customers and (ii) the Group's property and equipment, goodwill, other intangible assets, interest in associates and joint ventures, refundable deposits and other non-current assets ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property and equipment and other non-current assets, the location of the operation to which they are allocated, in the case of goodwill and other intangible assets, and the location of operations, in the case of interest in associates.

Segment Revenue	Year ended 31 December 2013			Year ended 31 December 2014			Year ended 31 December 2015			Three months ended 31 March 2015 (Unaudited)			Three months ended 31 March 2016		
	Outside			Outside			Outside			Outside			Outside		
	Mainland China	Mainland China	Total	Mainland China	Mainland China	Total	Mainland China	Mainland China	Total	Mainland China	Mainland China	Total	Mainland China	Mainland China	Total
Revenue from															
external customers	4,724,709	292,946	5,017,655	8,199,808	275,885	8,475,693	22,318,466	825,806	23,144,272	4,298,442	73,401	4,371,843	2,964,665	215,769	3,180,434
Other income and gains	152,148	9,605	161,753	80,132	5,736	85,868	102,252	46,205	148,457	16,851	1,715	18,566	24,601	15,080	39,681
Total	4,876,857	302,551	5,179,408	8,279,940	281,621	8,561,561	22,420,718	872,011	23,292,729	4,315,293	75,116	4,390,409	2,989,266	230,849	3,220,115
	As at 31 December 2013			As at 31 December 2014			As at 31 December 2015			As at 31 December 2015			Three months ended 31 March 2016		
	Outside			Outside			Outside			Outside			Outside		
	Mainland China	Mainland China	Total	Mainland China	Mainland China	Total	Mainland China	Mainland China	Total	Mainland China	Mainland China	Total	Mainland China	Mainland China	Total
Specified non-current assets															
Property and equipment	961,222	11,603	972,825	932,333	11,234	943,567	851,798	27,574	879,372	848,311	26,462	874,773	1,394,820	1,404,200	834,950
Goodwill	9,380	223,675	233,055	9,380	58,012	67,392	9,380	1,402,403	1,411,783	9,380	1,394,820	1,404,200	63,853	771,097	834,950
Other intangible assets	70,927	86,363	157,290	72,193	75,126	147,319	63,709	822,108	885,817	63,853	771,097	834,950	846,206	21,774	5,402,150
Interest in associates and joint ventures	409,583	–	409,583	970,640	–	970,640	834,649	40,114	874,763	846,206	40,951	887,157	5,380,376	21,774	5,402,150
Refundable deposits	2,747,210	8,073	2,755,283	5,043,111	10,278	5,053,389	3,964,708	30,310	3,995,018	5,380,376	21,774	5,402,150	846,206	21,774	5,402,150

II NOTES TO THE FINANCIAL INFORMATION *(Continued)*
(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 and liquidity 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 Relevant Periods, the Group was exposed to four 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; (iii) risk of losses to the funds of the Company or customers arising from default of the financing party in innovative credit business; and (iv) default risk of other fixed income financial assets except for debt securities and derivative financial assets, which refers to risk of assets losses caused by counterparty defaults.

The Group uses its risk management systems to monitor its credit risk closely, keep track of the credit risk of the Group's business products and its transaction counterparties, provide analysis 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 Relevant Periods. 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 other credit business, preliminary due diligence was performed and a due diligence report submitted for approval by the Group before a project can be launched.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(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**

Maximum exposure to credit risk of the Group and the Company without taking account of any collateral and other credit enhancements:

The Group

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Held-to-maturity investments	–	–	129,531	128,921
Refundable deposits	2,755,283	5,053,389	3,995,018	5,402,150
Accounts receivable	1,089,410	1,196,673	2,069,298	2,039,000
Other receivables and prepayments	1,368,949	2,390,170	3,323,086	3,901,644
Finance lease receivables	–	–	3,901,842	3,753,633
Other non-current assets	–	50,000	185,000	668,645
Margin accounts receivable	12,992,573	38,465,783	43,404,467	31,645,146
Available-for-sale financial assets Financial assets held under resale agreements	982,714	3,218,988	1,955,310	2,118,642
880,869	3,831,668	6,348,621	6,698,585	
Financial assets at fair value through profit or loss	3,157,849	6,240,183	17,440,359	25,221,302
Derivative financial assets	7,467	41,248	168,519	152,729
Clearing settlement funds	25,958	71,222	360,034	81,823
Cash held on behalf of brokerage clients	18,619,338	37,659,987	70,327,108	64,048,743
Bank balances	2,743,839	6,903,883	15,091,125	19,959,188
Total maximum credit risk exposure	<u>44,624,249</u>	<u>105,123,194</u>	<u>168,699,318</u>	<u>165,820,151</u>

The Company

	As at 31 December			As at
	2013	2014	2015	31 March
				2016
Refundable deposits	274,475	1,591,398	1,607,966	1,442,688
Accounts receivable	43,815	49,868	105,095	86,602
Other receivables and prepayments	368,374	574,628	2,553,717	6,241,234
Other non-current assets	–	–	–	916,103
Margin accounts receivable	11,917,014	37,354,135	38,761,836	27,205,193
Available-for-sale financial assets Financial assets held under resale agreements	733,722	2,699,619	1,832,935	1,851,826
838,069	3,665,668	5,804,921	4,582,432	
Financial assets at fair value through profit or loss	3,156,510	6,157,337	8,432,002	7,896,171
Derivative financial assets	7,467	46,590	304,036	308,958
Clearing settlement funds	9,596	23,622	7,841,195	2,225,659
Cash held on behalf of brokerage clients	15,316,246	32,645,750	56,557,339	50,042,134
Bank balances	1,355,946	5,267,511	4,576,697	10,455,336
Total maximum credit risk exposure	<u>34,021,234</u>	<u>90,076,126</u>	<u>128,377,739</u>	<u>113,254,336</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) **Credit risk** (Continued)

(ii) **Risk concentrations**

The Group's and the Company's maximum credit risk exposure without taking account of any collateral and other credit enhancements, as categorised by geographical area:

The Group

31 December 2013	By geographical area		
	Mainland China	Outside Mainland China	Total
Refundable deposits	2,747,210	8,073	2,755,283
Accounts receivable	102,089	987,321	1,089,410
Other receivables and prepayments	1,295,636	73,313	1,368,949
Margin accounts receivable	11,917,014	1,075,559	12,992,573
Available-for-sale financial assets	982,714	–	982,714
Financial assets held under resale agreements	880,869	–	880,869
Financial assets at fair value through profit or loss	3,156,510	1,339	3,157,849
Derivative financial assets	7,467	–	7,467
Clearing settlement funds	25,958	–	25,958
Cash held on behalf of brokerage clients	17,463,625	1,155,713	18,619,338
Bank balances	2,441,637	302,202	2,743,839
Total maximum credit risk exposure	41,020,729	3,603,520	44,624,249

31 December 2014	By geographical area		
	Mainland China	Outside Mainland China	Total
Refundable deposits	5,043,618	9,771	5,053,389
Accounts receivable	109,046	1,087,627	1,196,673
Other receivables and prepayments	2,350,478	39,692	2,390,170
Other non-current assets	50,000	–	50,000
Margin accounts receivable	37,354,135	1,111,648	38,465,783
Available-for-sale financial assets	3,218,988	–	3,218,988
Financial assets held under resale agreements	3,831,668	–	3,831,668
Financial assets at fair value through profit or loss	6,231,593	8,590	6,240,183
Derivative financial assets	41,248	–	41,248
Clearing settlement funds	71,222	–	71,222
Cash held on behalf of brokerage clients	36,456,791	1,203,196	37,659,987
Bank balances	6,560,273	343,610	6,903,883
Total maximum credit risk exposure	101,319,060	3,804,134	105,123,194

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) **Credit risk** (Continued)

(ii) **Risk concentrations** (Continued)

The Group (Continued)

31 December 2015	By geographical area		
	Mainland China	Outside Mainland China	Total
Held-to-maturity investments . . .	–	129,531	129,531
Refundable deposits	3,964,708	30,310	3,995,018
Accounts receivable	228,647	1,840,651	2,069,298
Other receivables and prepayments	3,247,922	75,164	3,323,086
Finance lease receivables	3,901,842	–	3,901,842
Other non-current assets	185,000	–	185,000
Margin accounts receivable	38,761,836	4,642,631	43,404,467
Available-for-sale financial assets	1,951,367	3,943	1,955,310
Financial assets held under resale agreements	6,348,621	–	6,348,621
Financial assets at fair value through profit or loss	17,392,858	47,501	17,440,359
Derivative financial assets	168,519	–	168,519
Clearing settlement funds	360,034	–	360,034
Cash held on behalf of brokerage clients	62,497,417	7,829,691	70,327,108
Bank balances	13,685,979	1,405,146	15,091,125
Total maximum credit risk exposure	152,694,750	16,004,568	168,699,318

31 March 2016	By geographical area		
	Mainland China	Outside Mainland China	Total
Held-to-maturity investments . . .	–	128,921	128,921
Refundable deposits	5,380,376	21,774	5,402,150
Accounts receivable	120,448	1,918,552	2,039,000
Other receivables and prepayments	3,824,191	77,453	3,901,644
Finance lease receivables	3,753,633	–	3,753,633
Other non-current assets	668,645	–	668,645
Margin accounts receivable	27,205,193	4,439,953	31,645,146
Available-for-sale financial assets	2,114,926	3,716	2,118,642
Financial assets held under resale agreements	6,698,585	–	6,698,585
Financial assets at fair value through profit or loss	25,040,694	180,608	25,221,302
Derivative financial assets	152,729	–	152,729
Clearing settlement funds	81,823	–	81,823
Cash held on behalf of brokerage clients	55,572,710	8,476,033	64,048,743
Bank balances	18,508,443	1,450,745	19,959,188
Total maximum credit risk exposure	149,122,396	16,697,755	165,820,151

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) **Credit risk** (Continued)

(ii) **Risk concentrations** (Continued)

The Company

31 December 2013	By geographical area		
	Mainland China	Outside Mainland China	Total
Refundable deposits	274,475	–	274,475
Accounts receivable	43,815	–	43,815
Other receivables and prepayments	368,374	–	368,374
Margin accounts receivable	11,917,014	–	11,917,014
Available-for-sale financial assets	733,722	–	733,722
Financial assets held under resale agreements	838,069	–	838,069
Financial assets at fair value through profit or loss	3,156,510	–	3,156,510
Derivative financial assets	7,467	–	7,467
Clearing settlement funds	9,596	–	9,596
Cash held on behalf of brokerage clients	15,316,246	–	15,316,246
Bank balances	1,355,946	–	1,355,946
Total maximum credit risk exposure	34,021,234	–	34,021,234

31 December 2014	By geographical area		
	Mainland China	Outside Mainland China	Total
Refundable deposits	1,591,398	–	1,591,398
Accounts receivable	49,868	–	49,868
Other receivables and prepayments	574,628	–	574,628
Margin accounts receivable	37,354,135	–	37,354,135
Available-for-sale financial assets	2,699,619	–	2,699,619
Financial assets held under resale agreements	3,665,668	–	3,665,668
Financial assets at fair value through profit or loss	6,157,337	–	6,157,337
Derivative financial assets	46,590	–	46,590
Clearing settlement funds	23,622	–	23,622
Cash held on behalf of brokerage clients	32,645,750	–	32,645,750
Bank balances	5,267,511	–	5,267,511
Total maximum credit risk exposure	90,076,126	–	90,076,126

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) **Credit risk** (Continued)

(ii) **Risk concentrations** (Continued)

The Company (Continued)

31 December 2015	By geographical area		
	Mainland China	Outside Mainland China	Total
Refundable deposits	1,607,966	–	1,607,966
Accounts receivable	105,095	–	105,095
Other receivables and prepayments	2,553,717	–	2,553,717
Margin accounts receivable	38,761,836	–	38,761,836
Available-for-sale financial assets	1,832,935	–	1,832,935
Financial assets held under resale agreements	5,804,921	–	5,804,921
Financial assets at fair value through profit or loss	8,432,002	–	8,432,002
Derivative financial assets	304,036	–	304,036
Clearing settlement funds	7,841,195	–	7,841,195
Cash held on behalf of brokerage clients	56,557,339	–	56,557,339
Bank balances	4,576,697	–	4,576,697
Total maximum credit risk exposure	<u>128,377,739</u>	<u>–</u>	<u>128,377,739</u>

31 March 2016	By geographical area		
	Mainland China	Outside Mainland China	Total
Refundable deposits	1,442,688	–	1,442,688
Accounts receivable	86,602	–	86,602
Other receivables and prepayments	6,241,234	–	6,241,234
Other non-current assets	916,103	–	916,103
Margin accounts receivable	27,205,193	–	27,205,193
Available-for-sale financial assets	1,851,826	–	1,851,826
Financial assets held under resale agreements	4,582,432	–	4,582,432
Financial assets at fair value through profit or loss	7,896,171	–	7,896,171
Derivative financial assets	308,958	–	308,958
Clearing settlement funds	2,225,659	–	2,225,659
Cash held on behalf of brokerage clients	50,042,134	–	50,042,134
Bank balances	10,455,336	–	10,455,336
Total maximum credit risk exposure	<u>113,254,336</u>	<u>–</u>	<u>113,254,336</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(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 amounts of debt securities at the end of the Relevant Periods are categorised by rating distribution as follows:

The Group

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Rating				
Long-term bonds				
– AAA	621,162	1,057,054	1,913,155	3,150,869
– From A to AA+	1,037,818	3,084,039	6,880,214	10,669,830
– From B- to BBB	–	106,438	–	579,722
– CCC+	–	–	–	22,958
– Non-rated ⁽¹⁾	1,192,816	2,099,383	3,981,213	6,220,723
Sub-total	2,851,796	6,346,914	12,774,582	20,644,102
Short-term bonds				
– A-1	–	669,446	110,103	1,361,791
– Non-rated ⁽¹⁾	39,775	539,324	364,043	2,299,178
Sub-total	39,775	1,208,770	474,146	3,660,969
Total	2,891,571	7,555,684	13,248,728	24,305,071

The Company

	As at 31 December			As at 31 March
	2013	2014	2015	2016
Rating				
Long-term bonds				
– AAA	621,162	1,051,691	663,055	733,021
– From A to AA+	1,037,818	3,015,146	2,401,391	3,125,733
– BBB	–	106,438	–	–
– Non-rated ⁽¹⁾	1,191,477	2,090,792	1,742,137	1,652,138
Sub-total	2,850,457	6,264,067	4,806,583	5,510,892
Short-term bonds				
– A-1	–	669,446	100,110	960,929
– Non-rated ⁽¹⁾	39,775	539,324	228,636	920,241
Sub-total	39,775	1,208,770	328,746	1,881,170
Total	2,890,232	7,472,837	5,135,329	7,392,062

(1) Non-rated financial assets mainly represent debts instruments issued by the MOF, the PBOC, policy banks, private placed bonds, and super & short-term commercial papers.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(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 Relevant Periods of the Group's non-derivative financial liabilities and 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 Relevant Periods) and the earliest date the Group can be required to pay:

The Group

As at 31 December 2013							
Financial liabilities	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Loans and borrowings	215,869	–	215,949	–	–	–	215,949
Placements from other financial institutions	5,200,000	–	5,208,422	–	–	–	5,208,422
Accounts payable to brokerage clients	21,652,322	21,652,322	–	–	–	–	21,652,322
Other payables and accruals	813,092	797,895	7,077	–	8,120	–	813,092
Financial assets sold under repurchase agreements	1,791,604	–	1,203,419	596,835	–	–	1,800,254
Total	29,672,887	22,450,217	6,634,867	596,835	8,120	–	29,690,039

As at 31 December 2014							
Financial liabilities	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Loans and borrowings	458,990	127,665	331,498	–	–	–	459,163
Placements from other financial institutions	5,535,000	–	400,386	1,655,949	3,573,602	–	5,629,937
Accounts payable to brokerage clients	40,497,386	40,497,386	–	–	–	–	40,497,386
Other payables and accruals	1,722,273	592,915	46,270	146,195	936,893	–	1,722,273
Financial assets sold under repurchase agreements	30,820,639	–	7,027,944	4,262,573	18,945,642	1,514,633	31,750,792
Derivative financial liabilities	117,519	44,762	–	70,819	1,938	–	117,519
Long-term bonds	6,979,468	–	–	–	419,300	7,419,300	7,838,600
Total	86,131,275	41,262,728	7,806,098	6,135,536	23,877,375	8,933,933	88,015,670

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) **Liquidity risk** (Continued)

The Group (Continued)

As at 31 December 2015							
Financial liabilities	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Loans and borrowings	5,276,502	–	2,332,375	6,383	761,872	2,407,118	5,507,748
Short-term debt instruments issued	2,100,000	–	723,100	830,067	629,000	–	2,182,167
Placements from other financial institutions	500,000	–	500,266	–	–	–	500,266
Accounts payable to brokerage clients	71,102,044	71,102,044	–	–	–	–	71,102,044
Other payables and accruals	7,310,684	1,204,179	21,431	3,005,979	3,079,095	–	7,310,684
Financial assets sold under repurchase agreements	20,785,441	–	6,762,671	3,408,137	10,890,287	233,910	21,295,005
Derivative financial liabilities	1,022,572	2,114	6	276,838	743,614	–	1,022,572
Long-term bonds	37,839,532	–	234,000	6,366,006	14,409,305	20,589,546	41,598,857
Other non-current liabilities	1,853,981	–	–	–	–	1,853,981	1,853,981
Total	147,790,756	72,308,337	10,573,849	13,893,410	30,513,173	25,084,555	152,373,324

As at 31 March 2016							
Financial liabilities	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Loans and borrowings	5,427,530	–	1,127,641	1,400,410	954,435	2,186,771	5,669,257
Short-term debt instruments issued	797,557	–	698,994	48,881	81,420	–	829,295
Placements from other financial institutions	500,000	–	500,030	–	–	–	500,030
Accounts payable to brokerage clients	67,840,568	67,840,568	–	–	–	–	67,840,568
Other payables and accruals	18,901,927	1,505,882	14,139	2,395,326	14,986,580	–	18,901,927
Financial liabilities at fair value through profit or loss	235,502	205,235	30,418	–	–	–	235,653
Financial assets sold under repurchase agreements	18,328,682	–	9,615,016	1,636,456	7,395,166	–	18,646,638
Derivative financial liabilities	402,885	2,016	712	13,257	386,900	–	402,885
Long-term bonds	31,842,125	–	342,000	14,025,300	317,592	20,298,417	34,983,309
Other non-current liabilities	1,874,114	–	–	–	–	1,874,114	1,874,114
Total	146,150,890	69,553,701	12,328,950	19,519,630	24,122,093	24,359,302	149,883,676

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The Company

Financial liabilities	As at 31 December 2013						
	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Placements from other financial institutions	5,200,000	–	5,208,422	–	–	–	5,208,422
Accounts payable to brokerage clients	15,051,046	15,051,046	–	–	–	–	15,051,046
Other payables and accruals	2,314,720	2,309,935	4,785	–	–	–	2,314,720
Financial assets sold under repurchase agreements	1,791,604	–	1,203,419	596,835	–	–	1,800,254
Total	24,357,370	17,360,981	6,416,626	596,835	–	–	24,374,442
Financial liabilities	As at 31 December 2014						
	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Placements from other financial institutions	5,535,000	–	400,386	1,655,949	3,573,602	–	5,629,937
Accounts payable to brokerage clients	31,638,718	31,638,718	–	–	–	–	31,638,718
Other payables and accruals	918,117	880,167	37,950	–	–	–	918,117
Financial assets sold under repurchase agreements	30,820,639	–	7,027,944	4,262,573	18,945,642	1,514,633	31,750,792
Derivative financial liabilities	72,757	–	–	70,819	1,938	–	72,757
Long-term bonds	6,979,468	–	–	–	419,300	7,419,300	7,838,600
Total	75,964,699	32,518,885	7,466,280	5,989,341	22,940,482	8,933,933	77,848,921

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The Company (Continued)

Financial liabilities	As at 31 December 2015						
	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Short-term debt instruments issued	2,100,000	–	723,100	830,067	629,000	–	2,182,167
Placements from other financial institutions	500,000	–	500,266	–	–	–	500,266
Accounts payable to brokerage clients	53,671,724	53,671,724	–	–	–	–	53,671,724
Other payables and accruals	2,374,505	1,233,831	2,958	14,500	1,123,216	–	2,374,505
Financial assets sold under repurchase agreements	19,408,503	–	5,393,707	3,399,541	10,887,900	233,910	19,915,058
Derivative financial liabilities	1,022,566	2,114	–	276,838	743,614	–	1,022,566
Long-term bonds	34,939,408	–	234,000	6,324,000	14,367,300	17,470,000	38,395,300
Total	114,016,706	54,907,669	6,854,031	10,844,946	27,751,030	17,703,910	118,061,586

Financial liabilities	As at 31 March 2016						
	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Placements from other financial institutions	500,000	–	500,030	–	–	–	500,030
Accounts payable to brokerage clients	48,577,413	48,577,413	–	–	–	–	48,577,413
Other payables and accruals	4,911,869	1,448,093	2,400	2,358,647	1,102,729	–	4,911,869
Financial liabilities at fair value through profit or loss	30,267	–	30,418	–	–	–	30,418
Financial assets sold under repurchase agreements	15,680,983	–	6,974,870	1,627,308	7,395,166	–	15,997,344
Derivative financial liabilities	402,619	2,017	445	13,257	386,900	–	402,619
Long-term bonds	28,954,752	–	342,000	14,025,300	234,000	17,236,000	31,837,300
Short-term debt instruments issued	797,557	–	698,994	48,881	81,420	–	829,295
Total	99,855,460	50,027,523	8,549,157	18,073,393	9,200,215	17,236,000	103,086,288

(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.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) **Market risk** (Continued)

(i) **Interest rate risk**

Interest rate risk refers to the likelihood of loss that may arise from adverse movements in the market interest rate. The Group's interest rate risk mainly arises from interest rate policy changes and the mismatch of interest-sensitive assets and liabilities.

The Group mainly manages interest rate risk through structuring and adjusting its asset portfolio. The Group's asset portfolio management aims at mitigating risks and improving profitability by diversification of assets.

The following tables indicate the assets and liabilities as at the end of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier:

The Group

	As at 31 December 2013						Total
	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	Non interest- bearing	
Financial assets							
Available-for-sale financial assets	248,992	140,592	236,085	232,503	124,542	3,350,478	4,333,192
Financial assets held under resale agreements	102,872	23,864	350,533	403,600	–	–	880,869
Refundable deposits	2,650,965	–	–	–	–	104,318	2,755,283
Accounts receivable	–	–	–	–	–	1,089,410	1,089,410
Other receivables and prepayments	–	150,000	766,020	–	–	98,616	1,014,636
Margin accounts receivable	23,736	3,009,603	9,959,234	–	–	–	12,992,573
Financial assets at fair value through profit or loss	1,009,000	117,177	404,400	1,433,341	202,931	3,548,635	6,715,484
Derivative financial assets	(51,208)	52,747	5,928	–	–	–	7,467
Clearing settlement funds	25,958	–	–	–	–	–	25,958
Cash held on behalf of brokerage clients	17,959,338	150,000	20,000	490,000	–	–	18,619,338
Cash and bank balances	2,083,028	217,833	–	430,000	–	13,290	2,744,151
Total	24,052,681	3,861,816	11,742,200	2,989,444	327,473	8,204,747	51,178,361
Financial liabilities							
Loans and borrowings	(215,869)	–	–	–	–	–	(215,869)
Placements from other financial institutions	(5,200,000)	–	–	–	–	–	(5,200,000)
Accounts payable to brokerage clients	(17,160,566)	–	–	–	–	(4,491,756)	(21,652,322)
Other payables and accruals	–	–	–	–	–	(813,092)	(813,092)
Financial assets sold under repurchase agreements	(1,202,889)	(588,715)	–	–	–	–	(1,791,604)
Total	(23,779,324)	(588,715)	–	–	–	(5,304,848)	(29,672,887)
Net interest rate risk exposure	273,357	3,273,101	11,742,200	2,989,444	327,473	2,899,899	21,505,474

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

The Group (Continued)

As at 31 December 2014							
	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	Non interest- bearing	Total
Financial assets							
Available-for-sale financial assets	563,809	149,944	338,874	1,091,626	1,055,831	2,492,801	5,692,885
Financial assets held under resale agreements	756,611	93,096	2,636,752	345,209	–	–	3,831,668
Refundable deposits	748,354	420,892	900,993	–	20,000	2,963,150	5,053,389
Accounts receivable	–	–	–	–	–	1,196,673	1,196,673
Other receivables and prepayments	146,386	143,730	923,640	50,000	–	485,827	1,749,583
Margin accounts receivable	22,636	2,388,459	36,054,688	–	–	–	38,465,783
Financial assets at fair value							
through profit or loss	1,246,775	166,410	1,164,094	2,731,009	797,910	5,163,101	11,269,299
Derivative financial assets	33,512	5,309	2,427	–	–	–	41,248
Clearing settlement funds	71,222	–	–	–	–	–	71,222
Cash held on behalf of brokerage clients	35,012,676	917,311	1,280,000	450,000	–	–	37,659,987
Cash and bank balances	6,215,784	33,380	207,774	430,000	–	17,126	6,904,064
Other non-current assets	–	–	–	50,000	–	–	50,000
Total	44,817,765	4,318,531	43,509,242	5,147,844	1,873,741	12,318,678	111,985,801
Financial liabilities							
Loans and borrowings	(458,990)	–	–	–	–	–	(458,990)
Placements from other financial institutions	(400,000)	(1,635,000)	(3,500,000)	–	–	–	(5,535,000)
Accounts payable to brokerage clients	(33,788,883)	–	–	–	–	(6,708,503)	(40,497,386)
Other payables and accruals	–	–	–	–	–	(1,722,273)	(1,722,273)
Financial assets sold under repurchase agreements	(7,014,569)	(4,202,620)	(18,263,450)	(1,340,000)	–	–	(30,820,639)
Derivative financial liabilities	(55,075)	(15,744)	(1,938)	–	–	(44,762)	(117,519)
Long-term bonds	–	–	–	(6,979,468)	–	–	(6,979,468)
Total	(41,717,517)	(5,853,364)	(21,765,388)	(8,319,468)	–	(8,475,538)	(86,131,275)
Net interest rate risk exposure	3,100,248	(1,534,833)	21,743,854	(3,171,624)	1,873,741	3,843,140	25,854,526

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

The Group (Continued)

As at 31 December 2015							
	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	Non interest- bearing	Total
Financial assets							
Held-to-maturity investments	–	–	–	129,531	–	–	129,531
Available-for-sale financial assets	121,821	–	230,782	1,252,160	316,396	15,721,640	17,642,799
Financial assets held under resale agreements	948,982	632,917	3,422,032	1,344,690	–	–	6,348,621
Refundable deposits	1,239,533	–	–	–	25,680	2,729,805	3,995,018
Accounts receivable	–	–	–	–	–	2,069,298	2,069,298
Finance lease receivables	195,525	186,848	1,068,569	2,450,900	–	–	3,901,842
Other receivables and prepayments	25,000	57,690	1,360,987	–	–	325,001	1,768,678
Margin accounts receivable	11,006,431	3,577,248	28,820,788	–	–	–	43,404,467
Financial assets at fair value through profit or loss	6,129,206	272,158	637,793	9,495,862	905,073	8,099,805	25,539,897
Derivative financial assets	77,423	26,720	2,105	–	–	62,271	168,519
Clearing settlement funds	360,034	–	–	–	–	–	360,034
Cash held on behalf of brokerage clients	64,473,028	1,734,542	4,020,163	99,375	–	–	70,327,108
Cash and bank balances	13,508,975	718,877	569,837	210,625	–	83,378	15,091,692
Other non-current assets	–	–	–	185,000	–	–	185,000
Total	98,085,958	7,207,000	40,133,056	15,168,143	1,247,149	29,091,198	190,932,504
Financial liabilities							
Loans and borrowings	(2,328,161)	–	(686,000)	(2,262,341)	–	–	(5,276,502)
Short-term debt instruments issued	(700,000)	(800,000)	(600,000)	–	–	–	(2,100,000)
Placements from other financial institutions	(500,000)	–	–	–	–	–	(500,000)
Accounts payable to brokerage clients	(55,347,741)	–	–	–	–	(15,754,303)	(71,102,044)
Other payables and accruals	–	–	–	–	–	(7,310,684)	(7,310,684)
Financial assets sold under repurchase agreements	(6,725,963)	(3,274,161)	(10,555,317)	(230,000)	–	–	(20,785,441)
Derivative financial liabilities	(104,612)	(54,687)	(5,086)	–	–	(858,187)	(1,022,572)
Long-term bonds	–	(5,997,067)	(12,989,110)	(18,853,355)	–	–	(37,839,532)
Other non-current liabilities	–	–	–	–	–	(1,853,981)	(1,853,981)
Total	(65,706,477)	(10,125,915)	(24,835,513)	(21,345,696)	–	(25,777,155)	(147,790,756)
Net interest rate risk exposure	32,379,481	(2,918,915)	15,297,543	(6,177,553)	1,247,149	3,314,043	43,141,748

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

The Group (Continued)

As at 31 March 2016							
	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	Non interest- bearing	Total
Financial assets							
Held-to-maturity investments	–	–	–	128,921	–	–	128,921
Available-for-sale financial assets	173,100	83,000	183,303	1,308,112	277,303	13,473,258	15,498,076
Financial assets held under resale agreements	907,946	1,067,310	3,408,206	1,315,123	–	–	6,698,585
Refundable deposits	552,102	–	496,000	–	25,639	4,328,409	5,402,150
Accounts receivable	–	–	–	–	–	2,039,000	2,039,000
Finance lease receivables	215,497	293,351	822,523	2,385,389	36,873	–	3,753,633
Other receivables and prepayments	57,690	147,000	1,315,862	–	–	541,633	2,062,185
Margin accounts receivable	9,650,901	7,423,447	14,570,798	–	–	–	31,645,146
Financial assets at fair value through profit or loss	3,052,327	332,127	4,481,036	15,972,649	1,382,959	7,644,137	32,865,235
Derivative financial assets	68,307	29,310	1,735	–	–	53,377	152,729
Clearing settlement funds	81,823	–	–	–	–	–	81,823
Cash held on behalf of brokerage clients	63,918,743	–	20,000	110,000	–	1	64,048,744
Cash and bank balances	13,297,377	1,580,450	3,637,908	1,350,000	–	93,756	19,959,491
Other non-current assets	–	–	–	502,542	–	166,103	668,645
Total	91,975,813	10,955,995	28,937,371	23,072,736	1,722,774	28,339,674	185,004,363
Financial liabilities							
Loans and borrowings	(1,111,487)	(1,377,229)	(911,963)	(2,026,851)	–	–	(5,427,530)
Short-term debt instruments issued	(669,494)	(48,261)	(79,802)	–	–	–	(797,557)
Placements from other financial institutions	(500,000)	–	–	–	–	–	(500,000)
Accounts payable to brokerage clients	(56,147,348)	–	–	–	–	(11,693,220)	(67,840,568)
Other payables and accruals	–	–	–	–	–	(18,901,927)	(18,901,927)
Financial liabilities at fair value through profit or loss	(30,267)	–	–	–	–	(205,235)	(235,502)
Financial assets sold under repurchase agreements	(9,542,803)	(1,495,879)	(7,290,000)	–	–	–	(18,328,682)
Derivative financial liabilities	(89,320)	(58,638)	(4,107)	–	–	(250,820)	(402,885)
Long-term bonds	–	(12,995,466)	–	(18,846,659)	–	–	(31,842,125)
Other non-current liabilities	–	–	–	–	–	(1,874,114)	(1,874,114)
Total	(68,090,719)	(15,975,473)	(8,285,872)	(20,873,510)	–	(32,925,316)	(146,150,890)
Net interest rate risk exposure	23,885,094	(5,019,478)	20,651,499	2,199,226	1,722,774	(4,585,642)	38,853,473

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) **Market risk** (Continued)

(i) **Interest rate risk** (Continued)

The Company

As at 31 December 2013							
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	Non interest- bearing	Total	
Financial assets							
Available-for-sale financial assets	-	140,592	236,085	232,503	124,542	3,223,839	3,957,561
Financial assets held under resale agreements	60,072	23,864	350,533	403,600	-	-	838,069
Refundable deposits	259,877	-	-	-	-	14,598	274,475
Accounts receivable	-	-	-	-	-	43,815	43,815
Other receivables and prepayments	-	-	-	-	-	115,203	115,203
Margin accounts receivable	23,736	3,009,603	8,883,675	-	-	-	11,917,014
Financial assets at fair value through profit or loss	1,000,000	117,177	404,400	1,432,003	202,931	3,203,510	6,360,021
Derivative financial assets	(51,208)	52,747	5,928	-	-	-	7,467
Clearing settlement funds	9,596	-	-	-	-	-	9,596
Cash held on behalf of brokerage clients	15,316,246	-	-	-	-	-	15,316,246
Cash and bank balances	1,325,313	30,633	-	-	-	115	1,356,061
Total	17,943,632	3,374,616	9,880,621	2,068,106	327,473	6,601,080	40,195,528
Financial liabilities							
Placements from other financial institutions	(5,200,000)	-	-	-	-	-	(5,200,000)
Accounts payable to brokerage clients	(15,051,046)	-	-	-	-	-	(15,051,046)
Other payables and accruals	-	-	-	-	-	(2,314,720)	(2,314,720)
Financial assets sold under repurchase agreements	(1,202,889)	(588,715)	-	-	-	-	(1,791,604)
Total	(21,453,935)	(588,715)	-	-	-	(2,314,720)	(24,357,370)
Net interest rate risk exposure	(3,510,303)	2,785,901	9,880,621	2,068,106	327,473	4,286,360	15,838,158

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

The Company (Continued)

As at 31 December 2014							
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	Non interest- bearing	Total	
Financial assets							
Available-for-sale financial							
assets	19,995	149,944	338,874	1,091,626	1,055,831	1,980,771	4,637,041
Financial assets held under							
resale agreements	701,611	82,096	2,536,752	345,209	–	–	3,665,668
Refundable deposits	269,513	420,892	900,993	–	–	–	1,591,398
Accounts receivable	–	–	–	–	–	49,868	49,868
Other receivables and							
prepayments	–	–	–	–	–	109,883	109,883
Margin accounts receivable	15,904	2,388,459	34,949,772	–	–	–	37,354,135
Financial assets at fair value							
through profit or loss	1,246,775	166,410	1,145,993	2,676,351	787,823	3,351,772	9,375,124
Derivative financial assets	33,512	5,309	2,427	–	–	5,342	46,590
Clearing settlement funds	23,622	–	–	–	–	–	23,622
Cash held on behalf of							
brokerage clients	32,645,750	–	–	–	–	–	32,645,750
Cash and bank balances	5,267,511	–	–	–	–	125	5,267,636
Total	40,224,193	3,213,110	39,874,811	4,113,186	1,843,654	5,497,761	94,766,715
Financial liabilities							
Placements from other financial							
institutions	(400,000)	(1,635,000)	(3,500,000)	–	–	–	(5,535,000)
Accounts payable to brokerage							
clients	(31,638,718)	–	–	–	–	–	(31,638,718)
Other payables and accruals							
	–	–	–	–	–	(918,117)	(918,117)
Financial assets sold under							
repurchase agreements	(7,014,569)	(4,202,620)	(18,263,450)	(1,340,000)	–	–	(30,820,639)
Derivative financial liabilities	(55,075)	(15,744)	(1,938)	–	–	–	(72,757)
Long-term bonds	–	–	–	(6,979,468)	–	–	(6,979,468)
Total	(39,108,362)	(5,853,364)	(21,765,388)	(8,319,468)	–	(918,117)	(75,964,699)
Net interest rate risk exposure	1,115,831	(2,640,254)	18,109,423	(4,206,282)	1,843,654	4,579,644	18,802,016

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) **Market risk (Continued)**

(i) **Interest rate risk (Continued)**

The Company (Continued)

As at 31 December 2015							
	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	Non interest- bearing	Total
Financial assets							
Available-for-sale financial assets	33,390	–	230,782	1,252,160	316,396	13,435,992	15,268,720
Financial assets held under resale agreements	899,982	632,917	2,927,332	1,344,690	–	–	5,804,921
Refundable deposits	1,607,966	–	–	–	–	–	1,607,966
Accounts receivable	–	–	–	–	–	105,095	105,095
Other receivables and prepayments	–	–	1,215,000	–	–	210,488	1,425,488
Margin accounts receivable	11,006,432	3,577,248	24,178,156	–	–	–	38,761,836
Financial assets at fair value							
through profit or loss	5,180,747	227,182	152,782	2,196,472	674,552	9,564,715	17,996,450
Derivative financial assets	77,423	26,719	2,105	–	–	197,789	304,036
Clearing settlement funds	7,841,195	–	–	–	–	–	7,841,195
Cash held on behalf of brokerage clients	56,557,339	–	–	–	–	–	56,557,339
Cash and bank balances	4,461,852	37,905	–	–	–	77,096	4,576,853
Total	87,666,326	4,501,971	28,706,157	4,793,322	990,948	23,591,175	150,249,899
Financial liabilities							
Short-term debt instruments							
issued	(700,000)	(800,000)	(600,000)	–	–	–	(2,100,000)
Placements from other financial institutions	(500,000)	–	–	–	–	–	(500,000)
Accounts payable to brokerage clients	(53,671,724)	–	–	–	–	–	(53,671,724)
Other payables and accruals	(986,750)	–	–	–	–	(1,387,755)	(2,374,505)
Financial assets sold under							
repurchase agreements	(5,357,964)	(3,267,119)	(10,553,420)	(230,000)	–	–	(19,408,503)
Derivative financial liabilities	(104,612)	(54,688)	(5,086)	–	–	(858,180)	(1,022,566)
Long-term bonds	–	(5,997,067)	(12,989,110)	(15,953,231)	–	–	(34,939,408)
Total	(61,321,050)	(10,118,874)	(24,147,616)	(16,183,231)	–	(2,245,935)	(114,016,706)
Net interest rate risk exposure	26,345,276	(5,616,903)	4,558,541	(11,389,909)	990,948	21,345,240	36,233,193

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

The Company (Continued)

As at 31 March 2016							
	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	Non interest- bearing	Total
Financial assets							
Available-for-sale financial assets	–	83,000	183,304	1,308,112	277,303	12,133,623	13,985,342
Financial assets held under resale agreements	17,993	594,310	2,655,006	1,315,123	–	–	4,582,432
Refundable deposits	346,688	–	496,000	–	–	600,000	1,442,688
Accounts receivable	–	–	–	–	–	86,602	86,602
Other receivables and prepayments	4,000,156	–	715,000	–	–	257,562	4,972,718
Margin accounts receivable	9,650,900	7,423,447	10,130,846	–	–	–	27,205,193
Financial assets at fair value through profit or loss	2,355,623	10,008	2,122,992	2,124,385	1,282,959	7,434,524	15,330,491
Derivative financial assets	68,307	29,310	1,735	–	–	209,606	308,958
Clearing settlement funds	2,225,659	–	–	–	–	–	2,225,659
Cash held on behalf of brokerage clients	50,042,134	–	–	–	–	1	50,042,135
Cash and bank balances	10,335,181	–	37,908	–	–	82,319	10,455,408
Other non-current assets	–	–	–	900,000	–	16,103	916,103
Total	79,042,641	8,140,075	16,342,791	5,647,620	1,560,262	20,820,340	131,553,729
Financial liabilities							
Short-term debt instruments issued	(669,494)	(48,261)	(79,802)	–	–	–	(797,557)
Placements from other financial institutions	(500,000)	–	–	–	–	–	(500,000)
Accounts payable to brokerage clients	(48,577,413)	–	–	–	–	–	(48,577,413)
Other payables and accruals	(1,322,690)	–	–	–	–	(3,589,179)	(4,911,869)
Financial liabilities at fair value through profit or loss	(30,267)	–	–	–	–	–	(30,267)
Financial assets sold under repurchase agreements	(6,904,105)	(1,486,878)	(7,290,000)	–	–	–	(15,680,983)
Derivative financial liabilities	(89,321)	(58,638)	(4,107)	–	–	(250,553)	(402,619)
Long-term bonds	–	(12,995,466)	–	(15,959,286)	–	–	(28,954,752)
Total	(58,093,290)	(14,589,243)	(7,373,909)	(15,959,286)	–	(3,839,732)	(99,855,460)
Net interest rate risk exposure	20,949,351	(6,449,168)	8,968,882	(10,311,666)	1,560,262	16,980,608	31,698,269

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) **Market risk** (Continued)

(i) **Interest rate risk** (Continued)

Sensitivity analysis

For those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the Relevant Periods, the Group adopts sensitivity analysis to measure the potential effect of changes in interest rates on the Group's and the Company's profit after tax and equity. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

The Group

	Sensitivity of profit after tax			
	As at 31 December		As at 31 March	
	2013	2014	2015	2016
Move in yield curve				
Up 25 basis points	(14,572)	(21,103)	23,481	(61,325)
Down 25 basis points	19,329	25,761	12,492	70,039

	Sensitivity of equity			
	As at 31 December		As at 31 March	
	2013	2014	2015	2016
Move in yield curve				
Up 25 basis points	(20,796)	(35,872)	15,697	(70,571)
Down 25 basis points	26,432	42,453	21,003	80,483

The Company

	Sensitivity of profit after tax			
	As at 31 December		As at 31 March	
	2013	2014	2015	2016
Move in yield curve				
Up 25 basis points	(15,219)	(20,207)	13,252	(6,224)
Down 25 basis points	17,045	22,905	(10,958)	10,383

	Sensitivity of equity			
	As at 31 December		As at 31 March	
	2013	2014	2015	2016
Move in yield curve				
Up 25 basis points	(21,443)	(34,976)	5,468	(15,470)
Down 25 basis points	24,147	39,597	(2,447)	20,828

The sensitivity analysis above indicates the instantaneous change in the Group's and the Company's profit after tax and equity that would arise assuming that the change in interest rates had occurred at the end of the Relevant Periods and had been applied to re-measure those financial instruments held by the Group and the Company which expose the Group and the Company to fair value interest rate risk at the end of the Relevant Periods. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group and the Company at the end of the Relevant Periods, the impact on the Group's and the Company's profit after tax and equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) **Market risk** (Continued)

(ii) **Currency risk**

Currency risk is the risk arising from foreign exchange business of the Group, which is attributable to the fluctuation and monitor of foreign exchange rates. The Group adopts sensitivity analysis to measure and monitor currency risk.

Assuming all other risk variables remained constant and without consideration of risk management measures undertaken by the Group, a 10% strengthening of the RMB against the US dollar ("USD"), HKD and EUR at the end of the Relevant Periods, under the assumption of the foreign exchange rate changes within the period from the end of the Relevant Periods to next whole year, would have increased/(decreased) the Group's and the Company's equity and profit after tax by the amount shown below, whose effect is in RMB and translated using the spot rate at the end of the Relevant Periods:

The Group

Currency	Sensitivity of equity			
	As at 31 December			As at 31 March
	2013	2014	2015	2016
USD	(15,903)	(3,207)	139,928	194,057
HKD	(888)	(792)	(110,742)	(118,620)
EUR	–	(2)	(796)	(838)

Currency	Sensitivity of profit after tax			
	As at 31 December			As at 31 March
	2013	2014	2015	2016
USD	(15,903)	(3,207)	139,928	194,057
HKD	(888)	(792)	(109,638)	(118,281)
EUR	–	(2)	(796)	(838)

The Company

Currency	Sensitivity of equity/profit after tax			
	As at 31 December			As at 31 March
	2013	2014	2015	2016
USD	(2,800)	(3,148)	(4,360)	(4,593)
HKD	(80,199)	(105,219)	(2,754)	(3,004)

A 10% weakening of the RMB against the USD, HKD and EUR at the end of the Relevant Periods would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remained constant.

Due to the above assumptions, the result of sensitivity analysis on foreign exchange rate changes may be different, compared with the actual changes in the Group's and the Company's profit after tax and equity of may arise with this.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

(c) **Market risk** (Continued)

(iii) **Price risk**

The Group and the Company is exposed to equity price changes arising from equity investments included in financial assets at fair value through profit or loss and available-for-sale financial instruments. Price risk the Group and the Company facing is mainly the proportionate fluctuation in the Group's and the Company's profit after tax and equity due to the price fluctuation of the financial assets/liabilities at fair value through profit or loss and available-for-sale financial assets.

Sensitivity analysis

The analysis below is performed to show the impact on Group's and the Company's profit after tax and equity due to change in the prices of equity securities by 10% with all other variables held constant.

The Group

	Sensitivity of profit after tax			
	As at 31 December			As at 31 March
	2013	2014	2015	2016
Increase by 10%	236,818	200,658	470,636	603,495
Decrease by 10%	(236,818)	(200,658)	(470,636)	(603,495)
	Sensitivity of equity			
	As at 31 December			As at 31 March
	2013	2014	2015	2016
Increase by 10%	436,204	317,070	1,594,918	1,599,808
Decrease by 10%	(436,204)	(317,070)	(1,594,918)	(1,599,808)

The Company

	Sensitivity of profit after tax			
	As at 31 December			As at 31 March
	2013	2014	2015	2016
Increase by 10%	219,152	116,107	420,508	447,330
Decrease by 10%	(219,152)	(116,107)	(420,508)	(447,330)
	Sensitivity of equity			
	As at 31 December			As at 31 March
	2013	2014	2015	2016
Increase by 10%	353,628	141,173	1,322,524	1,227,037
Decrease by 10%	(353,628)	(141,173)	(1,322,524)	(1,227,037)

II NOTES TO THE FINANCIAL INFORMATION *(Continued)* *(Expressed in thousands of Renminbi, unless otherwise stated)*

57 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(Continued)*

(c) Market risk *(Continued)*

(iii) Price risk *(Continued)*

Sensitivity analysis (Continued)

The sensitivity analysis indicates the instantaneous change in the Group's and the Company's profit after tax and equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the Relevant Periods and had been applied to re-measure those financial instruments held by the Group and the Company which expose the Group and the Company to equity price risk at the end of the Relevant Periods. It is also assumed that the fair values of the Group's and the Company's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis at the end of the Relevant Periods.

(d) Capital management

The Group's objectives of capital management are:

- (i) To safeguard the Group's ability to continue as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders;
- (ii) To support the Group'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 and Hong Kong regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2008) (the "Administrative Measures") issued by the CSRC, the Company is required to meet the following standards for risk control indicators on a continual basis:

- (i) The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100%;
- (ii) The ratio of net capital divided by net assets shall be no less than 40%;
- (iii) The ratio of net capital divided by liabilities shall be no less than 8%;
- (iv) The ratio of net assets divided by liabilities shall be no less than 20%;
- (v) The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100%; and
- (vi) The ratio of the value of fixed income securities held divided by net capital shall not exceed 500%.

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

During the Relevant Periods, the Company monitored the above ratios closely to maintain these ratios in compliance with the relevant capital requirements.

Similar to the Company, certain subsidiaries of the Group are also subject to capital requirements under the PRC and Hong Kong regulatory requirements, imposed by the CSRC and the Hong Kong Securities and Futures Commission, respectively. These subsidiaries comply with the capital requirements during the Relevant Periods.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)
(*Expressed in thousands of Renminbi, unless otherwise stated*)

58 FAIR VALUE INFORMATION

(a) Fair value of financial instruments

The Group adopts the following methods and assumptions when evaluating fair values:

- (i) Financial assets including cash and bank balances, cash held for brokerage clients, clearing settlement funds, financial assets held under resale agreements, and financial liabilities including placements from other financial institutions and financial assets sold under repurchase agreements are mainly short-term financing or floating interest rate instruments. Accordingly, the carrying amounts approximate the fair values.
- (ii) Financial assets and liabilities at fair value through profit or loss, 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 market 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 long-term bonds and other non-current liabilities — put right liabilities arising from business combination 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 estimated the fair values using pricing models including discounted cash flow and binomial pricing model.
- (iv) Account receivable, other receivables and prepayments, margin accounts receivable, and accounts payable to brokerage clients mainly are within one year. Accordingly, the carrying amounts approximate the fair values.

(b) Fair value of other financial instruments (carried at other than fair value)

The carrying amounts of the group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013, 2014 and 2015 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

The Group

Carrying amount

	As at 31 December			At as
	2013	2014	2015	31 March 2016
<i>Financial liabilities</i>				
– Long-term bonds	–	6,979,468	37,839,532	31,842,125
Total	–	6,979,468	37,839,532	31,842,125

Fair value

	As at 31 December 2014			
	Level I	Level II	Level III	Total
<i>Financial liabilities</i>				
– Long-term bonds	–	7,233,272	–	7,233,272

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION (Continued)

(b) Fair value of other financial instruments (carried at other than fair value) (Continued)

The Group (Continued)

Fair value (Continued)

	As at 31 December 2015			
	Level I	Level II	Level III	Total
<i>Financial liabilities</i>				
– Long-term bonds	–	38,296,473	–	38,296,473
	As at 31 March 2016			
	Level I	Level II	Level III	Total
<i>Financial liabilities</i>				
– Long-term bonds	–	32,372,795	–	32,372,795
<i>The Company</i>				
<i>Carrying amount</i>				
	As at 31 December			As at
	2013	2014	2015	31 March
				2016
<i>Financial liabilities</i>				
– Long-term bonds	–	6,979,468	34,939,408	28,954,752
<i>Fair value</i>				
	As at 31 December 2014			
	Level I	Level II	Level III	Total
<i>Financial liabilities</i>				
– Long-term bonds	–	7,233,272	–	7,233,272
	As at 31 December 2015			
	Level I	Level II	Level III	Total
<i>Financial liabilities</i>				
– Long-term bonds	–	35,387,122	–	35,387,122
	As at 31 March 2016			
	Level I	Level II	Level III	Total
<i>Financial liabilities</i>				
– Long-term bonds	–	29,441,733	–	29,441,733

II NOTES TO THE FINANCIAL INFORMATION *(Continued)*
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION *(Continued)*

(b) Fair value of other financial instruments (carried at other than fair value) *(Continued)*

The fair values of the financial liabilities included in the level II above have been determined in accordance with generally accepted pricing models including discounted cash flow etc.

Except for the above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's statements of financial position approximate their fair values.

(c) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level I valuations: Fair value measured using only Level I inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level II valuations: Fair value measured using Level II inputs i.e. observable inputs which fail to meet Level I, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level III valuations: Fair value measured using significant unobservable inputs.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

The table below analyses financial instruments, measured at fair value at the end of the Relevant Periods, by the level in the fair value hierarchy into which the fair value measurement is categorised. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION (Continued)

(c) **Fair value hierarchy** (Continued)

The Group

	As at 31 December 2013			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– Debt securities	96,519	2,061,330	–	2,157,849
– Equity securities	2,960,139	78,853	–	3,038,992
– Funds	1,136,706	132,758	–	1,269,464
– Wealth management products	–	186,946	9,000	195,946
– Others	13,659	39,574	–	53,233
Available-for-sale financial assets				
– Debt securities	219,926	513,796	–	733,722
– Equity securities	1,724,229	4,217	834,054	2,562,500
– Funds	377,495	11,002	–	388,497
– Wealth management products	–	648,473	–	648,473
Derivative financial assets	–	7,467	–	7,467
Total	6,528,673	3,684,416	843,054	11,056,143
	As at 31 December 2014			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– Debt securities	486,704	4,412,710	–	4,899,414
– Equity securities	2,176,766	68,089	–	2,244,855
– Funds	1,602,349	74,842	–	1,677,191
– Wealth management products	–	643,842	1,246,150	1,889,992
– Others	1,698	81,235	–	82,933
Designated at fair value through profit or loss				
– Wealth management products and others	–	474,914	–	474,914
Available-for-sale financial assets				
– Debt securities	276,611	2,379,659	–	2,656,270
– Equity securities	22,736	204,926	1,156,977	1,384,639
– Funds	683,053	3,833	–	686,886
– Wealth management products	–	955,090	10,000	965,090
Derivative financial assets	–	41,248	–	41,248
Total	5,249,917	9,340,388	2,413,127	17,003,432
Liabilities				
Derivative financial liabilities	–	(117,519)	–	(117,519)
Total	–	(117,519)	–	(117,519)

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION (Continued)

(c) **Fair value hierarchy** (Continued)

The Group (Continued)

	As at 31 December 2015			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– Debt securities	5,300,459	6,081,598	–	11,382,057
– Equity securities	4,157,699	155,866	–	4,313,565
– Funds	7,527,226	84,079	–	7,611,305
– Wealth management products	–	1,601,208	40,890	1,642,098
– Others	5,098	4,535	–	9,633
Designated at fair value through profit or loss				
– Wealth management products	–	581,239	–	581,239
Available-for-sale financial assets				
– Debt securities	793,061	1,043,610	30,000	1,866,671
– Equity securities	6,158,913	137,459	1,179,507	7,475,879
– Funds	765,077	8,937	–	774,014
– Wealth management products and others	–	7,506,185	20,050	7,526,235
Derivative financial assets	44	168,475	–	168,519
Total	<u>24,707,577</u>	<u>17,373,191</u>	<u>1,270,447</u>	<u>43,351,215</u>
Liabilities				
Derivative financial liabilities	(468)	(1,022,104)	–	(1,022,572)
Total	<u>(468)</u>	<u>(1,022,104)</u>	<u>–</u>	<u>(1,022,572)</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION (Continued)

(c) **Fair value hierarchy** (Continued)

The Group (Continued)

	As at 31 March 2016			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– Debt securities	2,113,782	20,116,933	–	22,230,715
– Equity securities	2,892,456	598,193	–	3,490,649
– Funds	2,020,977	83,696	–	2,104,673
– Wealth management products	–	2,904,358	52,810	2,957,168
– Others	–	13,679	–	13,679
Designated at fair value through profit or loss				
– Wealth management products	–	597,126	1,471,225	2,068,351
Available-for-sale financial assets				
– Debt securities	26,781	1,828,654	90,000	1,945,435
– Equity securities	5,237,187	814,890	1,038,527	7,090,604
– Funds	205,491	–	–	205,491
– Wealth management products and others	–	6,236,496	20,050	6,256,546
Derivative financial assets	813	151,916	–	152,729
Total	<u>12,497,487</u>	<u>33,345,941</u>	<u>2,672,612</u>	<u>48,516,040</u>
Liabilities				
Financial liabilities at fair value through profit or loss				
Held for trading				
– Debt securities	(30,267)	–	–	(30,267)
Designated at fair value through profit or loss				
– Structured entities	–	–	(205,235)	(205,235)
Derivative financial liabilities	(788)	(402,097)	–	(402,885)
Total	<u>(31,055)</u>	<u>(402,097)</u>	<u>(205,235)</u>	<u>(638,387)</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION (Continued)

(c) Fair value hierarchy (Continued)

The Company

	As at 31 December 2013			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– Debt securities	96,519	2,059,991	–	2,156,510
– Equity securities	2,734,255	77,448	–	2,811,703
– Funds	1,110,327	84,110	–	1,194,437
– Wealth management products	–	197,371	–	197,371
Available-for-sale financial assets				
– Debt securities	219,926	513,796	–	733,722
– Equity securities	1,724,229	4,217	–	1,728,446
– Funds	53,557	11,002	–	64,559
– Wealth management products	–	1,430,834	–	1,430,834
Derivative financial assets	–	7,467	–	7,467
Total	5,938,813	4,386,236	–	10,325,049
	As at 31 December 2014			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– Debt securities	444,562	4,372,005	–	4,816,567
– Equity securities	1,172,592	42,512	–	1,215,104
– Funds	1,588,435	–	–	1,588,435
– Wealth management products	–	755,018	1,000,000	1,755,018
Available-for-sale financial assets				
– Debt securities	276,611	2,379,659	–	2,656,270
– Equity securities	22,736	26	200,000	222,762
– Funds	107,620	3,833	–	111,453
– Wealth management products	–	1,646,556	–	1,646,556
Derivative financial assets	–	46,590	–	46,590
Total	3,612,556	9,246,199	1,200,000	14,058,755
Liabilities				
Derivative financial liabilities	–	(72,757)	–	(72,757)
Total	–	(72,757)	–	(72,757)

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION (Continued)

(c) **Fair value hierarchy** (Continued)

The Company (Continued)

	As at 31 December 2015			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– Debt securities	94,197	3,208,404	–	3,302,601
– Equity securities	3,954,702	155,773	–	4,110,475
– Funds	6,598,300	–	–	6,598,300
– Wealth management products	–	3,985,074	–	3,985,074
Available-for-sale financial assets				
– Debt securities	793,061	1,039,667	–	1,832,728
– Equity securities	4,825,703	137,459	225,000	5,188,162
– Funds	643,240	–	–	643,240
– Wealth management products and others.	–	7,594,540	10,050	7,604,590
Derivative financial assets	41	303,995	–	304,036
Total	16,909,244	16,424,912	235,050	33,569,206
Liabilities				
Derivative financial liabilities	(462)	(1,022,104)	–	(1,022,566)
Total	(462)	(1,022,104)	–	(1,022,566)

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION (Continued)

(c) **Fair value hierarchy** (Continued)

The Company (Continued)

	As at 31 March 2016			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– Debt securities	201,610	5,338,734	–	5,540,344
– Equity securities	2,740,391	564,443	–	3,304,834
– Funds	1,361,531	5,001	–	1,366,532
– Wealth management products	–	5,098,781	20,000	5,118,781
Available-for-sale financial assets				
– Debt securities	26,781	1,824,937	–	1,851,718
– Equity securities	4,213,165	382,986	225,000	4,821,151
– Funds	4,352	–	–	4,352
– Wealth management products and others	–	7,298,071	10,050	7,308,121
Derivative financial assets	273	308,685	–	308,958
Total	8,548,103	20,821,638	255,050	29,624,791
Liabilities				
Financial liabilities at fair value through profit or loss				
Held for trading				
– Debt securities	(30,267)	–	–	(30,267)
Derivative financial liabilities	(522)	(402,097)	–	(402,619)
Total	(30,789)	(402,097)	–	(432,886)

During the Relevant Periods, there were no significant transfers between Level I and Level II.

There were transfers between Level I and Level III during the Relevant Periods, as a result of the fact that several unlisted equity investments were listed in exchanges during the Relevant Periods. Other than the above, there was no significant transfer into or out of Level III during the Relevant Periods. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the Relevant Periods in which they occur.

(i) *Financial instruments in Level I*

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the Relevant Periods. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in Level I. Instruments included in Level I comprise primarily securities traded on exchanges and fund investments traded through exchanges or fund management companies.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)*
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION *(Continued)*

(c) Fair value hierarchy *(Continued)*

(ii) Financial instruments in Level II

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level II.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level III.

(iii) Valuation methods for specific investments

As at the end of the Relevant Periods, the Group's valuation methods for specific investments are as follows:

- (1) For exchange-listed equity securities, fair value is determined based on the closing price of the equity securities as at the end of the Relevant Periods within bid-ask spread. If there is no quoted market price as at the end of the Relevant Periods, valuation techniques are used to determine the fair value.
- (2) For exchange-listed investment funds, fair value is determined based on the closing price within bid-ask spread as at the end of the Relevant Periods or the most recent trading date. For unlisted open-end funds and wealth management products, fair value is determined by quoted price which is based on the net asset value as at the end of the Relevant Periods.
- (3) For debt securities listed through exchanges, fair values are determined based on the closing price within bid-ask spread of the debt securities as at the end of the Relevant Periods.
- (4) For debt securities traded through the inter-bank bond market and the OTC market, fair values are determined by valuation techniques.
- (5) For futures traded through exchanges, fair value is determined based on the closing price of the futures as at the end of the Relevant Periods.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION (Continued)

(c) **Fair value hierarchy** (Continued)

(iv) *Financial instruments in Level III*

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level III of the fair value hierarchy:

The Group

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
As at 1 January 2013	–	882,764	882,764
Transfer out	–	(32,310)	(32,310)
Losses for the year	–	(20,000)	(20,000)
Changes in fair value recognised in other comprehensive income	–	–	–
Purchases	9,000	3,600	12,600
Sales and settlements	–	–	–
As at 31 December 2013	<u>9,000</u>	<u>834,054</u>	<u>843,054</u>
Total gains for the year reclassified from other comprehensive income on disposal	–	–	–
Total losses for the year included in profit or loss for assets held at the end of the Relevant Periods	<u>–</u>	<u>(20,000)</u>	<u>(20,000)</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION (Continued)

(c) **Fair value hierarchy** (Continued)

(iv) *Financial instruments in Level III* (Continued)

The Group (Continued)

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
As at 1 January 2014	9,000	834,054	843,054
Transfer out	–	(24,000)	(24,000)
Gains/(losses) for the year	168	(29,953)	(29,785)
Changes in fair value recognised in other comprehensive income	–	130,000	130,000
Purchases	1,246,150	402,500	1,648,650
Sales and settlements	(9,168)	(145,624)	(154,792)
As at 31 December 2014	<u>1,246,150</u>	<u>1,166,977</u>	<u>2,413,127</u>
Total gains for the year reclassified from other comprehensive income on disposal	–	4,974	4,974
Total losses for the year included in profit or loss for assets held at the end of the Relevant Periods	–	(34,927)	(34,927)
	<u>–</u>	<u>(34,927)</u>	<u>(34,927)</u>
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
As at 1 January 2015	1,246,150	1,166,977	2,413,127
Transfer out	–	(536,795)	(536,795)
Gains for the year	2,110	5,018	7,128
Changes in fair value recognised in other comprehensive income	–	311,251	311,251
Purchases	14,510	603,275	617,785
Sales and settlements	(1,221,880)	(320,169)	(1,542,049)
As at 31 December 2015	<u>40,890</u>	<u>1,229,557</u>	<u>1,270,447</u>
Total gains for the year reclassified from other comprehensive income on disposal	–	10,169	10,169
Total losses for the year included in profit or loss for assets held at the end of the Relevant Periods	–	(5,151)	(5,151)
	<u>–</u>	<u>(5,151)</u>	<u>(5,151)</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION (Continued)

(c) **Fair value hierarchy** (Continued)

(iv) *Financial instruments in Level III* (Continued)

The Group (Continued)

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Total
As at 1 January 2016	40,890	1,229,557	–	1,270,447
Transfer out	–	(35,000)	–	(35,000)
Gains for the period	–	–	–	–
Changes in fair value recognised in other comprehensive income	–	(136,480)	–	(136,480)
Purchases	1,507,225	90,500	(205,235)	1,392,490
Sales and settlements	(24,080)	–	–	(24,080)
As at 31 March 2016	<u>1,524,035</u>	<u>1,148,577</u>	<u>(205,235)</u>	<u>2,467,377</u>
Total gains for the period reclassified from other comprehensive income on disposal	–	–	–	–
Total losses for the period included in profit or loss for assets held at the end of the Relevant Periods	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION (Continued)

(c) **Fair value hierarchy** (Continued)

(iv) *Financial instruments in Level III* (Continued)

The Company

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
As at 1 January 2014	–	–	–
Gains or losses for the year	–	–	–
Changes in fair value recognised in other comprehensive income	–	–	–
Purchases	1,000,000	200,000	1,200,000
Sales and settlements	–	–	–
As at 31 December 2014	<u>1,000,000</u>	<u>200,000</u>	<u>1,200,000</u>
Total gains for the year reclassified from other comprehensive income on disposal	–	–	–
Total losses for the year included in profit or loss for assets held at the end of the Relevant Periods	–	–	–
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
As at 1 January 2015	1,000,000	200,000	1,200,000
Transfer out	(1,002,110)	–	(1,002,110)
Gains for the year	2,110	10,169	12,279
Changes in fair value recognised in other comprehensive income	–	50	50
Purchases	–	235,000	235,000
Sales and settlements	–	(210,169)	(210,169)
As at 31 December 2015	<u>–</u>	<u>235,050</u>	<u>235,050</u>
Total gains for the year reclassified from other comprehensive income on disposal	–	10,169	10,169
Total losses for the year included in profit or loss for assets held at the end of the Relevant Periods	–	–	–

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION (Continued)

(c) **Fair value hierarchy** (Continued)

(iv) *Financial instruments in Level III* (Continued)

The Company (Continued)

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
As at 1 January 2016	–	235,050	235,050
Transfer out	–	–	–
Gains for the period	–	–	–
Changes in fair value recognised in other comprehensive income	–	–	–
Purchases	20,000	–	20,000
Sales and settlements	–	–	–
As at 31 March 2016	<u>20,000</u>	<u>235,050</u>	<u>255,050</u>
Total gains for the period reclassified from other comprehensive income on disposal	–	–	–
Total losses for the period included in profit or loss for assets held at the end of the Relevant Periods	<u>–</u>	<u>–</u>	<u>–</u>

During 2013, there were no financial instruments in Level III.

For financial instruments in Level III, prices are determined using valuation techniques such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level III of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level III.

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

58 FAIR VALUE INFORMATION (Continued)

(c) **Fair value hierarchy** (Continued)

(iv) *Financial instruments in Level III* (Continued)

<u>Financial assets/liabilities</u>	<u>Fair value hierarchy</u>	<u>Valuation technique(s) and key input(s)</u>	<u>Significant unobservable input(s)</u>	<u>Relationship of unobservable input(s) to fair value</u>
Stock with disposal restriction within a specific period	Level III	Option pricing model	Volatility	The higher the volatility, the lower the fair value
Wealth management products, structured entities, private placement bonds and preferred shares	Level III	Discounted cash flow model	Risk adjusted discount rate	The higher the risk adjusted discount rate, the lower the fair value
			Discount for lack of marketability	The higher the discount, the lower the fair value
Unlisted equity investment with limited marketability	Level III	Market comparable companies	Discount for lack of marketability	The higher the discount, the lower the fair value

59 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of the Financial Information, the IASB has issued a number of amendments and new standards which are not yet effective for the period ended 31 March 2016 and which have not been adopted in the Financial Information. These include the following which may be relevant to the Group.

	<u>Effective for accounting periods beginning on or after</u>
Amendments to IFRS 10 and IAS 28, Sale or contribution of assets between an investor and its associate or joint venture	a date to be determined by IASB
Amendments to IAS 12, Income taxes — Recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to IAS 7, Disclosure initiative	1 January 2017
Amendments to IFRS 2, Classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 15, Clarifications to IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 15, Revenue from contracts with customers	1 January 2018
IFRS 9, Financial instruments	1 January 2018
IFRS 16, Leases	1 January 2019

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 Group's results of operations and financial position, except for the following.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)*

(Expressed in thousands of Renminbi, unless otherwise stated)

59 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS *(Continued)*

IFRS 9, Financial instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the recognition in other comprehensive income of 'own credit risk' related gains and losses that are part of the fair value changes of financial liabilities designated as measured at fair value through profit or loss; this version of IFRS 9 also carried forward the derecognition requirements of IAS 39. In November 2013 the new requirements for general hedge accounting were added to IFRS 9. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. The implementation date of IFRS 9 is 1 January 2018.

Key requirements of IFRS 9 that are relevant to the Group are:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized. The measurement of the loss allowance generally depends on whether there has been a significant increase in credit risk since initial recognition of the instrument. IFRS 9 requires an entity to recognize lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information, including that which is forward-looking.

The directors of the Company anticipate that the adoption of IFRS 9 in the future may have an impact on the Group's results and financial position, including the classification categories and the measurement of financial assets, and disclosures. For instance, the Group will be required to replace the incurred loss impairment model in IAS 39 with an expected loss impairment model that will apply to various exposures to credit risk. IFRS 9 will also change the way the Group classifies and measures its financial assets, and will require the Group to consider the business model and contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. It is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

59 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS (Continued)

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programmes. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

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

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

The Group anticipate that the application of IFRS 15 in the future may have impact on the amounts reported and disclosures made in the Group's consolidated financial statements and it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

IFRS 16, Leases

IFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, IFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognised for all leases, subject to limited exceptions. It replaces IAS 17 Leases and the related interpretations including IFRIC 4 Determining whether an arrangement contains a lease.

When IFRS 16 is adopted in the future, it is expected that certain portion of lease commitments will be required to be recognized in the consolidated statement of financial position as right-of-use assets and lease liabilities. Based on current leasing patterns, the directors of the Company do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Group's financial results.

60 COMPANY LEVEL STATEMENTS OF CHANGES IN EQUITY

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the Relevant Periods are set out below.

	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve	Retained profits	Total
As at 1 January 2013	3,418,000	10,982,886	1,485,637	2,850,308	(958,037)	(978)	4,336,828	22,114,644
Change in equity for 2013								
Profit for the year	-	-	-	-	-	-	100,318	100,318
Other comprehensive income	-	-	-	-	481,108	(340)	-	480,768
Total comprehensive income	-	-	-	-	481,108	(340)	100,318	581,086
Appropriation to surplus reserve	-	-	10,032	-	-	-	(10,032)	-
Appropriation to general reserve	-	-	-	20,064	-	-	(20,064)	-
Dividends approved in respect of the previous year	-	-	-	-	-	-	(314,456)	(314,456)
As at 31 December 2013	3,418,000	10,982,886	1,495,669	2,870,372	(476,929)	(1,318)	4,092,594	22,381,274

II NOTES TO THE FINANCIAL INFORMATION (Continued)
(Expressed in thousands of Renminbi, unless otherwise stated)

60 COMPANY LEVEL STATEMENTS OF CHANGES IN EQUITY (Continued)

	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve	Retained profits	Total
As at 1 January 2014	3,418,000	10,982,886	1,495,669	2,870,372	(476,929)	(1,318)	4,092,594	22,381,274
Change in equity for 2014								
Profit for the year	-	-	-	-	-	-	2,002,641	2,002,641
Other comprehensive income	-	-	-	-	633,646	(6,964)	-	626,682
Total comprehensive income	-	-	-	-	633,646	(6,964)	2,002,641	2,629,323
Appropriation to surplus reserve	-	-	200,264	-	-	-	(200,264)	-
Appropriation to general reserve	-	-	-	400,528	-	-	(400,528)	-
Dividends approved in respect of the previous year	-	-	-	-	-	-	(68,360)	(68,360)
As at 31 December 2014	3,418,000	10,982,886	1,695,933	3,270,900	156,717	(8,282)	5,426,083	24,942,237
	<u>3,418,000</u>	<u>10,982,886</u>	<u>1,695,933</u>	<u>3,270,900</u>	<u>156,717</u>	<u>(8,282)</u>	<u>5,426,083</u>	<u>24,942,237</u>
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve	Retained profits	Total
As at 1 January 2015	3,418,000	10,982,886	1,695,933	3,270,900	156,717	(8,282)	5,426,083	24,942,237
Change in equity for 2015								
Profit for the year	-	-	-	-	-	-	6,569,477	6,569,477
Other comprehensive income	-	-	-	-	119,853	1,223	-	121,076
Total comprehensive income	-	-	-	-	119,853	1,223	6,569,477	6,690,553
Shares issued	488,699	7,479,839	-	-	-	-	-	7,968,538
Appropriation to surplus reserve	-	-	656,947	-	-	-	(656,947)	-
Appropriation to general reserve	-	-	-	1,313,895	-	-	(1,313,895)	-
Dividends approved in respect of the previous year	-	-	-	-	-	-	(273,440)	(273,440)
As at 31 December 2015	3,906,699	18,462,725	2,352,880	4,584,795	276,570	(7,059)	9,751,278	39,327,888
	<u>3,906,699</u>	<u>18,462,725</u>	<u>2,352,880</u>	<u>4,584,795</u>	<u>276,570</u>	<u>(7,059)</u>	<u>9,751,278</u>	<u>39,327,888</u>
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve	Retained profits	Total
As at 1 January 2015	3,418,000	10,982,886	1,695,933	3,270,900	156,717	(8,282)	5,426,083	24,942,237
Change in equity for three months ended 31 March 2015								
Profit for the period	-	-	-	-	-	-	1,315,107	1,315,107
Other comprehensive income	-	-	-	-	96,051	81	-	96,132
Total comprehensive income	-	-	-	-	96,051	81	1,315,107	1,411,239
As at 31 March 2015 (unaudited)	3,418,000	10,982,886	1,695,933	3,270,900	252,768	(8,201)	6,741,190	26,353,476
	<u>3,418,000</u>	<u>10,982,886</u>	<u>1,695,933</u>	<u>3,270,900</u>	<u>252,768</u>	<u>(8,201)</u>	<u>6,741,190</u>	<u>26,353,476</u>
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Translation reserve	Retained profits	Total
As at 1 January 2016	3,906,699	18,462,725	2,352,880	4,584,795	276,570	(7,059)	9,751,278	39,327,888
Change in equity for three months ended 31 March 2016								
Profit for the period	-	-	-	-	-	-	716,431	716,431
Other comprehensive income	-	-	-	-	(903,228)	(112)	-	(903,340)
Total comprehensive income	-	-	-	-	(903,228)	(112)	716,431	(186,909)
Dividends approved in respect of the previous year	-	-	-	-	-	-	(2,344,019)	(2,344,019)
As at 31 March 2016	3,906,699	18,462,725	2,352,880	4,584,795	(626,658)	(7,171)	8,123,690	36,796,960
	<u>3,906,699</u>	<u>18,462,725</u>	<u>2,352,880</u>	<u>4,584,795</u>	<u>(626,658)</u>	<u>(7,171)</u>	<u>8,123,690</u>	<u>36,796,960</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

(Expressed in thousands of Renminbi, unless otherwise stated)

61 NON-ADJUSTING EVENTS AFTER THE RELEVANT PERIODS

On 27 April 2016, the Company issued two privately offered corporate bonds named “16 Everbright 01” of RMB1.5 billion and “16 Everbright 02” of RMB2.5 billion, respectively.

Notice for the Roll-out of the Pilot Scheme to Convert Business Tax to VAT (Cai Shui No. 36 [2016], referred as “the Notice”) was jointly issued by the Ministry of Finance and the State Administration of Taxation on 23 March 2016 and was effective on 1 May 2016. Business tax rate and preferential policy applicable to the Group are stated in Note II-3. The Company and its subsidiaries are mainly engaged in financial services and therefore subject to a business tax rate of 5%. They shall, as per the Notice, accrue the output VAT at 6% of taxable income, and pay the value-added tax based on the output VAT less input VAT for the current period from 1 May 2016. The Notice has no impact on the carrying amount of tax payable on the Group’s balance sheet as at 31 December 2015 and 31 March 2016. The potential impact of the Notice on the Group’s future tax obligations is still in assessment.

On 5 May 2016, the Company was granted permission from CSRC to set up 5 branches and 52 securities outlets.

On 26 May 2016, the Company issued two privately offered corporate bonds named “16 Everbright 03” of RMB3 billion and “16 Everbright 04” of RMB3 billion, respectively.

On 26 May 2016, according to PRC relevant regulations the Company announced that its newly increased loans and borrowings (including bonds issued) have exceeded 20% of the net assets of RMB42.424 billion as at the end of 2015. Up to the announcement date the newly issued bonds and newly issued loans and borrowings were RMB10 billion and RMB2.363 billion, respectively.

On 26 May 2016, the 2-year subordinated bond named “15 Everbright 05” amounting to RMB6 billion with an original maturity of 26 May 2017 was early redeemed.

On 1 June 2016, Everbright Fortune International Leasing Co., Ltd, a subsidiary of the Company, had set up a subsidiary in Tianjin Dongjiang Tariff-free Zone, registered capital of RMB100 million.

On 7 June 2016, the Second Intermediate People’s Court of Shanghai issued a notice of appearance to Shanghai Everbright Assets Management Co., Ltd. (“EBSAM”), a wholly owned subsidiary of the Company, pursuant to which Xiamen International Bank Co., Ltd. Shanghai Branch (“Xiamen International Bank Shanghai”) filed a claim against EBSAM in respect of a contractual dispute on asset management services. In November 2012, the plaintiff entrusted RMB150 million to a 3-year Targeted Asset Management (“TAM”) scheme established and managed by EBSAM. As approved by the plaintiff, the TAM scheme invested the entrusted assets in a trust plan managed by a Trust Company, which had a duration of 365 days and an expected annual return of 6.2%. The plaintiff appealed EBSAM to return the entrusted assets and pay expected returns and appealed the third party bank, which issued a guarantee letter to the plaintiff, to undertake the joint responsibility. The plaintiff alleged that EBSAM breached its fiduciary duty of care in managing the entrusted assets under the TAM scheme, which caused loss of the entrusted assets and expected returns. On 8 July 2016, EBSAM appointed a lawyer to file a counterclaim. EBSAM requested Xiamen International Bank Shanghai to receive the entrusted assets and compensate for any loss due to Xiamen International Bank Shanghai not receiving the entrusted assets in time. The counterclaim has already been accepted by an intermediate court in Shanghai. As at the reporting date, the lawsuit and the counterclaim are pending for court trial and the final outcome of the lawsuit is uncertain. The Company cannot reasonably estimate any provision for the lawsuit.

On 8 June, the 2-year subordinated bond named “14 Everbright 01” amounting to RMB7 billion was repaid.

On 15 June 2016, Everbright Securities Financial Holdings Limited, the Company’s subsidiary registered in Hong Kong, entered into a Sale and Purchase agreement with Action Globe Limited (a wholly owned subsidiary of China Everbright Limited, the second largest shareholder of the Company) to purchase the remaining 49% shares of Everbright Securities (International) Limited from Action Globe Limited with a consideration of HKD930 million. The Group has announced on 30 June 2016 that the payment terms has been satisfied on 29 June 2016. The two sides agreed that the transaction date was 29 June 2016. After the transaction, Everbright Securities (International) Limited became a wholly owned subsidiary of the Company.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared by the Group in respect of any period subsequent to 31 March 2016.

Yours faithfully,

KPMG

Certified Public Accountants

Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" and the financial information included in the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of Everbright Securities Company Limited (the "Company") and its subsidiaries (collectively the "Group") is prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is set out below to illustrate the effect of the proposed offering by the Company of its shares (the "Global Offering") on the consolidated net tangible assets of the Group attributable to the shareholders of the Company as at 31 March 2016, as if the Global Offering had taken place on 31 March 2016.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 31 March 2016 or at any future date.

	Consolidated net tangible assets attributable to shareholders of the Company as at 31 March 2016	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per share	
	RMB Million	RMB Million	RMB Million	RMB	HK\$
	Note ⁽¹⁾	Note ^{(2)/(3)}		Note ⁽⁴⁾	Note ^{(4)/(5)}
Based on an offer price of HK\$11.80 per share.	35,388	6,646	42,034	9.16	10.69
Based on an offer price of HK\$13.26 per share.	35,388	7,480	42,868	9.35	10.90

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The consolidated net tangible assets attributable to shareholders of the Company as at 31 March 2016 is based on the Group's consolidated net assets attributable to shareholders as at that day of RMB37,627 million less other intangible assets of RMB835 million and goodwill of RMB1,404 million, as shown in the Accountants' Report as set out in Appendix I of this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the offer price of HK\$11.80 (being the minimum offer price) and HK\$13.26 (being the maximum offer price) per H share and the assumption that there are 680,000,000 newly issued H Shares in the Global Offering, after deduction of the underwriting fees and other related expenses payable by the Company, assuming that the Over-allotment Option is not exercised.
- (3) The estimated net proceeds from the Global Offering are translated into Renminbi at the rate of RMB0.8575 to HK\$1.00, the exchange rate set by the PBOC prevailing on 29 July 2016. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi at that rate or at any other rate.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per share is arrived on the basis of 3,906,638,839 shares in issue as at 31 March 2016, 680,000,000 shares that will be issued under the Global Offering, assuming that the Global Offering has been completed on 31 March 2016, but does not take into account of any shares which may be issued upon the exercise of the over-allotment.
- (5) The unaudited pro forma adjusted consolidated net tangible assets per share is translated into Hong Kong dollars at exchange rate of RMB0.8575 to HK\$1.00, the exchange rate set by PBOC prevailing on 29 July 2016. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars at that rate or at any other rate.
- (6) The unaudited pro forma adjusted consolidated net tangible assets does not take into account the financial results or other transactions of the Group subsequent to 31 March 2016.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose of incorporation in this prospectus.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

8 August 2016

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**TO THE DIRECTORS OF EVERBRIGHT SECURITIES COMPANY LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Everbright Securities Company Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 31 March 2016 and related notes as set out in Part A of Appendix II to the prospectus dated 8 August 2016 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Group's financial position as at 31 March 2016 as if the Global Offering had taken place at 31 March 2016. As part of this process, information about the Group's financial position as at 31 March 2016 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 31 March 2016 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

- a) the pro forma financial information has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

Hong Kong

TAXATION ON HOLDERS OF SECURITIES

The following is a summary of certain PRC and Hong Kong taxation consequences of the ownership of H Shares by an investor who purchases such H Shares in connection with the Global Offering and holds the H Shares as capital assets. This summary does not purport to address all material taxation consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investor, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect on the date hereof, as well as on *the Treaty Between the U.S. and the PRC for the Avoidance of Double Taxation* (the “Treaty”), all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

For purposes of this section of this prospectus, an “Eligible U.S. Holder” refers to any beneficial owner of H Shares who (i) is a resident of the United States for purposes of the Treaty, (ii) does not maintain a permanent establishment or fixed base in the PRC relating to the H Shares, and the beneficial owner does not or did not carry on any business through such establishment or fixed base (in the case of an individual, does not or did not perform any independent personal services) and (iii) in other respects, is eligible to enjoy benefits under the Treaty with respect to income and gains derived in connection with the H Shares.

This section of this prospectus does not address any aspects of Hong Kong or PRC taxation other than income tax, capital gains tax, stamp duty and estate duty. Prospective investors are urged to consult their respective tax advisors regarding the PRC, Hong Kong and other taxation consequences arising from the ownership and disposal of H Shares.

PRC**Dividend tax*****Individual investor***

According to the *Individual Income Tax Law of the People’s Republic of China* (“Individual Income Tax Law”) issued on September 10, 1980 by the Fifth National People’s Congress Standing Committee, modified on June 30, 2011 and taking effect on September 1, 2011, and the *Regulations for the Implementation of the Individual Income Tax Law of the People’s Republic of China* (“Regulations for the Implementation of the Individual Income Tax Law”) modified by the State Council on July 19, 2011 and taking effect on September 1, 2011, a 20% withholding tax shall be deducted from the dividend paid by Chinese company to individual investors. Meanwhile, pursuant to the Notice on Implementing Differentiated Individual Income Tax Policy for Stock Dividends of Listed Companies (Caishui [2015] No. 101) issued by the Ministry of Finance on September 7, 2015, for shares of listed companies obtained by individuals from public offerings or the market, where the holding period exceeds one year, the dividends shall be exempted from individual income tax; for shares of listed companies obtained by individuals from public offerings or the market, where the holding period is less than one month (inclusive), the dividends shall be counted as taxable income in the full amount; where the holding period is more than one month and less than one year (inclusive), 50% of the dividends shall be counted as taxable income on a provisional basis. The individual income tax rate of 20% shall be applicable for all incomes mentioned above.

For foreign individuals who are not Chinese resident, a 20% individual income tax shall be deducted from the dividend got from Chinese company, unless there is special exempt approved by tax department of the State Council or special deduction permitted by applicable tax agreement.

According to the *Circular on the Individual Income Tax Collection and Administration after the GSF [1993] No. 045 Document is Abolished* (GSH [2011] No. 348) issued on June 28, 2011 by the State Administration of Taxation, if non-foreign-invested enterprises in China offer stocks in public in Hong Kong, the individual investors of overseas resident can enjoy relevant tax preference according to the tax agreement signed by the country of these investors and China. The non-foreign-invested enterprises in China (“relevant non-foreign-invested enterprises in China”) who has offered stocks in public in Hong Kong shall pay a 10% individual income tax on the dividend paid to individual investors of overseas resident (“relevant individual investors”) without applying to China tax authority. If the tax rate of 10% is not applicable, relevant non-foreign-invested enterprises in China shall (i) if the country of relevant individual investors has entered an income tax treaty with China provided a tax rate lower than 10%, relevant non-foreign-invested enterprises can apply for the preference on behalf of these investors, and the excess tax shall be returned after being verified and approved by the tax authority; (ii) if the country of relevant individual investors has entered an income tax treaty with China provided a tax rate higher than 10% but lower than 20%, relevant non-foreign-invested enterprises shall pay tax based on the treaty without application; (iii) if the country of relevant individual investors has entered no income tax treaty with China or in other cases, relevant non-foreign-invested enterprises shall pay a 20% individual income tax.

According to the *Arrangement on the Avoidance of Double Taxation and Smuggling of Income Tax in Mainland and Hong Kong* signed by the mainland and Hong Kong on August 21, 2006 in regard to income tax issues, the Chinese government can levy on the dividend payable by Chinese company to Hong Kong residents with a rate lower than or equal to 10% of the total dividend, if Hong Kong residents hold at least 25% stock rights in Chinese company, the tax rate cannot exceed 5% of the total dividend payable after applying to and being approved by Chinese tax authority.

Enterprise

According to the *Enterprise Income Tax Law of the People's Republic of China* (“Enterprise Income Tax Law”) issued on March 16, 2007 by the Tenth National People's Congress Standing Committee and taking effect on January 1, 2008, and *Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China* (“Regulation on the Implementation of the Enterprise Income Tax Law”) issued on December 6, 2007 and taking effect on January 1, 2008 by the State Council if the non-resident enterprise has no institution or operating site in China or their income is irrelevant to the institution or operating site, an enterprise income tax of 10% shall be paid on the income obtained in China. The withholding tax can be reduced according to the treaty on the avoidance of double taxation after applying and being approved.

According to the *Circular of the State Administration of Taxation on the Withholding and Remitting of Enterprise Income Tax on the Dividend Distributed by Chinese Resident Enterprise to Overseas H-Share Non-resident Enterprise* (GSH [2008] No. 897) issued by the State Administration of Taxation and taking effect on November 6, 2008, Chinese resident enterprise shall pay an enterprise income tax of 10% when distributing dividend in and after 2008 to H-share holders of overseas non-resident enterprises. The withholding tax can be reduced according to the treaty on the avoidance of double taxation after applying and being approved.

Taxation treaty

Investors living in countries (except China) which have signed a treaty on the avoidance of double taxation with China reserve right to the reduction of withholding tax on the dividend got from Chinese companies. China has entered the treaty on the avoidance of double taxation with many countries including but not limited to Australia, Canada, France, Germany, Japan, Malaysia, Netherlands, Singapore, England and America.

Capital Gains Tax

According to the *Regulations for the Implementation of the Individual Income Tax Law*, Chinese resident shall pay an individual tax of 20% on the income got from the transferring of its stock rights in Chinese resident enterprise. The *Regulations for the Implementation of the Individual Income Tax Law* also specifies that collection rules of individual income tax from stock transfer shall be prepared by the Ministry of Finance and implemented after being approved by the State Council. But the Ministry of Finance has not prepared or implemented such rules yet. According to the *Circular on the Exemption of Individual Income Tax from Stock Transfer* issued by the Ministry of Finance and State Administration of Taxation jointly on March 30, 1998, no individual income tax from the transfer of listed company's stocks will be paid from January 1, 1997. In the *Individual Income Tax Law* and *Regulations for the Implementation of the Individual Income Tax Law*, State Administration of Taxation doesn't specifies whether to exempt the individual income tax from the transfer of listed company's stocks continuously, but the *Circular on the Levy of Individual Income Tax from the Transfer of Restricted Stocks of Listed Company* issued by the Ministry of Finance, State Administration of Taxation and China Securities Regulatory Commission jointly on December 31, 2009 specifies that the individual income tax from the transfer of listed company's stocks in certain domestic stock exchanges will be exempted continuously, except the restricted stocks of some companies (if specified by the Circular or addition Circular provided on November 10, 2010). If there is no specific regulation up to the latest practical date, individual income tax shall be levied from non-Chinese resident on the transfer of stocks of Chinese resident enterprises listing on overseas stock exchanges. Chinese tax authority has collected no above taxes in fact.

Other Tax Issues in China***PRC stamp duty***

According to the *Provisional Regulations of the People's Republic of China on Stamp Tax* amended on January 8, 2011, the PRC stamp duty levied on the transfer of stocks of Chinese listing companies is not applicable to the H-share purchased and disposed overseas by non-Chinese investors. The *Provisional Regulations of the People's Republic of China on Stamp Tax* specifies that the PRC stamp duty is only applicable to documents signed or received in China, having legal effect in China and protected by Chinese laws.

Estate duty

In current legal environment of China, non-Chinese resident holding H-share shall pay no estate duty.

Main PRC Taxes of our Company***Income tax***

According to the *Enterprise Income Tax Law*, enterprises and institutions founded in China shall pay an enterprise income tax at a rate of 25%.

Business tax

According to the *Provisional Regulations of the People's Republic of China on Business Tax* and enforcement regulations modified on November 5, 2008 and taking effect on January 1, 2009, enterprises providing dutiable services, transferring intangible assets or selling real estate in China shall pay a business tax at a rate from 3% to 20%. The finance and insurance enterprises shall a business tax at a rate of 5%.

VAT

The PRC government has been progressively implementing the pilot reform for the transition from business tax to value-added tax ("VAT") in certain regions and industries from 2012. Pursuant to the Notice on the Full Implementation of Pilot Program for Transition from Business Tax to Value-added Tax (Cai Shui [2016] No. 36) (關於全面推開營業稅改徵增值稅試點的通知) issued by the MOF and SAT on March 23, 2016, the pilot program started to apply to the financial industry from May 1, 2016. We started to calculate and pay VAT instead of business tax on the same date.

HONG KONG**Tax on Dividends**

Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of H shares. However, trading gains from the sale of the H shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment purposes. Trading gains from sales of H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for or the market value of the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of Hong Kong securities, including H Shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of H Shares.

Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If no stamp duty is paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which no Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application of a grant of representation in respect of holders of H Shares whose deaths occur on or after February 11, 2006.

FOREIGN EXCHANGE CONTROL

The lawful currency of the PRC is the Renminbi, which is still subject to foreign exchange controls and is not freely convertible at present. State Administration of Foreign Exchange (SAFE), under the authority of the People's Bank of China (PBOC), is empowered to administer all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated the *Regulations of Foreign Exchange of the PRC* (中華人民共和國外匯管理條例) (the “Foreign Exchange Regulations”), which was amended twice and took effect on January 14, 1997 and August 5, 2008. The Foreign Exchange Regulations classified all international payments and transfers into current account items and capital account items. Most of the current account items were no longer subject to approval of SAFE, while capital account items still required approvals by SAFE.

According to the *Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange* (結匯、售匯及付匯管理規定) promulgated by PBOC on June 20, 1996, which took effect on July 1, 1996, the PRC abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items, while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

According to the *Circular on Ceasing the Foreign Exchange Swap Business Activities* (關於停辦外匯調劑業務的通知) promulgated by PBOC and SAFE on October 25, 1998, which took effect from December 1, 1998, all foreign exchange swap business for foreign-invested enterprises in the PRC would be discontinued, while the trading of foreign exchange by foreign-invested enterprises would be incorporated into the banking system for settlement and sale of foreign exchange.

On July 21, 2005, the PBOC announced that RMB is unpegged to the single US dollar. The PRC starts to implement a managed floating exchange rate system based on market supply and demand and with reference to a basket of currencies. The PBOC would announce the closing price of foreign currencies, such as the U.S. dollar, against the Renminbi in the inter-bank foreign exchange market after the market closed on each working day. Such closing price would be taken as the middle price for the Renminbi exchange rate quoted on the following working day.

Since January 4, 2006, the PBOC had improved the method of generating the middle price for quoting the Renminbi exchange rate by introducing an enquiry system in the inter-bank spot foreign exchange market, while keeping the matching system. In addition, the PBOC provided liquidity in the foreign exchange market by introducing the market-making system in the inter-bank foreign exchange market.

According to the Foreign Exchange Regulations, the foreign exchange income from the current account items may be retained or sold to financial institutions operating foreign exchange settlement and sales business. For foreign exchange income from the capital account items, before retention or being sold to any financial institution operating foreign exchange settlement and sales business, approval by the foreign exchange authority should be obtained, unless provided otherwise by the State.

When PRC enterprises (including foreign-invested enterprises) require foreign exchange for transactions relating to current account items, they may effect payment from their foreign exchange account or convert funds into foreign exchange and make payment at the designated foreign exchange banks without obtaining approval from SAFE, provided valid receipts and evidences of transactions must be produced. When foreign-invested enterprises require foreign exchange for distribution of profits to their shareholders, and when PRC enterprises are required to pay dividends to shareholders in foreign currencies according to relevant

provisions, they may effect payment from their foreign exchange accounts or convert funds into foreign exchange and make payments at the designated foreign exchange banks pursuant to the relevant resolutions approved by the general meeting of shareholders or meeting of the board of directors for the distribution of profits, and submit relevant evidentiary materials.

Convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contribution, is still subject to restriction and prior approval from SAFE or its relevant branches.

Dividends to investors of H Shares are denominated in Renminbi but must be paid in Hong Kong dollars. Our Company prepare the consolidated financial statements in Renminbi.

The PBOC sets and publishes daily a basic exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the previous day. The PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange markets. Although the PRC government introduced policies in 1996 to relax restrictions on the convertibility of Renminbi into foreign currencies in respect of current account items, however, the conversion of Renminbi into foreign currencies in respect of capital account items, such as foreign direct investments, loans or securities, is still required to obtain approval from SAFE and other relevant authorities.

In accordance with the Circular on the Relevant Issues of Foreign Exchange Administration of Overseas Listing Promulgated by SAFE (implemented from December 26, 2014):

- The SAFE and its branches (exchange office) are responsible for supervising, managing and checking the business registration, account opening and use, cross-border income and expenses and capital exchange, etc. of domestic companies listed overseas.
- A domestic company shall complete the registration procedure for overseas listing with the local branch of SAFE at the place of its incorporation within 15 working days after completion of its first IPO overseas. The domestic company can carry out overseas listing businesses by offering the registration certificate provided by the exchange office.
- The proceeds from an overseas listing may be remitted to domestic or deposited overseas, and the use of proceeds shall be consistent with the relevant contents of bidding documents or corporation bonds collection documents, circular to the shareholders, resolution of the directors' meeting or the shareholders' general meeting and other public disclosure documents. The proceeds, which are from the issuing of corporation bonds convertible to stocks, planned to be remitted to domestic shall be remitted by the domestic company to its special domestic foreign debt account, and relevant procedures shall be completed based on foreign debt management rules at the same time. Proceeds from the issuing of other securities shall be remitted to the overseas listing special account (foreign exchange) or unpaid account (Renminbi).

- A domestic company can use legal domestic and offshore funds when re-purchasing overseas stocks. If the domestic company needs to use and remit domestic funds, it shall complete fund remittance and transfer procedures through the overseas listing special account (foreign exchange) or unpaid account (Renminbi) in deposit bank by submitting the overseas listing business registration certificate (if re-purchasing information is not registered, please register in 20 working days before the re-purchasing and get business registration certificate) obtained after registering re-purchasing information (including modified information) in local exchange office as well as materials on re-purchasing conditions. After re-purchasing, the surplus funds used for re-purchasing remitted from China to overseas shall be returned to the overseas listing special account (foreign exchange) or unpaid account (Renminbi) of the domestic company.
- A domestic company can apply to the deposit bank with its overseas listing business registration certificate to remit, transfer or pay the capital in overseas listing special account, or remit and transfer the capital to the unpaid account after settlement.
- Domestic shareholder can use legal overseas and domestic funds to increase overseas stock holdings in domestic companies. If domestic shareholders need to use and remit domestic funds, it shall complete capital exchange procedures through the overseas holding special account in deposit bank by submitting the overseas stock holding business registration certificate as well as other materials on increase of holdings. After the increase of holdings, the surplus capital shall be returned to the overseas holding special account of domestic shareholders who can complete domestic capital remit, transfer or settlement procedures in relevant bank by submitting the overseas stock holding business registration certificate.
- The income under funds gained by the reduction and transfer of overseas stocks of domestic company by domestic shareholders, or delist of domestic company from overseas stock exchange can be deposited overseas or remitted to the overseas holding special account of domestic shareholders. After the remit, domestic shareholders can complete domestic capital remit, transfer or settlement procedures in relevant bank by submitting the overseas stock holding business registration certificate.

In accordance with the *Decision on Cancelling or Adjusting a Group of Administrative Approval Items and other Matters* (國務院關於取消和調整一批行政審批項目等事項的決定) as promulgated by the State Council and took effect on November 24, 2014, SAFE and other branches shall cancel the approval for foreign exchange settlement in relation to the proceeds from an overseas listing by a domestic company of its overseas listed foreign shares.

This Appendix sets forth summaries of certain aspects of PRC laws and regulations which are relevant to our Company's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix III — Taxation and Foreign Exchange". This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers.

PRC LEGAL SYSTEM

The PRC legal system is composed of the constitution, laws, administrative regulations, local regulations, rules and regulations of departments of the State Council, rules and regulations of local governments, autonomy regulations and separate rules of autonomous regions and international treaties of which the PRC government is a signatory. Court judgments do not constitute binding precedents, although they may be used for the purpose of judicial reference and guidance. *The PRC Constitution* (中華人民共和國憲法), enacted by the NPC, is the basis of the PRC legal system and has supreme legal authority.

The NPC and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend the basic laws governing criminal and civil matters, State institutions and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required by to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during its adjournment, provided that such supplements and amendments shall not be in conflict with the principles of such laws.

The State Council enacts administrative regulations under the Constitution and laws.

People's congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and requirements of the local administrations, provided that such local regulations shall not be in conflict with the constitution, laws, and administrative regulations. People's congresses of large cities and their respective standing committees may enact local regulations based on the specific circumstances and actual needs which shall come into effect upon approval from the respective standing committees of the people's congresses of the provinces and autonomous regions, provided that such local regulations shall not be in conflict with the constitution, laws, and administrative regulations.

People's congresses of autonomous regions may enact autonomy regulations and separate rules in the light of the political, economic and cultural characteristics of the local nationalities, which shall come into effect upon approval from the Standing Committee of the NPC. Adaptations of provisions of laws and administrative regulations may be introduced to the autonomy regulations and separate rules so long as they do not contravene the basic principles of the laws or administrative regulations, and no adaptations shall be made to the specific provisions on national autonomous areas in the constitutions, national region autonomy law and other relevant laws and administrative regulations.

The ministries, commissions, PBOC, Audit Office and institutions with administrative functions directly under the State Council may formulate rules and regulations within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council. Provisions of departmental rules and regulations shall be formulated for the purpose of the enforcement of the laws and administrative regulations, decisions and rulings of the State Council. The people's governments of provinces, autonomous regions, municipalities and large cities may formulate rules and regulations based on the laws, administrative regulations and relevant local regulations.

According to the PRC Constitution, the authority of the interpretation of laws shall be vested to the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, interpretation on the application of laws and decrees in court trials and the procuratorial work of the procuratorates shall be given by the Supreme People's Court and the Supreme People's Procuratorate, respectively. Interpretation of the laws and decrees unrelated to trials and procuratorial work shall be given by the State Council and the competent ministries and commissions. In the case that clarification or additional provisions shall be made for the local regulations, the standing committees of the people's congresses of provinces, autonomous regions and municipalities which enacted such regulations shall give the interpretation or formulate the additional provisions. Interpretation on the application of local regulations shall be given by the competent departments under the people's government of the respective provinces, autonomous regions and municipalities.

PRC JUDICIAL SYSTEM

Under the *PRC Constitution* (中華人民共和國憲法) and the *Law of the PRC of Organization of the People's Courts* (中華人民共和國人民法院組織法) which was enacted on July 1, 1979 and last amended on October 31, 2006 and took effect on January 1, 2007, the judicial system in PRC is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts may be organized into civil, criminal, and economic tribunals. The intermediate people's courts may be organized into divisions similar to those of the basic people's courts, and may be further organized into other special divisions. The people's courts at lower levels are subject to supervision of the people's courts at higher levels. The Supreme People's Court is the highest judicial organ of the PRC and it has the power to supervise the administration of justice by the local people's courts at all levels and all special people's courts. The people's procuratorates also have the right to exercise legal supervision over the trial activities of people's courts.

The people's courts adopt a "second instance as final" appellate system in the trial of the cases. A party to the case concerned may appeal against the judgment and ruling of the first instance by the local people's courts to the people's courts at the next higher level in accordance with the legal procedures. The people's procuratorate may appeal to the people's court at the next higher level in accordance with the legal procedures. In the absence of any appeal by any parties to the case concerned or any appeal by the people's procuratorate within

the stipulated period, the judgment and ruling of the first instance by the local people's courts shall be final and legally binding. Judgments and rulings of the second instance of the intermediate people's courts, the higher people's courts and Supreme People's Court and the judgments and rulings of the first instance of the Supreme People's Court shall be the final judgments and rulings. The death penalty shall be reported to the Supreme People's Court for approval unless it is otherwise adjudged by the Supreme People's Court.

The *Civil Procedure Law of the PRC* (中華人民共和國民事訴訟法) (the "PRC Civil Procedure Law"), which was adopted on April 9, 1991 and last amended on August 31, 2012 and became effective on January 1, 2013, sets forth the criteria for instituting a civil case, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the PRC Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by an express agreement, select a competent court where civil actions may be brought, provided that the competent court has jurisdiction over either the plaintiff's or the defendant's place of residence, the place of execution or performance of the contract, the object of the action or locations which have substantial connections with the dispute. However, such selection cannot violate the stipulations of hierarchical jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may impose the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award granted by an arbitration panel in the PRC, the other party may apply to the people's court to request for enforcement of the judgment, order or award. There are time limits imposed on the right to apply for such enforcement and the time limit is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a people's court against a party who is not located within the PRC and does not own any property in the PRC, may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. In the case of an application or request for recognition and enforcement of a legally effective judgment or order of a foreign court, the people's court shall, after having examined it in accordance with the international treaties entered into or acceded to by the PRC or with the principle of reciprocity and having arrived at the conclusion that it does not contravene the primary principles of the laws of the PRC nor violates its sovereignty, security or social and public interests, recognize the validity of the judgment or order, and, if required, issue a writ of enforcement and enforce it in accordance with the relevant regulations. If the application or request contravenes the primary principles of the laws of the PRC or violates its sovereignty, security or social and public interests, the people's court shall not recognize and enforce it.

THE COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS OF PRC

The PRC Company Law which was promulgated on December 29, 1993 by the Standing Committee of the NPC, last amended on December 28, 2013 and came into effect on March 1, 2014 regulates the organization and operation of companies and protects the legitimate rights and interests of companies, shareholders and creditors. The latest amendment to the PRC Company Law in 2013 has cancelled the restriction on the minimum registered capital and replaced the registered paid-up share capital system by the registered subscribed capital system.

The *Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies* (國務院關於股份有限公司境外募集股份及上市的特別規定) (the “Special Regulations”) were promulgated by the Standing Committee Meeting of the State Council, and took effect on August 4, 1994. The Special Regulations are formulated according to the Company Law (1993) in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions were issued jointly by the former Securities Commission of the State Council and the former State Economic Restructuring Commission on September 29, 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarized in “Appendix V — Summary of the Articles of Association”). The term “company” as mentioned in the Appendix refers to a limited liability company established in accordance with the provisions of the PRC Company Law which is qualified for H-share issuance.

Copies of the Chinese text of the PRC Company Law, Special Regulations and the Mandatory Provisions together with copies of their unofficial English translations thereof are available for inspection as mentioned in “Appendix VII — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection”.

Main provisions in PRC Company Law, Special Regulations and Mandatory Provisions are summarized as follows:

General

A joint-stock limited liability company (hereinafter referred to as “company”) is a corporate legal person incorporated under the PRC Company Law, whose registered capital is divided into shares of equal nominal value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A state-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by law and administrative regulation, for the modification of its operation mechanisms, the systematic handling and evaluation of our company’s assets and liabilities and the establishment of internal management organs.

Incorporation

A company may be incorporated by promotion or subscription. A company may be incorporated by two to 200 promoters, but at least half of the promoters must reside in the PRC. Companies incorporated by promotion are companies with the registered capital entirely subscribed for by the promoters. Where companies are incorporated by subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of a company unless otherwise stipulated by laws and regulations, and the remaining shares can be offered to the public or specific persons, unless otherwise required by law.

For companies incorporated by promotion, the registered capital has to be the total capital subscribed for by all promoters as registered with the company registration authority. It shall not raise capital from others before the promoters fully pay the capital subscribed by them; for companies established by public subscription, the registered capital is the amount of total paid-up capital as registered with the company registration authority.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall 15 days before the meeting notice all subscribers or make a public announcement of the date of the inaugural meeting.

The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total issued shares of the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the company registration authority for registration of the establishment of the company. The company is formally established and has the status of a legal person after the approval for registration has been given and a business license has been issued.

Where after the incorporation of a company, a promoter fails to pay in full the subscription moneys in accordance with the provisions of the company's articles of association, he shall pay them in full; and the other promoters shall bear joint and several liability. Where it is discovered that the actual evaluation of the non-currency property used as capital contributions for the incorporation of the company is obviously less than the evaluation prescribed by the company's articles of association, the promoters making such contributions shall make up the difference; and the other promoters shall bear joint and several liability.

The promoters of a company shall bear the following liabilities:

Where our company cannot be incorporated, they shall bear the joint and several liability for all the debts and expenses incurred in the act of incorporation;

Where the company cannot be incorporated, they shall bear the joint and several liability for refunding the subscription moneys paid by the subscribers, plus their bank deposit interest calculated for the same period of time; and

Where the interests of the company are impaired due to the fault committed by the promoters in the process of the incorporation of the company, they shall bear the liability to pay compensation to the company.

Share Capital

The promoters of a company can make capital contributions in cash or in kind, that can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value, except for the property that is not allowed to be used as capital contributions, as is provided for by laws or administrative regulations.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares according to the laws. Non-current property used for capital contributions shall be evaluated and verified, and shall not be overvalued or undervalued. Where laws or administrative regulations provide otherwise, those provisions shall prevail.

A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered shares and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong Special Administrative Region, Macau Special Administrative Region, China and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific provisions shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The shares shall be issued in compliance with the principles of fairness and impartiality. The shares of the same class must carry the same rights. Shares shall be issued on the same conditions and at the same price. All units and individuals shall pay the same price for each of

the share they subscribe for. The share offering price may be equal to or greater than nominal value, but shall not be less than nominal value. Shares issued by a company with limited liability may be either registered shares or bearer shares.

The transfer of shares by shareholders should be conducted via the legally established stock exchange or in accordance with other methods as stipulated by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by law or administrative regulation. Bearer shares are transferred by delivery of the share certificates to the transferee.

Shares held by a promoter of a company shall not be transferred within one year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the date of listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25.0% of the shares held by each of them in the company each year during their term of office and shall not transfer any share of the company held by each of them within one year after the listing date. There is no restriction under the PRC Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or within five days before the benchmark date determined by the company for distribution of dividends.

Increase in Capital

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting.

Save for the above-mentioned shareholder approval requirement, for a public offering of new shares, the *PRC Securities Law* (證券法) (the "Securities Law") provides that the company shall: (i) have a sound organizational structure with satisfactory operating record; (ii) have the capability of continuing profitability and a healthy financial position; (iii) have no false statements and other material breaches in the financial and accounting documents of the last three years; (iv) fulfill other conditions required by the securities administration department of the State Council as approved by the State Council.

Public offer requires the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, a company must change its registration with the company registration authority and issue a public notice accordingly.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the company shall prepare a balance sheet and an inventory of the assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the reduction in registered capital within ten days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; The creditors shall, within 30 days from the date they receive the written notice, or within 45 days from the date the announcement is made in the case of those who have not received such written notice, have the right to claim full repayment of their debts or provision of a corresponding guarantee from the company; and
- (v) the company must apply to the company registration authority for registration of the reduction in registered capital.

Repurchase of Shares

A company may not purchase its own shares other than for the purpose of:

- (i) reducing the registered capital of the company;
- (ii) merging with another company holding shares of this company; or
- (iii) awarding the employees of this company with shares; or
- (iv) purchasing the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting.

Purchase of its own shares by a company due to the reasons specified in Subparagraph (i), (ii) or (iii) of the preceding paragraph shall be subject to resolution adopted by the shareholders general assembly. Where a company purchases its own shares on grounds of Subparagraph (i) as specified in the preceding paragraph, such shares shall be cancelled within 10 days from the date it purchases them; and where the shares are purchased on grounds of Subparagraph (ii) or (iv), such shares shall be transferred or cancelled within six months.

The number of its own shares purchased by a company in accordance with the provisions of Subparagraph (iii) of the first paragraph shall not exceed five percent of the total number of the shares issued by the company; the funds used for such purchase shall be allotted from the after-tax profits of the company; and the shares purchased shall be transferred to its staff and workers within one year.

A company shall not accept its own shares as the subject matter of a mortgage.

Transfer of Shares

Shares may be transferred in accordance with the relevant laws and regulations.

Registered shares shall be transferred by means of endorsement by shareholders or by such other means as provided for by laws or administrative regulations; and after such transfer, the company shall register the names or titles and domiciles of the transferees in its roster of shareholders. No registration or modification to the roster of shareholders as stipulated by the preceding paragraph shall be made within the period of 20 days prior to the convening of a meeting of the shareholders general assembly or within the period of 5 days prior to the date of record on which the company decides to distribute dividends.

Transfer of bearer shares shall become effective immediately after a shareholder delivers such share certificates to a transferee.

Shares held by the promoters of a company shall not be transferred within one year from the date the company is incorporated. Directors, supervisors and senior managers of a company shall declare to the company the numbers of the company's shares held by them and the changes of the shares they hold, and the number of the company's shares annually transferred by each of them during their term of office shall not exceed 25 percent of the total number of the company's shares held by them respectively; The company's shares held by the persons mentioned above shall not be transferred within six months after they leave office. The company's articles of association may stipulate other restrictive provisions on the transfer of the company's shares held by the directors, supervisors and senior managers of the company.

Shareholders

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder. Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;
- (ii) to transfer his shares in accordance with applicable laws and regulations and the articles of association of the company;

- (iii) to inspect the company's articles of association, shareholders' registers, records of debentures, minutes of shareholders' general meetings, board resolutions, supervisors resolutions, financial and accounting reports and put forward proposals or raise questions about the business operations of the company;
- (iv) if any directors or senior officers damages the shareholder's interests by violating law or administrative regulations or articles of association, the shareholders may lodge an action in the people's court;
- (v) to receive dividends and other distributions in respect of the number of shares held;
- (vi) to obtain surplus assets of the company upon its termination in proportion to his or her shareholding; to claim against other shareholders who abuse their shareholders' rights for the damages; and
- (vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him/her, not to abuse shareholders' right to damage the interests of the company or other shareholders of the company; not to abuse the independent status of the company as a legal person and the limited liability to damage the interests of the creditors of the company and any other shareholders' obligation specified in the company's articles of association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

The shareholders' general meeting exercises the following principal powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or replace the directors, supervisors who are not representatives of the employees and decide on matters relating to the remuneration of directors and supervisors;
- (iii) to consider and approve reports of the board of directors;
- (iv) to consider and approve reports of the supervisory committee;
- (v) to consider and approve the company's proposed annual financial budget and financial accounts;

- (vi) to consider and approve the company's proposals for profit distribution and for recovery of losses;
- (vii) to decide on any increase or reduction in the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution, liquidation or change of the form of the company and other matters;
- (x) to amend the articles of association of the company; and
- (xi) other powers specified in the articles of association of the company.

A shareholders' general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the PRC Company Law or less than two-thirds of the number specified in the company's articles of association;
- (ii) the losses of the company which are not made up reach one-third of the company's total paid up share capital; a request by a shareholder that holds, or by shareholders that hold in aggregate, 10% or more of the company's shares;
- (iii) when deemed necessary by the board of directors;
- (iv) when the supervisory committee proposes convening it; or
- (v) other matters required by the company's articles of association.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the total shares of the company for ninety days consecutively may unilaterally convene and preside over such meeting.

Notice of the shareholders' general meeting shall be given to all shareholders 20 days before the meeting under the PRC Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, but the company shall have no vote for any of its own shares the company holds.

Resolutions proposed at the shareholders' general meeting shall be adopted by more than half of the voting rights cast by shareholders present (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution, increase or reduction in registered capital, change in the form of the company or amendments to the articles of association which shall be adopted by shareholders with two-thirds or more of the voting rights cast by shareholders present (including those represented by proxies) at the meeting.

Shareholders may entrust a proxy to attend shareholders' general meetings on his or her behalf by a power of attorney which sets forth the scope of exercising the voting rights.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% or more of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Where holders of bearer shares intend to attend a meeting of the shareholders general assembly, they shall deposit their share certificates with the company for a period beginning from five days prior to the convening of the meeting to the end of the meeting.

Directors

A company shall have a board of directors, which shall consist of 5 to 19 members and there can be staff representatives of the company. Under the PRC Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors at least ten days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the PRC Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meeting and report on its work to the shareholders;
- (ii) to implement the resolution of the shareholders' general meeting;
- (iii) to decide on the company's business plans and investment plans;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's proposals for profit distribution and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division, dissolution or change of the form of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to appoint or dismiss the company's general manager, and based on the president's recommendation, to appoint or dismiss deputy general manager and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and
- (xi) any other power given under the articles of association of the company.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the PRC Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked or business operation shut down due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license;
- (v) persons who have a relatively large amount of debt due and outstanding; or
- (vi) other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in "Appendix V — Summary of the Articles of Association").

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, among others, the following powers:

- (i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors; and
- (ii) to check on the implementation of the resolutions of the board of directors.

The legal representative of a company in accordance with the Mandatory Provisions, is the chairman of the board of directors. The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in "Appendix V — Summary of the Articles of Association") contain further elaborations of such duties.

Directors shall be liable for the resolutions adopted by the board of directors. Where a resolution of the board violates laws, administrative regulations, or the company's articles of association, or the resolutions of the shareholders general assembly, and thus causes serious losses to the company, the directors participating in the adoption of such a resolution shall be liable for compensation to the company. However, where a director is proved to have expressed his objection to such a resolution when it was put to the vote and his objection was recorded in the minutes of the meeting, he may be exempted from such liability.

Supervisors

A company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisor results in the number of supervisors being less than the quorum. The supervisory committee is made up of shareholders representatives and an appropriate proportion of the company's staff representatives; and the percentage of the number of the company's staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

Requirements in relation to the power of the supervisory committee under the PRC Company Law are as follows:

- (i) to examine the company's financial affairs;
- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of any director or senior management who violates the laws, regulations, articles of association or shareholders' resolution;
- (iii) to require any director or senior management whose act is detrimental to the company's interests to rectify such act;
- (iv) to propose the convening of extraordinary shareholders' general meetings and, in the event that the board of directors fails to perform the duties of convening and presiding shareholders' meetings to convene and preside over shareholders' meetings;

- (v) to propose any bills to shareholders' general meetings;
- (vi) to commence any action against any directors or senior management; and
- (vii) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutates mutandis to supervisors of a company.

The Special Regulations provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interest of the company and not to use their positions for their own benefit.

Supervisors may be in attendance at board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee or (where there is no supervisory committee) the supervisors of a company may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in their work. Expenses incurred by the supervisory committee to exercise their power shall be borne by the company.

Meetings of the supervisory committee shall be convened at least every six months. Interim meetings of the supervisory committee can be convened by the supervisors. According to the PRC Company Law, resolutions of the supervisory committee require the approval of more than half of all supervisors, and pursuant to the *Letter of Opinions on the Supplementation and Amendment of Articles of Association of Companies Listing in Hong Kong* (關於到香港上市公司對公司章程作補充修改的意見的函) promulgated by the CSRC on April 3, 1995, resolutions of the supervisory committee require the approval of more than two-thirds of all supervisors. Each supervisor shall have one vote for resolutions to be approved by the supervisory committee. Minutes shall be prepared in respect of matters considered at the meeting of the supervisory committee and supervisors attending the meeting shall sign to endorse such minutes.

The board of supervisors shall have one chairman and may have one vice-chairman. Both shall be elected by more than half of all the supervisors. The chairman of the board of supervisors shall convene and preside over the meeting of the board; where the chairman of the board of supervisors cannot perform the functions or fails to do so, the vice-chairman shall convene and preside over the meeting of the board; and where the vice-chairman cannot perform the functions or fails to do so, a supervisor jointly elected by half or more of the supervisors shall convene and preside over the meeting of the board.

Managers and other Senior Officers

The "senior manager" refers to the manager, vice manager, person in charge of finance of a company, and the secretary of the board of directors of a listed company as well as any other person as stimulated in the articles of association.

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (i) in charge of the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other senior administration officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) attend board meetings as a non-voting attendant; and
- (viii) other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and the Mandatory Provisions provide that the other senior management officers of a company includes the financial officer, secretary of the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company also apply to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association, a summary of which is set out in "Appendix V — Summary of the Articles of Association".

Duties of Directors, Supervisors and Senior Officers

None of the following persons shall serve as a director, supervisor, or senior manager of a company:

- (i) a person who has no or limited capacity for civil conduct;

- (ii) a person who was sentenced to criminal punishment for embezzlement, bribery, seizure of property or misappropriation of property or for sabotage of the socialist market economic order, where less than five years have elapsed after the expiration of the period of execution; or a person who was deprived of his political rights for the commission of a crime, where less than five years have elapsed after the expiration of the period of execution;
- (iii) a person who, being a director or the head or manager of a company or enterprise that went into bankruptcy and liquidation, was personally liable for the bankruptcy of the said company or enterprise, where less than three years have elapsed from the date liquidation of the company or enterprise is completed;
- (iv) a person who, being the legal representative of a company or an enterprise, the business license of which was revoked for violation of law and which was ordered to close down, was personally liable for the above, where less than three years have elapsed from the date the business license of the company or enterprise is revoked; or
- (v) a person who fails to liquidate a relatively large amount of personal debts when they are due.

A director, supervisor and senior officer of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. They are also prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company's properties. Directors and senior management are prohibited from:

- (i) misappropriation of company funds;
- (ii) deposit of company funds into accounts under their own name or the name of other individuals;
- (iii) loaning company funds to others or providing guarantees in favor of others supported by the company properties in violation of the articles of association or without prior approval of the shareholders' general meeting or board of directors;
- (iv) entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' general meeting or board of directors;
- (v) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefit or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' general meeting;

- (vi) accepting for their own benefit commissions from other parties dealing with the company;
- (vii) unauthorized divulgence of confidential information of the company; or
- (viii) other acts in violation of their duty of loyalty to the company.

A director, supervisor and senior officer of a company is also under a duty of confidentiality to the company.

A director, supervisor and senior officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which results in any loss to our company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor and senior officer of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

Where the attendance of a director, supervisor, or senior officer is requested by the shareholders' general meeting, such director, supervisor, or other senior officer shall attend the meeting as requested and answer enquiries of shareholders. Directors and senior officers shall furnish with all truthfulness facts and information to the supervisory committee without obstructing the discharge of duties by the supervisory committee.

A company shall not directly, or through its affiliate, provide loans to any director, supervisor or senior management and shall regularly disclose to the shareholders any information regarding remunerations received by the directors, supervisors or senior management of the company.

Finance and Accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the provisions of the responsible financial department of the State Council and at the end of each financial year, prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company incorporated by public subscription must publish its financial statements.

The common reserve of a company comprises the statutory surplus reserve, the discretionary common reserve and the capital common reserve.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory surplus reserve (except where the reserve has

reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profits, subject to a resolution of the shareholders' general meeting, the company may make an allocation to a discretionary common reserve.

When the company's statutory surplus reserve is not sufficient to make up for the company's losses of the previous years, current year profits shall be used to make up for the losses before allocations are set aside for the statutory surplus reserve.

After the company has made up for its losses and make allocations to its statutory surplus reserve the remaining profits could be available for distribution to shareholder in proportion to the number of shares held by the shareholders except as otherwise provided in the articles of association of such company limited by shares.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make up the company's losses other than the capital common reserve;
- (ii) to expand the business operations of the company; and
- (iii) to increase the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the nominal value of the shares currently held by the shareholders. If the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve after such conversion shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

Appointment and Retirement of Auditors

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and to review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

Appointment or dismissal of auditors in charge of the auditing business of a company shall be subject to decision by the shareholders assembly, the shareholders general assembly or the board of directors in accordance with the provisions of the company's articles of

association. Where the shareholders assembly, the shareholders general assembly or the board of directors of a company votes on the dismissal of an accounting firm, it shall allow the accountants to state their opinions. A company shall provide authentic and complete accounting vouchers, accounting books, financial and accounting reports and other accounting data to the accountants it appoints, and shall not refuse to do so, or conceal the facts or make false reports about them. The period of appointment of the accountants starts from the date when the first annual shareholders meeting ends to the date when the next annual shareholders meeting ends.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

A company shall not have any other accounting books in addition to the statutory accounting books. No accounts shall be opened in the name of any individual for deposit of the assets of a company.

Distribution of Profits

The PRC Company Law provides that a company is restricted from distributing profits before accumulated losses have been made up and statutory common reserve has been drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to Articles of Association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies approval department authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the authority must also be changed.

Dissolution and Liquidation

Under the PRC Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in its articles of association has expired or events of dissolution specified in its articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;

- (iii) the company is dissolved by reason of its merger or demerger;
- (iv) the company is subject to the revocation of business license, a closure order or elimination in accordance with laws; or
- (v) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the people's court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) and (v) above, a liquidation committee must be formed within 15 days after the occurrence of the cause of dissolution so as to carry out liquidation. Members of the liquidation committee shall be composed of the directors or people as determined by the shareholders' meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court for its establishment.

The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue a public notice in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding business of relevant company; (iv) to pay any tax overdue;
- (iv) to settle the company's claims and liabilities;
- (v) to handle the surplus assets of the company after its debts have been paid off; and
- (vi) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

During the liquidation period, a company shall not engage in operating activities unrelated to the liquidation.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration for bankruptcy according to the laws. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the people's court for confirmation. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Loss of Share Certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in "Appendix V — Summary of the Articles of Association").

Merger and Demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

As for a corporate merger, both parties to the merger shall conclude an agreement with each other and formulate balance sheets and checklists of properties. The companies involved shall, within ten days as of making the decision of merger, notify the creditors, and shall make a public announcement in a newspaper within thirty days. The creditors may, within thirty days as of the receipt of the notice or within forty five days as of the issuance of the public announcement if it fails to receive a notice, require the company to clear off its debts or to provide corresponding guarantees. In the case of a merger, the credits and debts of the companies involved shall be succeeded by the company that survives the merger or by the newly established company.

As for the division of a company, the properties thereof shall be divided accordingly, and balance sheets and checklists of properties shall be worked out. The company shall, within ten days as of the day when the decision of division is made, notify the creditors and make a public announcement in a newspaper within thirty days. The post-division companies shall bear joint liabilities for the debts of the former company before it is divided, unless it is otherwise prescribed by the company and the creditors before the division with regard to the clearance of debts in written agreement.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations that relate to the issue and trading of the Shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee was responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities related institutions in the PRC and administering the CSRC. The CSRC was the regulatory body of the Securities Committee and responsible for the drafting of regulatory provisions of securities markets, supervising securities firms, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In 1998, the State Council dissolved the Securities Committee of the State Council and assigned its function to the CSRC. The CSRC is also responsible for the regulation and supervision of the national stocks and futures market according to laws, regulations and authorizations.

The Securities Law took effect on July 1, 1999 and was last amended on August 31, 2014. This is the first securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities firms and the duties and responsibilities of the State Council's securities regulatory authorities. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that a PRC company must obtain prior approval from the State Council's regulatory authorities to list its shares overseas. Article 239 of the Securities Law provides that specific provisions in respect of shares of companies in the PRC which are to be subscribed and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H Shares) are still governed by the rules and regulations promulgated by the State Council and the CSRC.

Regulation on Anti-money Laundering

The *Anti-money Laundering Law of the PRC* (中華人民共和國反洗錢法) effective on January 1, 2007 provides for the duties of the relevant financial regulatory authorities in anti-money laundering, which includes monitoring the capital of anti-money laundering, formulating rules and regulations on anti-money laundering of the financial institutions, supervising and reviewing the fulfillment of anti-money laundering obligations by financial institutions and investigating suspicious transactions within the scope of responsibilities. Heads of financial institutions shall be responsible for the effective implementation of anti-money laundering internal control system. Financial institutions shall establish a client

identification system and a system for keeping clients' identity information and historical transaction record, and report large-sum transactions and doubtful transactions according to applicable requirements.

According to the *Provisions on Anti-money Laundering of Financial Institutions* (金融機構反洗錢規定) which was enacted by the PBOC and came into effect on January 1, 2007, financial institutions and their branches shall establish comprehensive anti-money laundering internal control systems, an anti-money laundering department or designated internal department responsible for anti-money laundering pursuant to applicable laws. Anti-money laundering internal procedures and control measures shall be formulated. Specific training shall be offered to the staff in order to strengthen the anti-money laundering works.

According to the *Measures on Administration of Identification of Clients and Preservation of Client Identities Information and Historical Transaction Records of Financial Institutions* (金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法) which was jointly enacted by the PBOC, CBRC, the CSRC and China Insurance Regulatory Commission and came into effect on August 1, 2007, financial institutions shall establish client identification systems, and shall record the identities of all clients and the information about each of the transactions, and shall preserve the retail trading documents and books.

According to the *Administrative Measures for the Financial Institutions' Report of Large-sum Transactions and Doubtful Transactions* (金融機構大額交易和可疑交易報告管理辦法) which was enacted by the PBOC and came into effect on March 1, 2007, the headquarter of the financial institution or the department appointed by the headquarter, shall report to China Anti-money Laundering Monitoring and Analysis Centre electronically after identifying large-sum transactions and doubtful transactions.

The CSRC also formulated the *Implementing Rules of Anti-money Laundering for Securities and Futures Industry* (證券期貨業反洗錢工作實施辦法) which effective from October 1, 2010 and further formulates the anti-money laundering rules for securities and futures industry, and the anti-money laundering liabilities for the institutions carrying on funds sales business in their funds sales activities, and the securities and futures operating institutions should establish anti-money laundering internal control system.

Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the securities regulatory authority of the State Council may be implemented by the board of directors of a company by way of separate issues, within fifteen months after approval is obtained from the CSRC.

Suspension and Termination of Listing

All provisions on the suspension and termination of listing were deleted from the PRC Company Law. The following revisions were made in the Securities Law:

Where a listed company is in any of the following circumstances, the stock exchange shall decide to suspend the listing of its stocks:

- (i) Where the total amount of capital stock or share distribution of the company changes and thus, fails to meet the requirements of listing;
- (ii) Where the company fails to publicize its financial status according to the relevant provisions or has any false record in its financial statements, which may mislead the investors;
- (iii) Where the company has in dissolution or has been declared insolvent;
- (iv) Where the company has been operating at a loss for the latest 3 consecutive year; or
- (v) Under any other circumstance as prescribed in the listing rules of the stock exchange.

According to the Securities Law, under the above (i) circumstances, and the company fails again to meet the requirements of listing within the period as prescribed by the stock exchange; and under the above (ii) circumstances, and the company refuses to make any correction; as well as under the above (iv) circumstances, and the company fails to gain profits in the year thereafter; the stock exchange shall decide to terminate the listing of its stocks.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The *Arbitration Law of the PRC* (中華人民共和國仲裁法) (the “Arbitration Law”) was passed by the Standing Committee of the National People’s Congress on August 31, 1994 and the latest version was amended on August 27, 2009 with immediate effect. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organizations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate provisional arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people’s court will refuse to handle the case.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the Articles of Association and, in the case of the Hong Kong Listing Rules, also in contracts with each of the Directors and Supervisors, to the effect that whenever any disputes or claims arise between holders of the H Shares and us; holders of the H Shares and the Directors, Supervisors or officers; or holders of the Shares, in respect of any disputes

or claims in relation to our affairs or as a result of any rights or obligations arising under the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, Directors, Supervisors, officers of us, shall be subject to the arbitration. Disputes in respect of who is the shareholder and those in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission (“CIETAC”) in accordance with its rules or the Hong Kong International Arbitration Centre (“HKIAC”) in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the Arbitration Law and the PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people’s court for Enforcement. A people’s court may refuse to enforce an arbitral award made by an arbitration tribunal if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration tribunal.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the *Convention on the Recognition and Enforcement of Foreign Arbitral Awards* (承認及執行外國仲裁裁決公約) (the “New York Convention”) adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the National People’s Congress passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the State to which the application for enforcement is made. It was declared by the Standing Committee of the National People’s Congress simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

In June 1999, an arrangement was made between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitration bodies pursuant to the Arbitration Law can be enforced in Hong Kong. Hong Kong arbitral awards pursuant to the Arbitration Ordinance of Hong Kong are also enforceable in the PRC.

ESTABLISHMENT OF OVERSEAS OPERATIONS RULES AND REGULATIONS

According to the *Provisions for Overseas Investment Management* (境外投資管理辦法) promulgated by the Ministry of Commerce and took effect on October 6, 2014, and the *Provisions on the Foreign Exchange Administration of Overseas Investment of Domestic Institutions* (境內機構境外直接投資外匯管理規定) issued by the SAFE and took effect on August 1, 2009, upon obtaining approval from the Ministry of Commerce to establish enterprises overseas, PRC enterprises shall apply for foreign exchange registration for overseas investments.

According to the *Tentative Administrative Provisions on the Approval of Overseas Investment Projects* (境外投資項目核準和備案管理辦法) promulgated by the NDRC and took effect on May 8, 2014, overseas investment projects carried out by PRC enterprises by way of new construction, M&A, share purchase, capital increase and capital injection, and overseas investment projects implemented through its overseas enterprise or entity by way of providing financing or guarantees, are required to obtain approval or lodge filing with NDRC in accordance with the relevant conditions of the overseas investment projects.

According to the *Securities Law* (證券法) as amended and took effect on August 31, 2014, and the *Regulations for Supervision and Administration of Securities Companies* (證券公司監督管理條例) as amended and took effect on July 29, 2014, domestic securities firms in the PRC which establish or acquire securities operation entities overseas or purchase equity interest in securities operation entities overseas are required to make an application to the CSRC for approval.

According to the *Measures for Supervision and Administration of Futures Companies* (期貨公司監督管理辦法) promulgated and took effect on October 29, 2014, domestic futures companies in the PRC which establish or acquire futures operation entities overseas or purchase equity interest in futures operation entities overseas are required to satisfy the relevant conditions and make an application to the CSRC for approval.

According to the *CSRC Rules concerning the Establishment of Offices in Hong Kong by Securities and Investment Fund Management Companies* (中國證券監督管理委員會關於證券投資基金管理公司在香港設立機構的規定) promulgated and took effect on April 8, 2008, domestic securities and investment fund management companies in the PRC which establish offices in Hong Kong, purchase equity interest in asset management companies in Hong Kong region, establish offices or purchase equity interest in asset management companies located in other countries and regions that had entered into memorandum of regulatory cooperation with the CSRC, are required to make an application to the CSRC for approval.

HONG KONG LAWS AND REGULATIONS

Summary of Material Differences between Hong Kong and PRC Company Law

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Hong Kong Companies Ordinance and the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and validly existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital, is incorporated by the Registrar of Companies in Hong Kong and the company will acquire an independent corporate existence upon its incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Hong Kong Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain provisions with respect to the right of first refusal. A public company's articles of association do not contain such provision.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription. Unless specially required by any other laws, administrative regulations and the State Council's decisions, there is no minimum capital requirement for a joint stock limited company. Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, issue new shares of the company. The PRC Company Law does not prescribe any authorized capital requirement (except for registered capital). If a joint stock limited company is incorporated by promotion, its registered capital shall be the total amount of capital subscribed by all promoters as registered with the registration authority to which the company relates. If a joint stock limited company is incorporated by public subscription, its registered capital shall be the total amount of paid-in capital registered with the registration authority to which the company relates. Any increase in our registered capital must be approved by our shareholders at a shareholders' general meeting and the relevant PRC governmental and regulatory authorities (if applicable).

Under the PRC Securities Law, a company which is authorized by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets that can be used for monetary valuation and can be transferred according to laws. For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no over-valuation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, domestic shares of a joint stock limited company (the “Domestic Shares”), which are denominated and subscribed for in Renminbi, may be subscribed for or traded by the PRC domestic investors and qualified foreign institutional investors. Since April 2013, investors from Hong Kong, Macau and Taiwan may also open an A share account. Overseas listed foreign shares of a joint stock limited company, which are denominated in Renminbi and subscribed for in foreign currency, may only be subscribed for, and trade by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, and other qualified domestic institutions.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to our public offering shall not be transferred within one year from the listing of the shares on the Hong Kong Stock Exchange. Shares in a joint stock limited liability company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company shall not be transferred within one year from the listing date of the shares, and also shall not be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company’s shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company’s issue of shares and the 12-month lockup on controlling shareholder’s disposal of shares.

Financial Assistance for Acquisition of Shares

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company’s shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under the Hong Kong company law.

Variation of Class Rights

The PRC Company Law has no special provision relating to variation of class rights. However, the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V to this prospectus.

Under the Hong Kong Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders representing at least 75% of the nominal value of shares in the class in question, (iii) with the consent of all shareholders of a Hong Kong company, or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on the rights of directors in making major disposals, restrictions on companies providing certain benefits in respect of the prohibitions against compensation for loss of office without shareholders' approval. The PRC Company Law restricts any interested directors to vote in respect of any board resolutions involving any companies in which such directors have an interest or a connected relationship. The Mandatory Provisions, however, contain certain provisions and restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office. The relevant provisions have been included in the Articles of Association, a summary of which has been included in Appendix V to this prospectus.

Supervisory Committee

Under the PRC Company Law, a joint stock limited company's directors and senior management are subject to the supervision of a supervisory committee. There is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his rights or performance of his obligations, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law provides that in the event where the directors and senior management

violate their fiduciary obligation to the company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the supervisory committee to initiate proceedings in the people's court. In the event that the supervisory committee violates the fiduciary obligation to the company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court.

Upon receipt of such written request from the shareholders, if the supervisory committee or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under contingent circumstances, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the people's court in their own name.

Moreover, the PRC Company Law provides that to the extent that the directors or senior management of the company violate the laws, administrative regulations or the requirements of the articles of association and cause harm to the interest of shareholders as a result, the shareholders may also initiate proceedings. The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of overseas listed foreign shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking for observing the articles of association in favor of the company. This allows minority shareholders to take action against directors and supervisors in default.

Protection of Minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either liquidate such company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law provides that any shareholders holding 10% or above of voting rights of all issued shares of a company may request a people's court to dissolve the company to the extent that the operation or management of the company experiences any serious difficulties and its continuous existence would cause serious losses to them, and no other alternatives can resolve such difficulties. The Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

Notice of Shareholders' General Meetings

Under the PRC Company Law, notice of a shareholders' annual general meeting must be given not less than 20 days before the meeting, whereas notice of a shareholders' special general meeting must be given not less than 15 days before the meeting. If a company issues bearer shares, notice of a shareholders' general meeting must be given at least 30 days prior to the meeting. Under the Special Regulations and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders, and shareholders who wish to attend the general meeting must return the written reply slip for attending the meeting to the company at least 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum periods of notice are 14 days and 21 days in the case of a general meeting to be convened for the adoption of an ordinary resolution and a special resolution. The notice period is 21 days in the case of an annual general meeting.

Quorum for Shareholders' General Meetings

Under Hong Kong company law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member.

The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that a company shall calculate the total number of voting shares represented by shareholders who intend to attend a shareholders' general meeting based on the written replies to the notice of that meeting received at least 20 days prior to the meeting. When the number of voting shares represented by shareholders who intend to attend the meeting is more than 50% of the total number of voting rights of the company, the company may convene the shareholders' general meeting. Otherwise, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong company law, an ordinary resolution is passed by a simple majority by the shareholders attending a shareholders' general meeting in person or by proxy, and a special resolution is passed by a majority of at least 75% by shareholders attending a the shareholders' general meeting in person or by proxy. Under the PRC Company Law, the passing of any resolution at a shareholders' general meeting requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting in person or by proxy, except in cases of proposed amendments to a company's articles of association, increase or reduction of registered capital, merger, division or dissolution of a joint stock limited company, or change of company form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting in person.

Financial Disclosure

Under the PRC Company Law, a company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a company of which the shares are publicly offered must publish its financial condition in accordance with the PRC Company Law. The annual balance sheet shall be verified by its certified accountant. The Hong Kong Companies Ordinance requires a company incorporated in Hong Kong to send every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before the annual general meeting. A company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings, and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the information provided to shareholders of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of shares dividends declared and all other monies owed by the company in respect of its overseas shares.

Corporate Reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members under Division 2 of Part 13 of the Hong Kong Companies Ordinance, which requires the sanction of the court. Under PRC Company Law, merger, division, dissolution or change of company form of a company has to be approved by shareholders in general meeting.

Dispute Arbitration

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

Mandatory Deductions

Under the PRC Company Law, a company, in distributing profits after tax to the shareholders, is required to make transfers equivalent to 10% of its after tax profit to the statutory common reserve fund. When the accumulated amount of the statutory common reserve fund of the company reaches 50% of the registered capital of the company, it may cease to transfer any amount to the statutory common reserve fund. Following the transfer to the statutory common reserve fund from its after tax profit, the company may transfer applicable amount to the discretionary common reserved fund from its after tax profit. There are no corresponding provisions under Hong Kong law.

Remedies of our Company

Under the PRC Company Law, if a director, supervisor or senior management officer in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior management officer shall be liable to the company for such damages. In addition, the Hong Kong Listing Rules require listed companies' articles to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management officer).

Dividends

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of overseas listed foreign shares until after the expiry of the applicable limitation period.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors and senior management of a company shall undertake a fiduciary obligation to the company and are not allowed to conduct any activities that are in competition with or detrimental to the interest of the company.

Closure of Register of Shareholders

The Hong Kong Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas, as required by the Mandatory Provisions and the Special Regulations, share transfers shall not be registered within 30 days before the date of a shareholders' general meeting or within five days before the benchmark date set for the purpose of distribution of dividends.

Hong Kong Listing Rules

The Hong Kong Listing Rules provide additional requirements which apply to an issuer incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to our Company.

Compliance advisor

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its financial results for the first full financial year commencing after the listing date so as to provide professional advice on continuous compliance with the Hong Kong Listing Rules and all other applicable laws and regulations, rules, codes and guidelines, and to act at all times, in addition to its two authorized representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance advisor may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement. The compliance advisor must keep the company informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. He/she must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

Accountants' report

Unless the accounts relating to the accountants' report have been audited pursuant to the standards similar to the requirements of Hong Kong, international audit standards or PRC audit standards, the Hong Kong Stock Exchange will generally not accept an accountants' report of a PRC issuer. The relevant report must normally be drawn up in conformity with Hong Kong Financial Reporting Standards or IFRS or China Accounting Standards for Business Enterprises (CASBE) in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

Process agent

Our Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his, her or its appointment, the termination or his, her or its appointment and his, her or its contact particulars.

Public shareholding

If at any time the PRC issuer has issued securities, other than foreign invested shares, listed on the Hong Kong Stock Exchange (the "Foreign Invested Shares"), the Hong Kong Listing Rules require that the aggregate amount of such Foreign Invested Shares held by the public must constitute not less than 25% of the PRC issuer's issued share capital and that the Foreign Invested Shares for which listing is sought must not be less than 15% of the PRC issuer's total issued share capital, having an expected market capitalization at the time of listing of not less than HK\$50 million. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if our Company is expected to have a market capitalization at the time of listing of more than HK\$10 billion.

Independent non-executive directors and supervisors

Independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of its shareholders as a whole can be adequately represented. Supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate the standard of competence commensurate with their position as supervisors.

Mandatory provisions

In order strengthen the protection of investors, the Hong Kong Stock Exchange provides that a PRC company whose primary listing place is on the Hong Kong Stock Exchange shall incorporate the Mandatory Provisions, as well as the provisions with respect to the change, removal and resignation of an auditor, shareholders' general meetings of class of securities and acts of the supervisory committee of the company into its articles of association. Such provisions have been included into the Articles of Association, a summary of which is set out in Appendix V to this prospectus.

Redeemable shares

Our Company shall not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of its holders of Foreign Invested Shares are adequately protected.

Pre-emptive rights

Except in the circumstances mentioned below, Directors of our Company are required to obtain approval by way of a special resolution of Shareholders at general meeting, and the approvals by way of special resolutions of the holders of Domestic Shares and Foreign Invested Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with and as required by its Articles of Association, prior to the following: (1) authorizing, allotting, issuing or granting shares or convertible securities, or share options, warrants or similar rights to subscribe for any shares or such convertible securities; or (2) any such authorization, allotment, issuance or grant given by any major subsidiaries of our Company, which would materially dilute the percentage of shareholdings owned by our Company and its Shareholders in the relevant subsidiaries.

No such approval (subject to the extent of such approval) will be required to the extent that the existing shareholders of a company have by special resolution in general meeting given a mandate to the board of directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every twelve months, not more than 20% of each of the existing issued Domestic Shares and Foreign Invested Shares as at the date of the passing of the relevant special resolution, or such shares are issued as part of the company's plan at the time of its establishment to issue Domestic Shares and Foreign Invested Shares and which plan is implemented within fifteen months from the date of approval by the CSRC; or after the approval by the securities regulatory and management authority of the State Council.

Supervisors

Our Company shall adopt rules governing dealings by the Supervisors in securities of our Company on terms no less exacting than those of the Model Code (as set out in Appendix 10 to the Hong Kong Listing Rules) issued by the Hong Kong Stock Exchange.

To our Company shall obtain the approval of its shareholders at a general meeting (at which the relevant Supervisor and his associates must abstain from voting on the matter) prior to our Company or any of its subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of our Company or any of its subsidiaries: (1) the term of the contract exceeds three years; or (2) the contract expressly requires our Company to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year in order for it to terminate the contract.

The remuneration committee of our Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise Shareholders (other than Shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of our Company and its Shareholders as a whole and advise Shareholders on how to vote.

Amendment to articles of association

Our Company shall not permit or cause any amendment to be made to its Articles of Association which would contravene the Hong Kong Listing Rules and the Mandatory Provisions or the PRC Company Law.

Documents for inspection

Our Company shall make available at a place in Hong Kong for inspection by the public and Shareholders of our Company free of charge, and for copying by its Shareholders at reasonable charges of the following:

- a complete duplicate register of Shareholders;
- a report showing the status of its issued share capital;
- its latest audited financial statements and the reports of the directors, auditors and supervisors, if any, thereon;
- its special resolutions;
- reports showing the number and nominal value of securities repurchased by our Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- copy of the latest annual report filed with the State Administration for Industry & Commerce of the PRC or other competent PRC authorities; and
- for Shareholders only, copies of minutes of shareholders' general meetings.

Receiving agents

Our Company shall appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owed in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

Statements in share certificates

Our Company shall ensure that all of its listing documents and share certificates of H Shares include the statements stipulated below and instruct and cause each of its share registrars to register the subscription, purchase or transfer of any of its shares in the name of any particular holder after such holder delivers to the share registrar a signed form in respect of such shares bearing statements to the following effect, that the acquirer of shares:

- agrees with our Company and each of its Shareholder, and it agrees with each of its Shareholder, to observe and comply with the PRC Company Law, the Special Regulations, its Articles of Association, and other relevant laws and administrative regulations;
- agrees with our Company, each Shareholder, Director, Supervisor, manager and other senior management officer, and our Company (acting both for itself and for each Director, Supervisor, manager and other senior management officer), agree with each Shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our Company's affairs to arbitration in accordance with the Articles of Association. Any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with our Company and each Shareholder that Shares are freely transferable by the holder thereof; and
- authorizes our Company to enter into a contract on his behalf with each Director, Supervisor and senior management officer whereby such Directors, Supervisors and senior management undertake to observe and comply with their obligations to Shareholder as stipulated in the Articles of Association.

Compliance with the PRC Company Law, the Special Regulations and Articles of Association

Our Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

Contract between our Company and its Directors, Senior Management and Supervisors

Our Company is required to enter into a contract in writing with every Director and senior management containing at least the following provisions:

- an undertaking by the Director or senior management to itself to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Buy-backs and an agreement that it must have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;

- an undertaking by the Director or senior management to our Company acting as agent for each Shareholder to observe and comply with his obligations to our Shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any disputes or claims arise from the contract, its Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning affairs between our Company and its Directors or senior management and between a holder of H shares and a Director or senior management, such disputes or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral tribunal elected by the claimant. Such arbitration will be final and conclusive;
- If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen, according to the Securities Arbitration Rules of the HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- The award of the arbitral tribunal is final and shall be binding on the parties thereto; and
- Disputes over who is a Shareholder and over the share registrar do not have to be resolved through arbitration.

A PRC issuer is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

English Translation

All notices or other documents required under the Hong Kong Listing Rules to be sent by a PRC issuer to the Hong Kong Stock Exchange or to holders of the H shares are required to be in English, or accompanied by a certified English translation.

General

If any change in the PRC law or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been prepared, the Hong Kong Stock Exchange may impose additional requirements or make listing of H shares by a PRC issuer subject to special conditions as the Hong Kong Stock Exchange may consider appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of the Listing.

OTHER LEGAL AND REGULATORY PROVISIONS

Upon the Listing on the Hong Kong Stock Exchange, the provisions of the SFO, the Codes on Takeovers and Mergers and Share Buy-backs and such other relevant ordinances and regulations will apply to our Company.

SECURITIES ARBITRATION RULES

Pursuant to the Articles of Association, any claims arising from the Articles of Association, the PRC Company Law and any other applicable laws shall be submitted to CIETAC or HKIAC for arbitration in accordance with the respective arbitration rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party, or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

Set out herein is a summary of the Articles of Association, the principal objective of which is to provide potential investors with an overview of the Articles of Association. As the information is in summary form, it may not contain all the information that is important to potential investors.

SCOPE OF BUSINESS

The business scope of our Company registered legally is: securities brokerage, securities investment consulting, financial consulting relating to securities trading and securities investment, securities underwriting and sponsorship, proprietary trading of securities, intermediary introduction business for futures companies, proxy sale of securities investment fund, margin financing and securities lending business, proxy sale of financial products, stock and option market making and other businesses approved by the CSRC.

Our Company may conduct direct investment business through wholly-owned subsidiaries under the approval of CSRC, or set up subsidiaries to invest in financial products.

SHARES

Shares and Registered Capital

The stock of our Company shall take the form of shares.

Our Company shall have ordinary shares at all times. With the approval of the department authorized by the State Council, our Company may have other forms of shares when needed. The shareholders of various classes shall have the same rights and benefits in dividends or distribution of any other forms.

Our Company shall issue shares in an open, fair and just manner, and each share of the same category shall have the same right. Shares of the same category issued at the same time shall be issued under the same conditions and at the same price; the same price shall be paid for each share subscribed for by any entities or individuals.

Upon the approval by securities regulatory authorities under the State Council or other relevant regulatory authorities, our Company may issue its shares to the domestic and foreign investors. The Board may make separate arrangements for the implementation of the issuance plans for the offering of overseas listed foreign shares and domestic shares by our Company as approved by the securities regulatory authorities under the State Council. The plan for the issuing and listing of foreign capital stocks and domestic capital stocks worked out according to the provisions in the preceding paragraph may be executed separately within 15 months starting from the date of approval by the Securities Committee of the State Council. If our Company separately issues overseas listed foreign shares and domestic shares within the total number specified in the issuance plans, they shall be issued respectively at one time; if it is impossible for the shares to be issued at one time for special reasons, they may be issued by several times upon approval by the securities regulatory authorities under the State Council.

Share Transfer

Except as otherwise specified by national laws, administrative regulations, and relevant provisions of the securities regulatory authority at the location where our Company's shares are listed, shares of our Company may be transferred freely and without any liens. Transfer of overseas listed foreign shares listed in Hong Kong shall be registered with the Hong Kong-based share registry designated by our Company.

Our Company shall not accept its own shares as the pledge object.

The shares of our Company held by the promoters shall not be transferred within one year after incorporation of our Company. Shares already issued by our Company before public offering shall not be transferred within one year after the shares of our Company are listed on the stock exchange. The directors, supervisors and senior management of our Company shall report to our Company their shareholdings and changes thereof and shall not transfer more than 25% of their shares per annum during their terms of office; the shares they hold in our Company shall not be transferred within one year after the shares of our Company are listed. The aforesaid persons shall not transfer their shares in our Company within half a year after they terminate service with our Company. If our Company's directors, supervisors, senior management, and shareholders holding more than 5% shares of our Company sell shares within six months after buying the same or buy shares within six months after selling the same, the earnings arising therefrom shall belong to our Company and the Board shall forfeit the said earnings. However, the six-month restriction shall not be applicable to any sale of shares by a securities firm responsible for the underwriting of our Company stocks holding more than 5% of our Company's shares as a result of its underwriting of the untaken shares.

Our Company or its subsidiaries shall not at any time or in any form provide any financial assistance to purchasers or potential purchasers of our Company's shares for the purpose of purchase or intending to purchase our Shares. The aforesaid purchasers include persons directly or indirectly undertaking obligations because of the purchase of our Company's shares.

Our Company or its subsidiaries shall not at any time or in any form provide any financial assistance to the aforesaid obligors for the purpose of reducing or discharging their obligations in connection with the purchase or proposed purchase of our Company's shares unless in the following circumstances:

- (I) Our Company provides the relevant financial assistance in the interests of our Company in good faith, and the main purpose of the said financial assistance is not to purchase our Company's shares, or the said financial assistance is a part of a master plan of our Company;
- (II) Our Company distributes its assets as dividends in accordance with the law;
- (III) Our Company distributes dividends in the form of shares;

- (IV) Our Company decreases its registered capital, repurchases its shares and adjusts the equity structure in accordance with the Articles of Association hereof;
- (V) Our Company provides a loan for its normal business operations within its business scope (but it shall not give rise to a decrease in the net assets of our Company, or even in the event of a decrease, such financial assistance is provided out of the distributable profit of our Company); and
- (VI) Our Company provides the funding for employee stock ownership plan (but such financial assistance shall not give rise to a decrease in the net assets of our Company, except for in the event of a decrease, such financial assistance is provided out of the distributable profit of our Company).

SHARES BUYBACK

Our Company may, in the following circumstances, buy back its shares pursuant to laws, administrative regulations, department rules and the Articles of Association hereof:

- (I) Decreasing the registered capital of our Company;
- (II) Merging with other companies holding shares of our Company;
- (III) Awarding shares to employees of our Company;
- (IV) As required by Shareholders objecting to resolutions of the general meeting concerning merger or division of our Company to buy their shares;
- (V) Other circumstances approved by any law or administrative regulation.

Our Company shall not trade its shares unless in the aforesaid circumstances.

Our Company may buy back its own shares in any of the following ways:

- (I) Offering to buy back shares from all shareholders on a pro rata basis;
- (II) Buying back through open transaction in the stock exchange;
- (III) Buying back through agreement outside the stock exchange; and
- (IV) In other forms approved by national laws, administrative regulations, and relevant competent authorities.

In buying back shares through agreement outside the stock exchange, our Company shall obtain prior approval at a general meeting in accordance with the Articles of Association hereof.

Where our Company purchases its own shares on grounds of subparagraph (I) as specified in the preceding paragraph, such shares shall be cancelled within 10 days from the date it purchases them; and where the shares are purchased on grounds of subparagraph (II) or (IV), such shares shall be transferred or cancelled within six months. After our Company cancels the said shares, it shall register the change of the registered capital with the original company registration authority. The total face value of the shares cancelled shall be deducted from the registered capital of our Company.

INCREASE AND DECREASE OF SHARES

Subject to approval of the shareholders at general meeting, our Company may, based on its requirements for operation and development and in accordance with the applicable laws and regulations, increase its capital by way of:

- (I) Public offering of shares;
- (II) Non-public offering of shares;
- (III) Rights issue of shares to existing shareholders;
- (IV) Offer of bonus shares to existing shareholders;
- (V) Capitalization of surplus reserve into share capital;
- (VI) By other means stipulated by laws, administrative regulations or approved by relevant regulatory authorities.

Our Company's increase of capital by issuing new shares shall be subject to approval as specified in the Articles of Association hereof and follow the procedures specified by the relevant national laws and administrative regulations.

Our Company is entitled to reduce its registered capital. The reduction of the registered capital by our Company shall be subject to relevant provisions in the PRC Company Law and the procedures specified in the Articles of Association hereof. Our Company shall prepare a balance sheet and a list of property inventory when decreasing its registered capital.

Our Company shall notify all its creditors within 10 days after the resolution to decrease the registered capital and shall make announcements in newspapers within 30 days. The creditors shall be entitled to require our Company to repay debts or provide corresponding guarantees in favor of such creditors for debt repayment within 30 days after the receipt of the notice, or within 45 days after the announcement for creditors if the creditors haven't received the notice.

Our Company's registered capital shall not, upon the decrease of capital, be less than the statutory minimum limit.

STOCKS AND SHAREHOLDERS' REGISTER

The stocks of our Company shall be in registered form. A stock shall state the following major items:

- (I) the name of our Company;
- (II) the date of establishment of our Company;
- (III) the class and par value of the stock, as well as the number of shares it represents;
- (IV) the serial number of the stock;
- (V) other matters required by the PRC Company Law and the securities regulatory authorities in the place where our Company's shares are listed;
- (VI) where any non-voting shares are included in the capital stock of our Company, the word "non-voting" shall be added to the name of such shares; and
- (VII) where any shares with different voting rights are included in the capital stock of our Company, the words "restricted voting" or "limited voting" shall be added to the name of each kind of such shares (excluding shares with the most preferential voting rights).

The foreign capital stock listed abroad issued by our Company may be in the form of stock deposit receipts or in other derivations according to the laws and conventions for security registration and deposit in the place of listing.

Our Company shall maintain a shareholders' register recording the following matters:

- (I) Names (titles), addresses (domiciles), occupations or nature of each shareholder;
- (II) Type and number of shares held by the shareholders;
- (III) Monies paid or payable for the shares held by the shareholders;
- (IV) Serial numbers of the shares certificate held by each shareholder;
- (V) Date on which each shareholder is registered as a shareholder;
- (VI) Date on which each shareholder ceases to be a shareholder.

The shareholders' register is a sufficient evidence of the shareholders' shareholdings in our Company unless there is evidence to the contrary.

Our Company may keep overseas the register of holders of overseas listed foreign shares and entrust it to the care of an overseas agency in accordance with the understanding and agreement reached between the securities regulatory authority under the State Council and the overseas securities regulatory authority. The original of the register of holders of overseas listed foreign shares listed in Hong Kong Stock Exchange shall be kept in Hong Kong.

Our Company shall keep at its domicile a copy of the register of holders of overseas listed foreign shares; the entrusted overseas agency shall always ensure that the original and copies of the register of holders of overseas listed foreign shares are consistent.

Where the original and copies of the register of holders of overseas listed foreign shares are inconsistent, the original shall prevail.

Change of the shareholders' register arising from share transfer shall not be registered within 30 days before convening of a general meeting or within five days prior to the benchmark date on which our Company decides to distribute dividends. However, if it is otherwise provided for by any securities supervision and management organization, such provisions shall prevail.

If any person objects to the shareholders' register and asks to have his name (title) recorded in or deleted from the shareholders' register, they may apply to the court with jurisdiction to correct the shareholders' register.

If any shareholder in the shareholders' register or any person requesting to have his name (title) recorded in the shareholders' register has his shares stolen, lost or destroyed (i.e. the "Original Shares"), the said shareholder or person may apply to our Company to reissue new stocks for the said shares (i.e. the "Relevant Shares").

SHAREHOLDERS AND THE GENERAL MEETING

Shareholders

Our Company shall make a register of shareholders based on the vouchers provided by securities registries. The register of shareholders shall be the sufficient evidence proving the shareholders' holding of our Company's shares. Company shareholders refer to the persons who hold the company's foreign capital stocks and whose names are registered on the register of shareholders. The shareholders enjoy rights and assume obligations as per the shares they hold; the same class of shares represents the same rights and the same obligations.

Where more than two persons are registered as joint holders of any shares, they shall be deemed as the common owners of the said shares subject to the following restrictions:

- (I) Our Company shall not register more than four persons as joint holders of any shares;
- (II) The joint holders of any shares shall assume joint and several liability for all amounts payable for relevant shares;

- (III) If any of the joint shareholders deceases, only the surviving joint shareholders shall be deemed by our Company as owners of the relevant shares, but the Board may, for the purpose of modifying the shareholders' register, require the provision of a death certificate as it deems appropriate; and
- (IV) Among the joint holders of any shares, only the shareholder that is listed first in the shareholders' register shall be entitled to take relevant shares, receive notices of our Company. Any notice received by such shareholder shall be deemed as having been served to all the joint holders of the relevant shares. Any joint holder is entitled to sign the proxy form, and attend the general meetings or exercise the full voting right of the relevant shares. Where more than 1 joint holder is present or sends representatives for the event, the joint holder with the highest priority shall made the decision. The priority as prescribed above is determined by the order of joint holders according to relevant shareholding in the shareholders' register.

The ordinary shareholders of our Company shall be entitled to the following rights:

- (I) To receive dividends and other distributions in proportion to the shares they hold;
- (II) To lawfully request, convene, preside over, attend general meetings either in person or by proxy and exercise the corresponding voting right;
- (III) To supervise, raise suggestions on or make inquiries about the operations of our Company;
- (IV) To transfer, gift or pledge their shares in accordance with laws, administrative regulations, and relevant requirements of the securities regulatory authorities in the place where our Company's shares are listed and the Articles of Association hereof;
- (V) To gain relevant information in accordance with the Articles of Association, including:
1. Receiving a copy of the Articles of Association after payment of cost; and
 2. Being entitled to consult and copy the following items after payment of reasonable fee:
 - (1) all the parts of shareholders' register;
 - (2) personal data of Directors, Supervisors, president and other senior management of our Company; including:
 - (a) present or previous name or alias;
 - (b) main address (domicile);
 - (c) nationality;

- (d) full time and other part time occupation and title;
 - (e) identification document and ID number.
- (3) share capital of our Company;
 - (4) report of the total par value, quantity, the highest and lowest price of each class of shares bought back by our Company from the last accounting year, and the total amount paid by our Company for this purpose;
 - (5) minutes of general meetings;
 - (6) the latest audited financial statements, and reports from the Board, auditor and the Supervisory Committee;
 - (7) the special resolutions of our Company of the general meeting or Board of our Company;
 - (8) the copy of the latest annual report (annual statements) submitted to the State Administration for Industry & Commerce or other competent authorities for filing.
- (VI) To participate in the distribution of the remaining properties of our Company as per their shares in the event of the termination or liquidation of our Company;
- (VII) To require our Company to buy their shares in the event of objection to resolutions of the general meeting concerning merger or division of our Company; and
- (VIII) To enjoy other rights stipulated by laws, administrative regulations, department rules and the Articles of Association hereof.

Our Company is not allowed to exercise any rights to freeze or damage any rights of certain shareholders in any way only based on the failure of direct or indirect equity owners to disclose their equities.

If the resolution of the general meeting or the Board meeting is in violation of the laws and administrative regulations, the shareholders shall be entitled to request the people's court to invalidate the resolution.

If the convening procedure and voting method of the general meeting or the Board meeting is in violation of the laws, administrative regulations or Articles of Association hereof, or if the content of the resolution is in violation of the Articles of Association, the shareholders shall be entitled to request the people's court to cancel the said procedure, method or resolution within 60 days after the resolution.

If any Director or senior management violates laws, administrative regulations or Articles of Association in fulfilling their company duties, thereby incurring any loss of our Company, the shareholder(s) severally or jointly holding more than 1% shares of our

Company for more than 180 consecutive days shall be entitled to request the Supervisory Committee in writing to institute proceedings to the people's court; if the Supervisory Committee violates laws, administrative regulations or Articles of Association in fulfilling its duties, thereby incurring any loss of our Company, the shareholders shall be entitled to request the Board in writing to institute proceedings to the people's court.

If the Supervisory Committee or the Board refuses to institute proceedings after receipt of the aforesaid written request or does not institute proceedings within 30 days after receipt of the said request, or if the circumstance is urgent or any delay of legal proceedings may incur irrecoverable damage to the interests of our Company, the shareholders as specified in the preceding paragraph shall be entitled to directly institute proceedings to the people's court in their own names in the interests of our Company.

If any other person infringes upon the legitimate rights and interests of our Company, thereby incurring any loss of our Company, the shareholder(s) as prescribed in the first article may institute proceedings to the people's court according to the above two provisions.

If any Director or senior management violates laws, administrative regulations or Articles of Association hereof, thereby incurring any loss of the shareholders, the shareholders may institute proceedings to the people's court.

The ordinary shareholders of our Company shall have the following obligations:

- (I) To abide by laws, administrative regulations and Articles of Association hereof.
- (II) To pay subscription funds as per the shares subscribed for and the method of subscription.
- (III) Not to exit shares unless in the circumstances stipulated by laws and regulations.
- (IV) Not to abuse shareholder's right to damage the interests of our Company or other shareholders; Not to abuse the independent status of legal person or shareholder's limited liability to damage the interests of the creditors of our Company; Shareholders of our Company who abuse their shareholder's rights and thereby causing loss on our Company or other shareholders shall be liable for loss compensation according to the law. Where shareholders of our Company abuse our Company's position as an independent legal person and the limited liability of shareholders for the purposes of evading repayment of debts, thereby materially impairing the interests of the creditors of our Company, such shareholders shall be jointly and severally liable for the debts owed by our Company.
- (V) To fulfill other obligations as stipulated by laws, administrative regulations and Articles of Association hereof.

As the subscriber of the shares, shareholders shall bear no other additional capital stock responsibilities except those conditions during the subscription.

Shareholders holding more than 5% of the voting shares of our Company shall report to our Company in written on the day of the occurrence where they take their shares as the pledge. Our Company shall notify CSRC departments in the place where our Company is located within 5 working days after they get to know the above circumstance.

Where shareholders holding more than 5% of the voting shares of our Company commit any act that is illegal or in violation of any regulations, including make any fraudulent or false capital contributions, illegally take away the contribution capital or take away the contribution capital in other forms, our Company shall report to the local offices of CSRC in the place where our Company is located within 10 working days and shall demand relevant shareholders to make corrections within 1 month.

Without the approval of CSRC, any institution and individuals shall not hold more than 5% of shares of our Company directly or indirectly, otherwise correction shall be made within the deadline, and the corresponding shares held prior to the correction have no voting rights.

The following is not allowed between our Company and the shareholder (or the affiliated party of the shareholder) if:

- (I) our Company holds the stock rights of any shareholder, unless otherwise prescribed by relevant laws, administrative regulations or CSRC;
- (II) our Company transfers illegal interests to shareholders through the procurement of securities from shareholders;
- (III) shareholders take the properties of our Company illegally;
- (IV) there is other act forbidden by laws, administrative regulations or CSRC. The controlling shareholder and de facto controllers of our Company shall not use the connected relations to damage the interests of our Company; otherwise, they shall make compensation for the loss incurred by our Company.

The controlling shareholder and actual controllers owe a duty of good faith toward our Company and the public stock shareholders. The controlling shareholder shall strictly comply with laws and regulations while exercising their rights as investors, and shall be prevented from damaging our Company's or the public stock shareholders' legal rights and interests, through means such as profits distribution, assets restructuring, oversea investment, capital occupation, and loan guarantee or from taking advantage of their controlling position to damage the benefits of our Company and the public stock shareholders.

Besides the obligations as stipulated in laws, administrative regulations and other listing rules issued by the stock exchange for the listing of our Company's stocks, the controlling shareholder of our Company shall not make decisions on the following issues that would damage the interests of all or some shareholders during the exercising of the voting rights:

- (I) dismissal of any Director or Supervisor shall be for sincerely the sake of the maximum interests of our Company;

- (II) approval of any Director or Supervisor on deprivation of property of our Company out of their own interests or other persons' interests, including (but not limited to) any beneficial opportunities for our Company;
- (III) approval of any Director or Supervisor on deprivation of the personal rights of other shareholders property (out of their own interests or other persons' interests), including, but not limited to) any distribution rights, voting rights. However, company re-structuring approved by the general meeting based on the Articles of Associations is excluded.

GENERAL PROVISIONS FOR GENERAL MEETINGS

The general meeting shall be the authority of power of our Company and shall exercise the following functions and powers according to law:

- (I) To decide the business operation guideline and investment plan for our Company;
- (II) To elect and change Directors and Supervisors who are not employees' representatives, and resolve on the remunerations of Directors and Supervisors;
- (III) To examine and approve reports of the Board;
- (IV) To examine and approve reports of the Supervisory Committee;
- (V) To examine and approve the annual financial budgets and final accounting plans of our Company;
- (VI) To examine and approve our Company's profit distribution plan and loss recovery plan;
- (VII) To resolve on increase or decrease of the registered capital of our Company;
- (VIII) To resolve on issuance of bonds of our Company;
- (IX) To resolve on the merger, division, dissolution, liquidation or transformation of our Company;
- (X) To amend the Articles of Association hereof;
- (XI) To resolve on the appointment or dismissal of the accounting firms by our Company;
- (XII) To examine and approve the guarantees of our Company as stipulated in Article 68;
- (XIII) To consider our Company's purchase or disposal of major assets within one year with the aggregate transaction amount exceeding 30% of the latest audited total assets of our Company;

- (XIV) To examine and approve matters relating to the changes in the use of proceeds;
- (XV) To consider equity incentive scheme;
- (XVI) To consider and approve proposals submitted by shareholders individually or jointly holding more than 3% of the voting shares of our Company;
- (XVII) To consider other matters which are required by laws, administrative regulations, department rules, the listing rules in the place of the securities listing or Articles of Association hereof to be approved at a general meeting.

The above rights of the general meeting shall not be authorized to the Board or other individuals.

Our Company shall not raise funds or guarantee for any shareholder or the affiliated person of any shareholder, and it shall abide by relevant regulations on external guarantees for security companies or listed companies. The following external guarantees to be given by our Company shall be examined and approved by the general meeting:

- (I) Provision of any guarantee when the total amount of any external guarantee by our Company and controlled subsidiaries of our Company equals to or exceeds 50% of the latest audited net assets of our Company;
- (II) Provision of any guarantee when the total amount of any external guarantee by our Company equals to or exceeds 30% of the latest audited total assets of our Company;
- (III) Provision of guarantee to anyone whose liability-asset ratio exceeds 70%;
- (IV) Provision of a single guarantee whose amount exceeds 10% of the latest audited net assets of our Company.

General meetings are classified into annual general meetings and extraordinary general meetings.

The annual general meeting shall be held once every year within six months after the end of the previous financial year.

In any of the following circumstances, our Company shall convene an extraordinary general meeting within two months from the date upon which the circumstance occurs:

- (I) The number of Directors falls short of 5, the quorum stipulated in the PRC Company Law or is less than two thirds of the number specified in the Articles of Association hereof (i.e., the number of Directors is less than 8);
- (II) The unrecovered losses of our Company amount to one third of the total amount of its paid-up share capital;

- (III) If shareholder(s) severally or jointly holding more than 10% of our Company's shares request(s) in writing, the number of shares held by shareholder(s) shall be calculated as at the date on which the shareholders submit the written requisition;
- (IV) The Board considers it necessary;
- (V) The Supervisory Committee proposes to convene such meeting; and
- (VI) Other circumstances stipulated by laws, administrative regulations, department rules or Articles of Association hereof.

The number of shares held by shareholder(s) as stipulated in the above subparagraph (III) shall be calculated as at the date on which the Board receives the written requisition;

CONVENING OF GENERAL MEETINGS

Independent Directors shall be entitled to propose to the Board to convene an extraordinary general meeting. Regarding the proposal of the independent Directors to convene an extraordinary general meeting, the Board shall, pursuant to laws, administrative regulations and Articles of Association hereof, give a written reply on whether to convene the extraordinary general meeting or not within 10 days after receipt of the proposal.

If the Board agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within five days after the resolution is made by the Board. If the Board does not agree to hold the extraordinary general meeting, it shall give the reasons and publish an announcement.

The Supervisory Committee shall be entitled to propose to the Board to convene an extraordinary general meeting, and shall put forward it to the Board in writing. The Board shall, pursuant to laws, administrative regulations and Articles of Association hereof, give a written reply on whether to convene the extraordinary general meeting or not within 10 days after receipt of the proposal.

If the Board agrees to convene the extraordinary general meeting, it will serve a notice of such meeting within five days after the resolution is made by the Board. In the event of changes to the original proposal set forth in the notice, the consent of the Supervisory Committee shall be obtained.

If the Board does not agree to hold the extraordinary general meeting or fails to give a reply within 10 days after receipt of the proposal, it shall be deemed to be unable to perform or fail to perform the duty of convening the general meeting, and the Supervisory Committee may convene and preside over the meeting by itself.

Shareholder(s) severally or jointly holding 10% or more shares of our 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,

administrative regulations and Articles of Association hereof, give a written reply on whether to convene the extraordinary general meeting or not within 10 days after receipt of the proposal.

If the Board agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within five days after the resolution is made by the Board. In the event of changes to the original proposal set forth in the notice, the consent of relevant shareholder(s) shall be obtained.

If the Board does not agree to hold the extraordinary general meeting or fails to give a reply within 10 days after receipt of the proposal, shareholder(s) severally or jointly holding 10% or more shares of our Company shall be entitled to propose to the Supervisory Committee to convene an extraordinary general meeting, and shall put forward such request to the Supervisory Committee in writing.

If the Supervisory Committee agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within 5 days after receipt of the said request. In the event of any change to the original proposal set forth in the notice, the consent of relevant shareholder(s) shall be obtained.

In the case of failure to issue the notice for the general meeting within the term stipulated, the Supervisory Committee shall be deemed as failing to convene and preside over the general meeting. The shareholder(s) severally or jointly holding 10% or more shares of our Company for more than 90 consecutive days may convene and preside over such meeting by itself/themselves.

Where the Supervisory Committee or shareholders convene a general meeting by itself/themselves, it/they shall notify the Board in writing and file with the local office of the CSRC in the place where our Company is located and the Shanghai Stock Exchange.

The shareholding of shareholders who convene the general meeting shall be no less than 10% before a resolution passed at the general meeting is announced.

The convening shareholders shall, when the notice of general meeting is issued and a resolution made at the general meeting is announced, submit relevant evidential documents to the local office of the CSRC in the place where our Company is located and the Shanghai Stock Exchange.

With regard to the shareholder's meetings convened by the Supervisory Committee or by the shareholder themselves, the Board and the secretary of it will cooperate with. The Board shall provide the register of shareholders as of the equity right registration date.

For the shareholder's meeting convened by the Supervisory Committee or the convened by the shareholder themselves, the expenses necessary for the meeting shall be borne by our Company. Where the Board failed to held the meeting in accordance with the requirements of the foregoing terms leading to the convening of shareholder's meeting by the shareholder themselves, our Company shall pay all the necessary expenses, with such expenses deducted from the payment that our Company owes to the Directors who neglected his/her duty.

PROPOSALS OF GENERAL MEETINGS

Where our Company convenes a general meeting or meetings of the Board and the Supervisory Committee, shareholder(s) severally or jointly holding 3% or more shares of our Company may make proposals to our Company.

Shareholder(s) severally or jointly holding no less than 3% shares of our Company may submit written provisional proposals to the convener 10 days before a general meeting is convened. The convener shall serve a supplementary notice of general meeting within 2 days after receipt of a proposal, and announce the contents of the proposal on the agenda.

Except as specified in the preceding paragraph, the convener shall not change the proposal set out in the notice of general meeting or add any new proposal after the said notice announcement is served.

RESOLUTIONS OF GENERAL MEETINGS

Shareholders (including shareholder agents) exercise their voting rights by virtue of the shares with voting rights. Every share carries one vote.

Our Company's Shares held by our Company do not carry any voting rights, and these shares shall not be counted into the total shares with voting rights at the general meeting.

The Board, independent Directors and shareholder meeting the requirements in relevant regulations are entitled to proxy solicitation for voting rights of shareholders.

Resolutions of a general meeting shall be categorized into ordinary resolutions and special resolutions. Ordinary resolutions shall be passed by votes representing more than 1/2 of the voting rights held by shareholders (including proxies thereof) attending the general meeting. Special resolutions shall be passed by votes representing more than 2/3 of voting rights held by shareholders (including proxies thereof) attending the general meeting.

The following issues shall be approved by general resolutions at a general meeting:

- (I) Work reports of the Board and Supervisory Committee;
- (II) Profits distribution plans and loss recovery plans proposed by the Board;
- (III) Appointment of members of Board and Supervisory Committee and their compensations and payment methods;
- (IV) Annual budget plans, final accounting plans, balance sheets, income statements, and other financial statements of our Company;
- (V) Annual reports of our Company;

(VI) Other issues other than those shall be approved by special resolutions as per laws, administrative regulations and the Articles of Association hereof.

All of the following issues shall be approved by special resolutions at a general meeting:

(I) Increase or decrease in the registered capital of our Company; issue of shares of any class, warrants and other similar securities;

(II) Issuance of corporate bonds;

(III) Division, merger, dissolution or liquidation of our Company;

(IV) Amendment to the Articles of Association hereof;

(V) Our Company's purchase or disposal of major assets or provision of guarantees within one year with the transaction amount exceeding 30% of the latest audited total assets of our Company;

(VI) Equity incentive scheme;

(VII) Any other issues specified in the laws, regulations or Articles of Association and confirmed by an ordinary resolution at a general meeting that it may have material impact on our Company and accordingly shall be approved by special resolutions at a general meeting.

When a connected transaction is considered at a general meeting, connected shareholders shall not vote, and the voting shares held by them shall not be counted in the total number of shares with voting rights. The announcement of the resolutions of the general meeting shall fully disclose the voting of non-connected shareholders.

In addition to the cumulative voting system, the general meeting shall resolve on all the proposals separately; in the event of several proposals for the same issue, such proposals shall be voted on in the order of time at which they are submitted. Unless the general meeting is adjourned or no resolution can be made for special reasons such as force majeure, voting of such proposals shall neither be shelved nor refused at the general meeting.

Open ballot voting shall be adopted for the general meeting. Two shareholder representatives shall be elected to participate in the ballot counting and supervision before voting on any proposal at the general meeting. Shareholders or their agents who are stakeholders of the voting issues shall be excluded from the ballot counting or supervision. When votes are casted on proposals at the general meeting, lawyers, representatives of the shareholders and the representative of Supervisors shall be jointly responsible for scrutinizing and counting votes and shall announce the voting results at the meeting. The voting result shall be recorded in the meeting minutes.

SPECIAL VOTING PROCEDURES FOR CLASS SHAREHOLDERS

Holders of different classes of shares are class shareholders. Class shareholders are subject to relevant rights and obligations according to laws, administrative regulations and the Articles of Association hereof. Apart from holders of other classes of shares, holders of domestic shares and overseas listed foreign shares are deemed to be shareholders of different classes.

Any proposed change or annulment by our Company to the rights of class shareholders shall not come into effect unless approved by special resolutions at a general meeting and a general meeting convened by the class shareholders so affected in accordance with relevant provisions.

The following circumstances shall be deemed as change or annulment of the rights of a certain class shareholder:

- (I) To increase or decrease the number of shares of such class, or to increase or decrease the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;
- (II) To change all or part of the shares of such class into shares of another class or to change all or part of the shares of another class into shares of that class or to grant the same conversion rights;
- (III) To cancel or reduce rights to accrued dividends or cumulative dividends attached to shares of the said class;
- (IV) To reduce or cancel rights attached to the shares of the said class to preferentially receive dividends or to receive distributions of assets in a liquidation of our Company;
- (V) To add, cancel or reduce share conversion rights, options, voting rights, transfer rights, pre-emptive placing rights, or rights to acquire securities of our Company attached to the shares of the said class;
- (VI) To cancel or reduce rights to receive payments made by our Company in a particular currency attached to the shares of the said class;
- (VII) To create a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of the said class;
- (VIII) To restrict the transfer or ownership of the shares of the said class or to impose additional restrictions;
- (IX) To issue rights to subscribe for, or to convert into, shares of the said class or another class;
- (X) To increase the rights and privileges of the shares of another class;

- (XI) To restructure our Company in such a way as to cause shareholders of different classes to bear liabilities disproportionately during the restructuring; and
- (XII) To amend or cancel provisions in the section in the Articles of Association.

Where issues specified in subparagraphs (II) to (VIII) and (XI) to (XII) in Article 127 of the Articles of Association herein are involved, the affected class shareholders, whether or not they are entitled to vote at general meetings originally, shall have the right to vote at class meetings. However, interested shareholder(s) shall not be entitled to vote at such class meetings.

Resolutions of a class general meeting shall be approved by votes representing more than two thirds of the voting rights of shareholders of that class present at the meeting who are entitled to vote at the meeting as stipulated in Article 128.

Special voting procedures for class shareholders shall not apply in the following circumstances:

- (I) With the approval by a special resolution at a general meeting, our Company issues and plans to issue, on one or more occasions, a total number of shares not exceeding 20% of each of its existing issued and outstanding domestic shares and overseas listed foreign shares in every twelve months;
- (II) Our Company's plan to issue domestic shares and overseas listed foreign shares at the time of its establishment is completed within fifteen months from the date of approval of the securities regulatory authority under the State Council; and
- (III) With approval of the securities regulatory authority under the State Council, the holders of domestic shares of our Company can transfer their shares to overseas investors and list the said shares on overseas stock exchanges.

DIRECTORS AND THE BOARD

Directors

Directors shall be elected or replaced at general meetings. A Director shall serve a term of three years, and may seek re-election upon expiry of the said term. Independent Directors are the same as other Directors in term of service, however their re-election term shall be no longer than 6 years.

The term of a Director shall be calculated from the date upon which the Director assumes office to the expiry of the current Board. If the term of office of a Director expires but re-election is not made responsively, the said Director shall continue fulfilling the duties as director pursuant to laws, administrative regulations, department rules and Articles of Association until a new Director is elected.

A Director may serve concurrently as the president, the vice president or other senior management.

Directors are not necessarily stock holders of our Company.

Directors shall observe laws, administrative regulations and the Articles of Association herein. Directors shall undertake the following fiduciary duties to our Company:

- (I) Not to abuse their official powers to accept bribes or other unlawful income, and not to expropriate our Company's or customers' property;
- (II) Not to misappropriate assets of our Company or customers;
- (III) Not to open in their own names or in others' names any bank account for the purpose of depositing any of our Company's assets or monies;
- (IV) Not to lend monies of our Company to other persons or provide guarantee for other persons with the property of our Company counter to the Articles of Association herein or without the consent of the general meeting or the Board;
- (V) Not to lend customer funds to others illegally, or provide guarantee for our Company, its shareholders or other institutions or for individual debts by virtue of customers' assets;
- (VI) Not to conclude any contract or conduct any transaction with our Company counter to the Articles of Association hereof or without the consent of the general meeting;
- (VII) Not to take advantage of their positions to seek for themselves or others any business opportunities that are due to our Company, or conduct for themselves or others any businesses similar to those of our Company without the consent of the general meeting;
- (VIII) Not to accept as their own any commission for any transaction with our Company;
- (IX) Not to disclose secrets of our Company;
- (X) Not to use their connected relations to damage the interests of our Company;
- (XI) To fulfill other fiduciary duties stipulated by laws, administrative regulations, department rules and Articles of Association herein.

All income obtained by Directors in violation of the regulations above shall be returned to our Company; all losses incurred by these for our Company shall be compensated.

Directors shall fulfill the following obligations of diligence as pursuant to the laws, administrative regulations and the Articles of Association hereof:

- (I) To exercise the rights conferred by our Company with due discretion, care and diligence to ensure the business operations of our Company comply with PRC laws, administrative regulations and national economic policies and are not beyond the business scope specified in the business license of our Company;

- (II) To treat all shareholders impartially;
- (III) To keep informed of the operation and management conditions of our Company;
- (IV) To initiate and approve periodic reports of our Company and to ensure the truthfulness, accuracy and completeness of the information disclosed by our Company;
- (V) To honestly provide the Supervisory Committee with relevant information, not to prevent the Supervisory Committee or Supervisors from exercising their functions and powers;
- (VI) To fulfill other obligations of diligence stipulated by laws, administrative regulations, department rules and Articles of Association hereof.

Except as specified in the Articles of Association hereof or properly authorized by the Board, no Director shall act on behalf of our Company or the Board in his personal name. If a Director acts in his own name but a third party may reasonably think the said Director is acting on behalf of our Company or the Board, the said Director shall make a prior statement of his standpoint and capacity.

If any Director fails to attend Board meetings in person or by proxy for two consecutive times, the said Director shall be deemed incapable of performing his duties, and the Board shall suggest that the general meeting dismiss the Director.

A Director may resign before his term of office expires. If the number of Directors of the Board falls below the quorum as a result of any resignation, the said Director shall continue fulfilling the duties as Director pursuant to laws, administrative regulations, department rules and Articles of Association hereof until a new Director is elected. Except as provided in the preceding paragraph, a Director's resignation shall be effective when his resignation is served to the Board.

The fiduciary duties borne by our Company and the shareholders are not necessarily released upon expiry of their terms of office, but shall remain effective in a term of 3 year after the expiration. A Director shall complete all of the handover procedures with the Board once his/her resignation becomes effective or his/her term of office expires. The fiduciary duties to our Company and the shareholders are not necessarily released upon expiry of his/her term of office, but shall remain effective in a term of 3 years.

The Board

Our Company shall have a board of directors, which shall be accountable to the general meeting. The Board shall consist of thirteen Directors, including no less than one third of independent Directors and no less than 2 executive Directors. The Board shall appoint one

chairman and vice chairmen. The appointment of the chairman or vice chairmen shall be voted by more than half of the overall Directors in the board.

The Board shall exercise the following functions and powers:

- (I) To convene general meetings and report to general meetings;
- (II) To execute resolutions of general meetings;
- (III) To resolve on our Company's business plans and investment plans;
- (IV) To prepare the annual financial budgets and final accounting plans of our Company;
- (V) To prepare the profit distribution plan and loss makeup plan of our Company;
- (VI) To prepare plans for the increase or decrease of the registered capital of our Company, the issuance of bonds or other securities and the Listing;
- (VII) To formulate plans for material acquisitions, purchase of shares of our Company, merger, division, dissolution or transformation of our Company;
- (VIII) To decide on external investment, acquisition and disposal of assets, asset mortgage, external guarantee, consigned financial management, connected transactions, etc. of our Company within the authority granted by the general meeting;
- (IX) To resolve on the establishment of internal management organizations of our Company;
- (X) To appoint or dismiss our Company's president, and secretary of the Board as nominated by the chairman; to appoint or dismiss our Company's vice president, assistant president, chief financial officer, chief compliance officer and other senior management as nominated by the president and determine their remunerations and rewards and penalties;
- (XI) To set up the basic management system of our Company;
- (XII) To formulate the proposals for any amendment to the Articles of Association hereof;
- (XIII) To manage the disclosure of information by our Company;
- (XIV) To propose to general meetings the appointment or change of the accounting firm acting as the auditors of our Company;
- (XV) To listen to the work report of the president of our Company and examine the president's work;

(XVI) To monitor, review and evaluate the establishment and implementation of our Company's various internal control systems and to be ultimately responsible for the effectiveness of the internal control;

(XVII) To approve the basic system on our Company compliance management, and annual and interim compliance reports, go to the reports of the chief compliance officer and monitor the implementation of the compliance policies;

(XVIII) To exercise other functions and powers as conferred by laws, administrative regulations, department rules or Articles of Association hereof.

The resolutions as prescribed above shall be made if more than half of the Directors vote in favor of them except that those described in subparagraphs (VI), (VII) and (XII) shall be made if more than two thirds of the Directors voted in favor of them.

The Board shall make explanations to the general meeting in relation to the non-standard audit opinions expressed by the registered accountant on the financial reports of our Company.

The Board shall formulate rules of procedure for the Board meetings in order to make sure that the Board shall implement the resolutions made by the general meeting, improve the work efficiency and guarantee scientific decision-making.

The chairman of the Board shall exercise the following functions and powers:

(I) To preside over general meetings, convene and preside over the Board meetings;

(II) To supervise and examine the implementation of the Board resolutions;

(III) To sign important documents of the Board;

(IV) To exercise other functions and powers conferred by the Board.

The notice of an extraordinary meeting of the Board shall be served by: special messenger delivery, letter, fax, e-mail or other means. All Directors shall be noticed 5 days prior to the date of meeting.

A Board meeting shall be attended by more than one half of the Directors. Except as otherwise specified in the Articles of Association hereof, resolutions made by the Board must be passed by more than half of all Directors.

If a Director has connection with the enterprise involved in the resolution made at a Board meeting, the Director shall not vote on the said resolution for himself or on behalf of other directors. The Board meeting may be held when more than half of the non-connected directors attend the meetings. The resolution made at the Board meeting shall be passed by

more than half of the non-connected Directors. If the number of non-connected Directors attending the meetings is less than three, the matter shall be submitted to the general meeting for consideration.

Directors shall attend Board meetings in person. If any Director cannot attend the meeting for any reason, he may authorize in writing another director to act on his behalf.

All resolutions passed at the Board meeting shall be recorded in minutes, which shall be signed by the attending Directors. The minutes of Board meetings shall be kept as our Company's record for a term of 15 years.

Minutes of the Board meeting shall contain the following items:

- (I) Date and time of the meeting, as well as name of the convener;
- (II) Name of the Directors attending the meeting and name of Directors (agents) authorized by other Directors to attend the meeting;
- (III) Conference agenda;
- (IV) Summary of Director speeches;
- (V) Voting methods and results for every resolution (the voting results shall include the number of votes in favor of, against the resolution, and the number of abstention vote).

The Directors shall sign the Board resolutions and be responsible for the resolutions passed at Board meetings. If any resolution made by the Board runs counter to the laws, regulations, Articles of Association hereof and causes any losses to our Company, Directors who vote for the said resolution shall be liable for compensation to our Company. If any Director raises an objection to the resolution and the said objection is recorded in the minutes, the said Director may be exempt from any liability.

Special Committees under the Board

In order to strengthen the functions of the Board, to realize effective supervision on the management by the Board, and to improve the governance structure of our Company, the Risk Management Committee, the Audit Committee, the Remuneration, Nomination and Credentials Committee, and the Strategy and Development Committee are set up by the Board as per the PRC Company Law and relevant regulations from the CSRC. Members of the special committees shall be Directors. More than half of the members of the Audit Committee and the Remuneration, Nomination and Credentials Committee shall be independent Directors, one of whom shall act as the chairman of the committee. The Audit Committee shall at least have one independent Director who has worked as an accountant for more than 5 years. The establishment of special committees under the Board shall be approved at the general meeting.

Secretary of the Board

Our Company shall have a secretary, who is a member of senior management of our Company. The secretary of the Board shall be a natural person with necessary expertises and experiences, and shall be appointed by the Board. The secretary of the Board shall be nominated by the chairman and appointed or dismissed by the Board.

The main duties of the secretary of the Board are:

- (I) Make sure our Company has complete organization files and records;
- (II) Make sure our Company prepares and submits relevant reports and documents as required by relevant authorities;
- (III) To ensure that our Company prepares the shareholders' register and persons who have the right of access to the relevant documents and records of our Company obtain the same in a timely manner;
- (IV) To arrange for general meetings and the Board meetings, keep relevant documents and manage the shareholder data;
- (V) To provide relevant documents, deliver and report relevant messages and disclose relevant information as per laws, regulations, the rules from CSRC, the securities supervision and management authorities in the place for stock listing, and requirements from shareholders, relevant institutions and individuals.

The secretary of the Board shall abide by laws, administrative regulations and relevant provisions as stipulated in the Articles of Association hereof.

A Director or another senior management of our Company may also act as the secretary of the Board. Certified public accountants appointed by our Company shall not concurrently act as the secretary of the Board.

Where a Director is appointed as the secretary of the Board, and act shall involve the Director and the secretary of the Board respectively, and the Director and the same secretary of the Board shall not act in both titles.

General Manager and Other Senior Management

Our Company shall have one president, several vice presidents, assistant presidents and other senior management. The president and the secretary of the Board shall be appointed and dismissed by the Board; while the vice presidents, assistant presidents, chief financial officers, chief compliance officers and other senior management shall be nominated by the president, be appointed or dismissed by the Board.

Members of staff of the controlling shareholder and effective controllers of our Company who serve positions other than Directors shall not serve as senior management of our Company.

The president shall serve a term of three years and may serve consecutive terms upon reappointment.

The president shall be accountable to the Board and exercise the following functions and powers:

- (I) To manage the business operations of our Company, organize and implement the Board's resolutions, and report to the Board;
- (II) To organize and implement our Company's annual plans and investment plans;
- (III) To prepare the plan for the establishment of internal management of our Company;
- (IV) To prepare the plan of the basic management system of our Company;
- (V) To formulate our Company's specific rules;
- (VI) To propose the vice president, assistant president, chief financial officer, chief compliance officer and other senior management as required by the CSRC to the Board for appointment or dismiss;
- (VII) To decide to appoint or dismiss executives other than those appointed or dismissed by the Board;
- (VIII) To formulate plans for the wages, benefits, awards and punishments of the employees of our Company and determine the employment and dismissal of such employees;
- (IX) To propose to the chairman on the approval of the convening of an extraordinary meeting of the Board;
- (X) To make decisions on investment issues within the authorization of the Board pursuant to relevant regulations of the securities supervision and management departments;
- (XI) To exercise other functions and powers conferred in the Articles of Association and by the Board.

The president shall attend the Board meetings. The non-director president enjoys no voting right at Board meetings.

The president shall exercise corresponding functions and rights of a legal representative within the authorization of the Board.

The president shall formulate his/her working rules, which shall come into effect upon approval by the Board.

If any senior management violates the laws, administrative regulations, department rules or Articles of Association in fulfilling his duties for our Company, thereby incurring any loss of our Company or damages of the legal rights of customers, he/she shall be liable for compensation. The Board and Supervisory Committee shall trace the responsibilities internally.

Our Company shall not pay any fines or damages payable by individuals on behalf of any Director, Supervisor or senior management.

Chief Compliance Officer

Our Company shall appoint a chief compliance officer to be responsible for the compliance issues of our Company. He/she shall audit, supervise and examine the compliance of the business management and business actions of our Company and its employees. He/she shall not be appointed for other functions that are in contradiction with compliance management responsibilities. Neither shall he/she manage any department that has any function in contradiction with the compliance management responsibilities. The chief compliance officer shall be responsible for Board and president internally and report to them, and shall report to the supervision authorities externally. Where the chief compliance officer finds any act in violation of any law or regulation or any compliance risk, he/she shall report to the Board and the president promptly, and report to the securities supervision authorities in the place of our Company. In the event that the act in violation of any industry practices or self-disciplinary rules, he/she shall report to the self-disciplinary organization as well.

The Board, Supervisory Committee and senior management of the securities firm shall fulfill the responsibilities involved with compliance management, and take the responsibilities for the effectiveness of the compliance management for our Company.

SUPERVISORS AND SUPERVISORY COMMITTEE

Supervisor

The Supervisors shall obtain relevant qualifications from the CSRC before the appointment. The Directors, president and other senior management, as well as their immediate families or social relations shall not serve as Supervisors of our Company concurrently.

The term of office of a Supervisor shall be three years. Shareholder Supervisors or external shareholder Supervisors shall be elected or replaced at the general meetings, employee Supervisors shall be elected or replaced democratically by employees of our Company. A Supervisor may serve consecutive terms upon expiration of his/her term if re-appointed. Where the general meeting removes a Supervisor before the term expiration, it shall explain the reasons. The removed Supervisor is entitled to state his/her opinions to the general meeting, the CSRC and relevant institutions sent by CSRC.

If the term of office of a Supervisor expires but re-election is not made responsively or if any supervisor resigns during his term of office so that the membership of the Supervisory Committee falls short of the quorum, the said Supervisor shall continue performing the duties as supervisor pursuant to laws, administrative regulations and Articles of Association hereof until a new Supervisor is elected.

Supervisors may be present at Board meetings and make enquiries or proposals in respect of Board resolutions.

Supervisory Committee

Our Company shall have a Supervisory Committee comprising 9 supervisors. The Supervisory Committee shall have one chairman, who shall be appointed or removed by the votes of more than two thirds of the members of the Supervisory Committee, and two external Supervisors. The chairman shall be responsible to convene and host meetings of Supervisory Committee; where the chairman is unable to or fails to fulfill his/her functions, a Supervisor shall be voted by more than half the total Supervisors to convene and host meetings of Supervisory Committee. The Supervisory Committee shall include shareholder representatives and staff representative of proper proportions, and the staff representatives shall account for more than 1/3. The staff representatives in the Supervisory Committee shall be elected at the meetings of staff representatives, the staff meetings or other democratic means.

The Supervisory Committee shall be responsible for the general meeting, and shall exercise the following functions and powers:

- (I) To review the periodic reports of our Company prepared by the Board and express its written opinion;
- (II) To check the financial condition of our Company;
- (III) To monitor and inquire about the performance of duties by Directors and senior management and propose dismissal of Directors and senior management who have violated laws, administrative regulations, the Articles of Association hereof or the resolutions of general meetings; the Supervisory Committee shall report any act in material violation of the laws and regulations of the Board by the Directors and senior management to CSRC or other institutions sent by CSRC;
- (IV) To require Directors and senior management to make corrections before certain deadlines if their conduct has damaged the interests of our Company, Shareholders or customers; the Supervisory Committee shall propose to convene general meetings and to submit special proposals to the general meetings where the damages are serious or the Directors and the senior management fail to make corrections before the deadlines;
- (V) To propose the convening of extraordinary general meetings and, in case the Board does not perform the obligations to convene and preside over the general meetings in accordance with PRC Company Law, to convene and preside over the general meetings;

- (VI) To propose motions to the general meeting;
- (VII) To initiate proceedings against Directors and senior management pursuant to Article 152 of the PRC Company Law;
- (VIII) To review the financial reports, business reports and profit distribution schemes to be submitted by the Board to the general meetings; to conduct investigation if there is any doubt or any unusual circumstances in our Company's operations; and if necessary, to engage an accounting firm, law firm or other professional institutions to assist in their work at the expenses of our Company;
- (IX) To organize off-office auditing for senior management;
- (X) To make special explanations on the financial status or compliance status of our Company to the annual general meeting.

The Supervisory Committee is entitled to present its comments on the proposals to be considered by the general meeting and submit independent reports if it deems necessary.

Meetings of the Supervisory Committee shall be held at least once every six months. Notices of regular meetings of the Supervisory Committee shall be served to all the supervisors 10 days before the meetings. Supervisors may propose the convening of provisional meetings of the Supervisory Committee.

Resolutions of Supervisory Committee

Voting by show of hands or voting in written shall be adopted for the voting by the Supervisory Committee. Resolutions made by the Supervisory Committee shall be approved by more than two thirds of the members of the Supervisory Committee.

The Supervisory Committee shall file resolutions passed at the meeting as minutes, which shall be signed by the attending supervisors and the recorder. Any Supervisor shall be entitled to have an explanatory note made in the minutes regarding his speech at the meeting. The minutes of meetings of the Supervisory Committee shall be kept as our Company's record for a term of 15 years.

Qualifications and Obligations of Directors, Supervisors, General Manager and Other Senior Management

Besides the qualifications of Directors (including independent Directors), Supervisors, or senior management as stipulated in Article 134, 135, 136, 147, and 188 in the Articles of Associations, the following person shall not serve as Director, Supervisor, general manager or other senior management of our Company:

- (I) persons without capacity or with limited capacity of civil conduct;

- (II) persons who have committed offenses relating to corruption, bribery, misappropriation of fund, misappropriation of property or disruption of social economic order and have been sentenced to criminal punishment, where less than five years has elapsed since the date of completion of the sentence, or who have been deprived of their political rights due to a criminal offense, where less than five years has elapsed since the date of restoring their political rights;
- (III) persons who were former directors, factory managers or managers of a company or enterprise which was declared bankrupt and was liquidated and who were personally liable for the bankruptcy of such company or enterprise, where less than three years has elapsed since the date of completion of the bankruptcy and liquidation of the company or enterprise;
- (IV) persons who were legal representatives of a company or enterprise which had its business license revoked and was ordered to close down due to violation of the law and who were personally liable, where less than three years has elapsed since the date of the revocation;
- (V) persons who have a substantial amount of debts due and outstanding;
- (VI) persons who are subject to the CSRC's punishment which prohibits them from entering into the securities market for a period which has not yet expired;
- (VII) persons in charge of stock exchange, securities registration and clearing institutions or directors, supervisors or senior management of securities firms, whose were dismissed for any act against law or relevant discipline where less than five years has elapsed since the date of the removal;
- (VIII) persons who has been convicted by the competent authority for violation of securities regulations by acting fraudulently or dishonestly, where less than five years has elapsed since the date of the conviction;
- (IX) persons who are lawyers, certified public accountants or professionals of investment consulting institutions, financial advising institutions, credit rating institutions, assets valuation institutions or certification institutions, whose qualification was revoked for any act against law or relevant discipline, where less than five years has elapsed since the date of the revocation;
- (X) government officers and other persons who are prohibited by law and administrative regulations from concurrently holding position in a company;
- (XI) persons who were subject to administrative penalties by the financial regulatory department due to material illegal or improper behavior where less than three years has elapsed since the date of completion of the penalties;
- (XII) persons who are disqualified by the CSRC where less than three years has elapsed since the date of disqualification;

- (XIII) persons who are determined to be unfit by the CSRC where less than two years has elapsed since the date of the determination;
- (XIV) persons who are prohibited from acting as a leader of a company by laws or administrative regulations;
- (XV) persons other than a natural person;
- (XVI) persons who are under investigation by the judicial authority for violation of relevant regulations or the criminal law;
- (XVII) other circumstances as stipulated in laws, administrative regulations, department rules or the listing rules in the place of stock listing of our Company.

Besides the above requirements, the following persons shall not assume of the role of independent Directors of our Company:

- (I) Persons employed by our Company or its affiliated companies and their immediate family members and major social connections;
- (II) Persons employed by the following organizations and their immediate family members and major social connections: organizations holding or controlling more than 5% of our Company's issued shares, organizations of the top five corporate shareholders of our Company, or organization with business connections or interest relationship with our Company;
- (III) Natural person shareholders who hold or control more than 1% of the issued shares or natural persons who are the top 10 shareholders of our Company and their immediate family members;
- (IV) Persons providing financial, legal or consulting services to our Company or its affiliated companies, and their immediate family members;
- (V) Persons who fell within the four aforesaid categories within the preceding year;
- (VI) Persons holding positions other than independent directors in other securities firms;
- (VII) Other persons unfit to serve as independent directors upon confirmation by the CSRC.

Where the independent Director fits any of the above description, our Company shall remove him/her from the title.

Any election, designation or appointment of Directors, Supervisors, the president or other senior management in violation of this provision shall be invalid. Our Company shall dismiss the Director, Supervisor, the president or other senior management if they are involved in the said circumstances during their respective term of office.

The validity of an act of a Director, the president or other senior management on behalf of our Company for a bona fide third person is not affected by any incompliance in the appointment, election or qualification thereof.

In fulfilling their duties, the Directors, Supervisors, the president and other senior management must observe the principle of honesty and shall not set themselves in a position where their own interests conflict with their obligations. The said principle includes (but not limited to) the following obligations:

- (I) To sincerely act in the best interest of our Company;
- (II) To exercise their rights within their terms of reference;
- (III) To exercise personally the discretion vested in them and not to allow themselves to be controlled by others and, except as permitted by laws or administrative regulations or with the informed consent of shareholders given at a general meeting, not to transfer the exercise of their discretion to others;
- (IV) To be equitable towards shareholders of the same class and fair towards shareholders of different classes;
- (V) Not to conclude any contract, conduct any transaction or make any arrangement with our Company saved as otherwise specified in the Articles of Association or with the informed consent of shareholders given at a general meeting;
- (VI) Not to seek personal gains by using the property of our Company in any form without the informed consent of shareholders given at a general meeting;
- (VII) Not to abuse official powers to accept bribes or other unlawful income, and not to expropriate our Company's property in any form, including (but not limited to) opportunity favorable to our Company;
- (VIII) Not to accept commissions in connection with our Company's transactions without the informed consent of shareholders given at a general meeting;
- (IX) To observe the Articles of Association, fulfill duties honestly, protect the interests of our Company, and not to seek personal gains by using their positions and powers in our Company;
- (X) Not to compete with our Company in any form without the informed consent of shareholders given at a general meeting;
- (XI) Not to appropriate the monies of our Company or lend the same to others, not to deposit our Company's assets in the accounts of their own or others, and not to use our Company's assets as security for the personal debts of the shareholders of our Company or others;

(XII) Not to disclose any confidential information related to our Company acquired by them during the term of their office without the informed consent of the shareholders at a general meeting; not to use the said information save for the interest of our Company; however, they may disclose such information to a court or other governmental regulatory authorities in the following circumstances:

1. As required by law;
2. As required for the interests of the public; and
3. As required for the interests of the said Directors, Supervisors, the general manager and other senior management.

The fiduciary duties of Directors, Supervisors, the president and other senior management shall not end with the expiry of their terms of office, and their confidentiality obligation in respect of any commercial secrets of our Company shall continue after expiry of their terms of office. Other duties may continue for such period as the principle of fairness may require depending on the amount of time which has lapsed between the termination and the act concerned and the specific circumstances and conditions under which the relationship between them and our Company was terminated.

If the Directors, Supervisors, the president and other senior management of our Company have any direct or indirect material interests in any contract, transaction or arrangement already concluded or proposed contract, transaction and arrangement with our Company (exclusive of appointment contracts signed by our Company with Directors, Supervisors, the president and other senior management), they shall responsibly disclose the nature and extent of the said interests to the Board regardless whether the relevant matters are subject to approval by the Board in normal circumstances.

Our Company shall not pay taxes for its Directors, Supervisors, the president and other senior management by any means.

Our Company shall not directly or indirectly provide loan or loan guarantee to the Directors, Supervisors, the president and other senior management of our Company or its parent company, or to the related persons of the aforesaid persons except when:

- (I) Our Company provides loan or loan guarantee for its subsidiaries;
- (II) Our Company, in accordance with the appointment contracts approved at the general meeting, provides loan, loan guarantee or other monies to the Directors, Supervisors, the president and other senior management of our Company so that they may pay the expenses incurred for our Company or for fulfilling their duties;
- (III) If the normal business scope of our Company includes provision of loan and loan guarantee, our Company may provide loan and loan guarantee to the relevant Directors, Supervisors, the president and other senior management and their connected persons, but the conditions for providing loan or loan guarantee shall be normal commercial terms.

If our Company provides loan in violation of the said provision, the recipient of the loan shall return the same immediately regardless of the loan conditions.

If the Directors, Supervisors, the president or other senior management violate the obligations to our Company, our Company shall be entitled to take the following actions in addition to the rights and remedial measures under the relevant laws and administrative regulations:

- (I) require the Directors, Supervisors, the president or other senior management to compensate our Company for the losses arising from their negligence;
- (II) rescind the contracts or transactions concluded between our Company and the Directors, Supervisors, the president or other senior management of our Company, or between our Company and a third person (if the third person knows or is supposed to know that the Directors, Supervisors, the president or other senior management representing our Company have breached their obligations to our Company);
- (III) require the relevant Directors, Supervisors, the president or other senior management to surrender gains arising from breach of obligations;
- (IV) recover monies, including (but not limited to) commissions, received by the relevant Directors, Supervisors, the president or other senior management but receivable by our Company;
- (V) require the relevant Directors, Supervisors, the president or other senior management to surrender interests earned or likely to be earned from monies payable to our Company.

Our Company shall conclude written contracts with Directors and Supervisors in relation to their remunerations, subject to prior approval at a general meeting.

Our Company shall specify in the contracts concluded with the Directors or Supervisors in relation to remunerations that if our Company is acquired, the Directors or Supervisors of our Company shall be entitled to seek compensations or other monies for losing their positions or for retirement under the conditions approved at the general meeting.

FINANCIAL AND ACCOUNTING SYSTEMS, PROFIT DISTRIBUTION AND AUDIT

Financial and Accounting Systems

Our Company shall formulate its financial and accounting systems in accordance with laws, administrative regulations and requirements of relevant PRC authorities.

The financial statements of our Company shall be prepared in accordance with not only PRC accounting standards and regulations, but also the international accounting standards or the accounting standards of the overseas place where our Company's shares are listed. If the financial statements prepared under the two accounting standards are discrepant significantly,

such discrepancy shall be indicated in the notes to the financial statements. Our Company shall distribute the after-tax profit of the relevant financial year as per the less of the after-tax profits in the aforesaid two financial statements.

The interim results or financial data announced or disclosed by our Company shall be prepared in accordance with the PRC accounting standards and regulations as well as the international accounting standards or the accounting standards of the overseas place where our Company's shares are listed.

Our Company shall publish two financial reports each financial year, i.e. interim financial report announced within 60 days after the end of the first six months of the financial year and the annual financial report announced within 120 days after the end of the financial year.

The Board shall, at each annual general meeting, submit to the shareholders the financial reports which shall be prepared by our Company as required by relevant laws, regulations or regulatory documents.

Our Company shall not establish account books other than the statutory account books. The assets of our Company shall not be deposited in any personal account.

Profit Distribution

During the distribution of its after-tax profit for the current year, our Company shall withdraw 10% after-tax profit as statutory common reserve fund, and withdrawing trading risk reserves and general risk reserves in accordance with relevant regulations.

Our Company may not withdraw statutory common reserve fund if the cumulative amount has exceeded 50% of our Company's registered capital. Where the statutory common reserve fund of our Company is not sufficient to recover its losses in the previous years, the profits of the current year shall be used to make up the loss before the withdrawing of the statutory common reserve fund in accordance with the above provisions.

After the withdrawing the statutory common reserve fund from the after-tax profit by our Company, the discretionary reserve may be withdrawn from the after-tax profit with the approval from the general meeting.

The after-tax profit after makeup of the loss and withdrawing of the reserves, shall be distributed to shareholders based on the share holding proportions by them.

If the general meeting distributes profits to shareholders before our Company recovers losses and withdraws statutory common reserve fund, in violation of relevant provisions, shareholders must return to our Company the profits so distributed.

The shares of our Company held by our Company shall not be subject to profit distribution.

Reserves are used to recover losses of our Company, to expand the business scopes and to increase capital of our Company. However, the capital reserves shall be used to recover losses of our Company. Capital reserves include the following:

- (I) Premium arising from issue above the par value of the stock;
- (II) Other revenues required by the financial authority under the State Council to be stated as capital reserve.

Upon the conversion of statutory common reserve into capital, the balance of the statutory common reserve shall not be less than 25% of the registered capital of our Company before such conversion.

After a resolution is reached by the general meeting on profits distribution plans, the Board shall complete the dividends (or shares) distribution within 2 months after the convening of the general meeting.

The profit distribution policies of our Company are as follows: our Company adopts consistent and stable profit distribution policy and our Company shall attach importance to the reasonable returns to investors in its profit distribution. Our Company may distribute dividends by way of cash, stock shares or a combination of both. The cash distribution is superior to the stock share distribution. Generally speaking, our Company adopts annual dividends distribution. Interim cash distribution is allowed under reasonable conditions. When our Company does not have material investment plan or material cash expenditure, the profits distributed by our Company in cash shall not be less than 10% of the distributable profits of the same year under the premise that the normal capital demands for general operation are met, and the profits distributed by our Company in cash on a cumulated basis in any consecutive three years shall not be less than 30% of the average annual distributable profits achieved in such three years. Subject to the condition that our Company meets the proportion of cash dividends for distribution, our Company may make profit distributions in the form of share dividends.

The decision procedures for profits distribution: the profit distribution plan of our Company shall meet relevant regulations. It shall be a long-term and sustainable plan by taking the operation and development of our Company, shareholder willing, social capital costs, external financing environments into comprehensive consideration. The profit distribution plan of our Company shall be submitted to the general meeting for approval after independent opinions are expressed by independent Directors and it is approved by the Board. During the examination and approval of the cash dividend distribution plan at the general meeting, all channels shall be used to strengthen the communication with shareholders, especially medium and small sized shareholders, to fully consider their opinions and demands.

The decision procedures for the adjustment of the profit distribution policy: where it is necessary to adjust the profit distribution policy due to material variations in the external operation environments or the operation statues in our Company itself, the reasons shall be explained and presented fully under the premise of protection of shareholder interests. The adjustment plan shall not be submitted to the general meeting for approval before it is approved by the Board and more than half of the independent Directors with independent

opinions expressed. On-site voting in the meeting and on-line voting shall be combined during the examination and approval of adjustment on the profit distribution resolution at the general meeting. It shall only be approved if more than 2/3 of the present shareholders (including shareholder agents) with voting rights vote in favor of the adjustment.

Any amount paid up in advance of calls on any shares may bear interest but shall not entitle the holder of the shares to participate in respect thereof in a dividend subsequently declared.

Subject to the relevant PRC laws, regulations, rules and normative documents, our Company may exercise the power to forfeit unclaimed dividends, provided that it does so only after the expiration of the applicable relevant period.

Our Company has the power to cease sending dividend warrants by post to a given holder of overseas listed foreign shares, but may exercise such power only if such warrants have been left uncashed on two consecutive occasions. However, our Company may exercise such power after the first occasion on which such a warrant is returned undelivered.

Our Company has the power to sell by a method deemed fit by the Board the shares of a holder of overseas listed foreign shares who is untraceable, provided that it complies with the following conditions:

- (I) our Company has distributed dividends on such foreign shares for at least three times in 12 years, which dividends are not claimed by anybody during the period;
- (II) upon expiration of the 12-year period, our Company makes an announcement of its intention to sell such shares in one or more newspapers, and notify the local securities regulatory authority, at the place where the stock of our Company is listed.

Where our Company is granted the power to seize any dividends not claimed by anybody, this power may not be exercised until at least six years following the date that the dividends are announced.

Our Company shall appoint collection agents for holders of overseas listed foreign shares. The collection agents shall, on behalf of the related shareholders, collect dividends and other payables distributed by our Company for the overseas listed foreign shares.

The collection agents appointed by our Company shall meet the requirements in local laws or in relevant stock exchange regulations in the place of listing.

The collection agents appointed by our Company for holders of overseas listed foreign shares which are listed in Hong Kong shall be trust companies registered pursuant to the Trustee Ordinance of Hong Kong.

Internal Audit

Our Company maintains internal audit system. Full-time auditors shall be employed to audit and supervise the financial incomes and expenditures and other economic activities.

Our Company's management shall be responsible for the establishment of our Company's internal audit system and duties of the auditors which are subject to the approval of the Board. The internal audit departments shall be accountable to the Board and report his work to the president and the Supervisory Committee of our Company.

APPOINTMENT OF ACCOUNTING FIRM

Our Company shall appoint an accounting firm with the "qualification to engage in securities related business" to audit the financial statements, verify the net assets and provide other related consulting services. The appointment shall last 1 year and is able to be renewed upon expiration.

The accounting firm appointed by our Company shall be approved at the general meeting. The Board shall not be allowed to appoint any accounting firm before any decision is made at the general meeting.

The accounting firm appointed by our Company shall have the following rights:

- (I) to access the account books, records and vouchers at any time, and to ask the Directors, presidents or other senior management to provide relevant documents and explanations;
- (II) to require our Company to take all reasonable steps to obtain from its subsidiaries any information and explanations necessary for the discharge of its duties;
- (III) to be present at general meetings, get notice of general meeting or other information relating to general meetings, and deliver speeches at general meetings in relation to the matters concerning the accounting firm of our Company.

Regardless of the terms in the contract concluded between the accounting firm and our Company, the general meeting may, through an ordinary resolution, dismiss the said accounting firm before expiry of the term thereof. In the event of any rights claimed by the accounting firm against our Company, the said rights shall not be affected.

The remunerations of the accounting firm or the method for determining the same shall be subject to the decision of the general meeting. The remunerations of the accounting firm appointed by the Board shall be determined by the Board.

Where our Company proposes to dismiss or cease to re-appointing the accounting firm, a thirty-day prior notice shall be given to the accounting firm, and the accounting firm shall be entitled to state its opinions to the general meeting before the voting on the dismissal of the accounting firm.

Where the accounting firm tenders its resignation, it shall state to the general meeting whether our Company has anything inappropriate.

The accounting firm may resign by placing a written notice of resignation at the legal address of our Company. The notice shall be deemed served on the later one of the day of the placement of the written notice at the legal address and the date stipulated in the notice. The notice shall include the following statements:

- (I) a statement that its resignation does not involve any information to be disclosed to the shareholders or creditors of our Company;
- (II) a statement that any information is to be disclosed.

Our Company shall send the copy of the notice to relevant authorities within 14 days after it receives the written notice. Where the notice contains any statements as described in the above two subparagraphs, our Company shall keep one copy of such statements in our Company for reference by shareholders. Unless otherwise prescribed in the Articles of Association hereof, our Company shall send the above statements copies to all shareholders entitled to the access of the financial statements in postage paid mail. The addresses of the recipients shall be those on the Shareholders' register.

If the notice of resignation of the accounting firm contains a statement that any information is to be disclosed, the accounting firm may require the Board to convene an extraordinary general meeting to listen to its explanation about the resignation related issues.

NOTICE AND ANNOUNCEMENT

Notices of our Company shall be sent via one or a number of the following methods:

- (I) by personal delivery;
- (II) by post;
- (III) by announcement;
- (IV) by facsimile;
- (V) by e-mail;
- (VI) by making announcement on the website designated by our Company and stock exchanges in accordance with laws, regulations, and the listing rules at the location where our Company's shares are listed;
- (VII) by other means agreed before between our Company and the recipient or approved by the recipient after receiving notice;
- (VIII) by other means approved by the relevant regulatory authorities at the location where our Company's shares are listed or specified in the Articles of Association hereof.

As for our Company's communications provided or sent to the H share-holders based on the Hong Kong Listing Rules, our Company's communications are allowed to be provided or sent to H share-holders by ways specified by our Company and/or by the website of the Hong Kong Stock Exchange or by e-mail under the conditions that the laws and regulations, and the listing rules in the place of listing and the Articles of Association are met.

Our Company's communications as stipulated in the preceding article refer to any documents sent or will be sent by our Company for the reference or on which to base the actions by any H share-holder of our Company or any other persons as required in the Hong Kong Listing Rules, including, but not limited to:

1. Annual statements of our Company (including board statements, company annual statements, audit statements and summarized financial statements (if applicable));
2. Interim statements of interim summarized statements (if applicable);
3. Conference notices;
4. Listing documents;
5. Correspondences;
6. Appointment forms (appointment forms refer to those stipulated in the listing rules of the stock exchange in the place of stock listing of our Company).

In the event that the rights described in the Articles of Association are exercised, the announcement shall be published on the basis of the methods in the Hong Kong Listing Rules.

As for joint holders, it is only necessary by our Company to deliver or send the notice, data or other documents to one of the joint holders.

Where a notice of our Company is served by announcement, the aforesaid notice shall be deemed as received by the relevant persons once it is announced.

In the case where the listing rules of the place where our Company's shares are listed require our Company to send, post, dispatch, issue, publish or otherwise provide the relevant documents of our Company in both the English version and the Chinese version, if our Company has made appropriate arrangements to confirm whether its shareholders wish to receive the English version only or the Chinese version only, our Company may, to the extent permitted under the applicable laws and regulations, only send the English version or the Chinese version of such documents to the relevant shareholder (in accordance with the intention expressed by the shareholder).

The accidental omission to give notice of a meeting to, or the failure to receive the notice of a meeting by any person entitled to receive such notice, shall not invalidate the meeting or the resolutions passed thereat.

MERGER, DIVISION, CAPITAL INCREASE AND REDUCTION, DISSOLUTION AND LIQUIDATION**Merger, Division, Capital Increase and Reduction**

In respect of the merger or division of our Company, the Board shall propose a plan and have it adopted following the procedure specified in the Articles of Association, and go through relevant examination and approval formalities pursuant to laws. Any shareholder objecting to merger or division of our Company shall be entitled to require our Company or the shareholders approving merger or division of our Company to buy his shares at a fair price.

In the event of merger of our Company, the parties concerned shall conclude a merger agreement and prepare balance sheets and property inventories. Our Company shall notify its creditors within 10 days and make a public announcement in a newspaper within 30 days after the date of our Company's merger resolution. The creditors may require our Company to repay debts or provide corresponding guarantees within 30 days after receipt of the notice or within 45 days after the announcement if the creditors haven't received the notice.

The credits and debts of our Company upon merger shall be inherited by our Company subsisting after merger or by the newly established company.

Where our Company is divided, its properties shall be divided accordingly.

In the event of division of our Company, a balance sheet and a property inventory shall be prepared. Our Company shall notify its creditors within 10 days and make a public announcement in a newspaper or otherwise within 30 days after the date of our Company's division resolution.

The companies after division shall bear joint liability for the debts of our Company before division, except as otherwise specified in the written agreement on debt repayment reached between our Company and its creditors before division.

Where our Company finds it necessary to reduce its registered capital, it must formulate its balance sheet and property inventory.

Our Company shall, notify its creditors within 10 days and make a public announcement in a newspaper or otherwise within 30 days after the date on which it decides to reduce its registered capital. The creditors may require our Company to repay debts or provide corresponding guarantees within 30 days after receipt of the notice or within 45 days after the announcement if the creditors haven't received the notice.

The reduced registered capital of our Company shall not be lower than the minimum prescribed by law.

Change in registered particulars arising from merger or division of our Company shall be registered with our Company registration authority according to law. If our Company is dissolved, it shall be deregistered according to law. If a new company is established, such establishment shall be registered according to law.

Our Company shall process the variations at our Company registration authorities legally in the case of increase or decrease of the registered capital.

The merger, division, increase or decrease of registered capital by our Company is subject to the approval of CSRC.

Dissolution and Liquidation

Our Company shall be dissolved and liquidated upon the occurrence of any one of the following events:

- (I) the term of business operation stated in the Articles of Association hereof expires or our Company is dissolved due to other causes stated in the Articles of Association hereof;
- (II) the general meeting have resolved to dissolve our Company;
- (III) merger or division of our Company entails dissolution;
- (IV) our Company is legally declared insolvent due to its failure to repay due debts;
- (V) the business license is revoked or it is ordered to close down or be dissolved in accordance with the law;
- (VI) when serious difficulties occur to our Company's operation and management and significant losses will be incurred to the shareholders by its continuance, and such difficulties cannot be solved by other means, the shareholders holding more than 10% of the total voting rights of all the shareholders may request the people's court to dissolve our Company.

In the circumstance set out in (I) above, our Company may continue to subsist by amending the Articles of Association hereof. If our Company is dissolved pursuant to (I), (II), or (VI) above, it shall establish a liquidation committee within 15 days after the dissolution circumstance arises to commence the dissolution. The liquidation committee shall comprise members determined by directors or at a general meeting. If the liquidation committee is not duly set up, the creditors may request the people's court to designate related persons to form a liquidation committee to carry out liquidation.

Upon the passing of the resolution by the shareholders in a general meeting in relation to the liquidation, all functions and powers of the Board of our Company shall immediately cease.

During the liquidation period, the liquidation committee shall exercise the following functions and powers:

- (I) to inform creditors by notice or announcement;
- (II) to examine and take possession of our Company's assets and prepare the balance sheet and a property inventory;
- (III) to deal with the outstanding businesses of our Company relating to liquidation;
- (IV) to pay outstanding taxes and the taxes arising during liquidation;
- (V) to settle claims and debts;
- (VI) to dispose of the remaining assets of our Company after repayment of debts;
- (VII) to represent our Company in civil proceedings to which it is a party.

The liquidation committee shall notify all creditors within 10 days after its establishment and shall make a public announcement in a newspaper or otherwise within 60 days. The creditors shall declare their rights to the liquidation committee within 30 days after receipt of the notice or within 45 days after announcement if the creditors have not received the notice.

The creditors shall explain matters relating to their rights and provide relevant evidential documents. The liquidation committee shall register the creditor's rights.

In the creditor's rights declaration period, the liquidation committee shall not make repayment to the creditors.

After the liquidation committee has examined and taken possession of the assets of our Company and prepared a balance sheet and a property inventory, it shall formulate a liquidation proposal and submit it to the general meeting or the people's court for confirmation.

Our Company shall, in proportion to the shares held by the shareholders, distribute the properties of our Company remaining after successive payment of the liquidation expenses, employees' salaries, social insurance expenses and statutory compensations, outstanding taxes, and our Company's debts.

During the liquidation period, our Company continues to exist but cannot carry out operating activities irrelevant to the liquidation. Our Company's property will not be distributed to the shareholders before repayment according to the preceding provision.

After the liquidation committee has examined and taken possession of the assets of our Company and prepared a balance sheet and a property inventory, if it discovers that our Company's assets are insufficient to repay its debts in full, it shall apply to the people's court to declare our Company bankrupt pursuant to law.

Following a ruling by the people's court that our Company is bankrupt, the liquidation committee shall transfer to the people's court all matters relating to the liquidation.

After completion of liquidation of our Company, the liquidation committee shall prepare liquidation reports, shall submit the same to the general meeting or the people's court for confirmation. The liquidation committee shall, within 30 days after the confirmation of the relevant competent authority, submit the documents referred to in the preceding paragraph to our Company registration authorities and apply for cancellation of registration of our Company, and publish an announcement relating to the termination of our Company.

The dissolution, liquidation, and application for bankruptcy in the people's court shall be subject to the approval of the CSRC.

Amendment to the Articles of Association

Our Company shall amend the Articles of Association in any of the following circumstances:

- (I) after amendments are made to Company Law or other relevant laws and administrative regulations, rules and other regulatory document, and the Articles of Association hereof becomes contradict to the said amendments;
- (II) the conditions of our Company have changed, and such change is not covered in the Articles of Association; and
- (III) the general meeting has resolved to amend the Articles of Association hereof.

The particulars of amendment adopted by way of resolutions at a general meeting that shall be reviewed and approved by the competent authority are required to be reported to the competent authority for approval; if the amendment involves the Mandatory Provisions, no amendment shall come into effect until it is approved by the examination and approval departments authorized by the State of Council and by the CSRC. If it involves registration of our Company, the involved change shall be registered pursuant to law.

Resolution of Disputes

Our Company shall comply with the following principles for dispute resolution:

- (I) Whenever any disputes or claims arise between: holders of overseas listed foreign shares and our Company; holders of overseas listed foreign shares and our Company's directors, supervisors, president or other senior management; or holders of overseas listed foreign shares and holders of domestic shares, in relation to the affairs of our Company arising as a result of any rights or obligations arising from the Articles of Association, our Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred by the relevant parties to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall, where such person is our Company or our Company's shareholders, directors, supervisors, president or other senior management, comply with the decisions made in the arbitration.

Disputes in respect of the identification of shareholders and disputes in relation to the register of shareholders need not to be resolved by arbitration.

- (II) A claimant may elect for arbitration to be carried out at either at the China International Economic and Trade Arbitration Commission in accordance with its Rules or at the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules.

Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral institution elected by the claimant.

If a claimant elects for arbitration to be carried out at the Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

- (III) If any disputes or claims of rights as set out in item (I) are settled by means of arbitration, the laws of the PRC shall apply, unless otherwise provided in the laws and administrative regulations.
- (IV) The arbitration award of an arbitral institution shall be final and conclusive and binding on parties thereto.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation**

On April 23, 1996, our Company was duly established as a limited liability company under the name of Everbright Securities Limited (光大證券有限責任公司). On July 14, 2005, our Company converted into a joint stock company and changed its name to Everbright Securities Company Limited (光大證券股份有限公司). On August 18, 2009, our Company's A shares was listed on the Shanghai Stock Exchange through an initial public offering.

Our Company's current registered address is No. 1508, Xinzha Road, Jing'an District, Shanghai, PRC. It has established a place of business in Hong Kong at 24/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong and registered as a non-Hong Kong company in Hong Kong on June 29, 2015 under Part 16 of the Hong Kong Companies Ordinance. Ms. Guo Xiaoyan has been appointed as our Company's authorized representative for the acceptance of service of process and notices in Hong Kong. The address for service of process on our Company in Hong Kong is the same as our principal place of business in Hong Kong. As our Company was established in the PRC, we are subject to the relevant laws and regulations of the PRC and our Articles of Association. Certain aspects of the PRC laws and regulations and a summary of certain provisions of our Company's Articles of Association are set out in Appendices IV and V to this prospectus, respectively.

2. Changes in the Share Capital of our Company

On April 23, 1996, Everbright Limited was established with initial registered capital of RMB250,000,000.

On November 5, 1997, our Company's registered capital increased to RMB500,000,000.

On September 29, 2002, our Company's registered capital increased to RMB2,600,000,000.

On July 14, 2005, our Company converted into a joint stock company with registered capital reduced to RMB2,445,000,000.

On May 29, 2007, our Company's registered capital increased to RMB2,898,000,000.

On August 18, 2009, our Company was listed on the Shanghai Stock Exchange through an initial public offering of issuing 520,000,000 A Shares at RMB21.08 per share. As a result, on December 29, 2009, our Company's registered capital was increased to RMB3,418,000,000.

On September 1, 2015, we completed the change of registration procedures for securities sold in a private placement to certain investors. In this private placement, we issued a total of 488,698,839 A Shares to seven investors for RMB16.37 per share. As a result, our registered capital increased to RMB3,906,698,839 comprising 3,906,698,839 Shares.

Upon completion of the Global Offering, but without taking into account any exercise of the Over-allotment Option, our Company's registered capital will increase to RMB4,586,698,839, comprising 3,906,698,839 A Shares and 680,000,000 H Shares fully paid up or credited as fully paid up, representing approximately 85.17% and 14.83% of our Company's registered capital, respectively.

3. Shareholders' Resolutions

At a general meeting held on April 28, 2015, our Company's Shareholders resolved, among other things, that:

- (a) the issue of the H Shares by our Company with a nominal value of RMB1 each and the Listing on the Hong Kong Stock Exchange be approved. The proposed number of H Shares to be offered must not exceed 680,000,000 shares (assuming the Over-allotment Option is not exercised) and the number of H Shares to be issued if the Over-allotment Option is fully exercised must not exceed 100,000,000 shares;
- (b) the Articles of Association be approved and become effective on the Listing Date;
- (c) the Board and the authorized persons of the Board be authorized to draft, amend, sign and submit the applications, relevant reports or materials relating to the proposed listing of H Shares to the relevant authorities in the PRC and the Hong Kong Stock Exchange and to deal with approval, registration, filing, verifications or other formalities; and
- (d) the Board and the authorized persons of the Board be authorized to do any acts and things relating to the Global Offering and the Listing.

4. Our Subsidiaries and Interests in Other Companies

Details of our subsidiaries, associates and joint ventures (for the purpose of the Hong Kong Listing Rules) are set out in the Accountants' Report in Appendix I to this prospectus. The following alterations of the registered or issued capital of our Company's principal subsidiaries have taken place within the two years preceding the date of this prospectus:

Name of Subsidiary	Alteration Date of Registered or Issued Capital	Status of Alteration of Registered or Issued Capital
Everbright Futures	September 2014	Registered capital increased from RMB600,000,000 to RMB1,000,000,000
EBSHK	November 2014	Issued share capital increased from HK\$1,345,000,000 to HK\$1,385,000,000

Name of Subsidiary	Alteration Date of Registered or Issued Capital	Status of Alteration of Registered or Issued Capital
	December 2014	Issued share capital increased from HK\$1,385,000,000 to HK\$1,765,000,000
Everbright Fortune	May 2014	Registered capital increased from RMB800,000,000 to RMB1,200,000,000
	March 2016	Registered capital increased from RMB1,200,000,000 to RMB2,000,000,000
China Everbright Forex & Futures (HK) Limited	November 2014	Issued share capital increased from HK\$55,000,000 to HK\$100,000,000
Everbright Fortune (Shenzhen) Financial Services Co., Ltd. (陽光富尊(深圳)金融服務諮詢有限公司)	June 2015	Registered capital increased from RMB10,000,000 to RMB30,000,000
SHKFGL	March 2015	Issued share capital increased from US\$50,000 to US\$301,217,140
SHKFL	March 2014	Issued share capital increased from HK\$124,898,589 to HK\$157,748,221.22
Sun Hing Bullion Company Limited	February 2014	Issued share capital increased from HK\$5,000,000 to HK\$5,500,000
Sun Hung Kai Bullion Company Limited	February 2014	Issued share capital increased from HK\$30,000,000 to HK\$145,000,000
	April 2015	Issued share capital increased from HK\$145,000,000 to HK\$160,000,000
Sun Hung Kai Commodities Limited	March 2014	Issued share capital increased from HK\$80,000,600 to HK\$83,300,000

Name of Subsidiary	Alteration Date of Registered or Issued Capital	Status of Alteration of Registered or Issued Capital
Sun Hung Kai Insurance Agency Limited	May 2015	Issued share capital increased from HK\$1 to HK\$2,000,001
SHK International Limited	February 2014	Issued share capital increased from HK\$10,000,000 to HK\$22,000,000
Sun Hung Kai Investment Services Limited	March 2014	Issued share capital increased from HK\$650,000,000 to HK\$930,000,000
Sun Tai Cheung Credits Limited	March 2014	Issued share capital increased from HK\$150,000,000 to HK\$167,400,000

Except as disclosed above, there was no alteration of registered capital of our Company's subsidiaries during the two years immediately preceding the date of this prospectus.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the equity interest nominee agreement (委託持股協議) dated December 3, 2014 entered into between Everbright Capital and Joy Air Holdings Co., Ltd. (幸福航空控股有限公司), pursuant to which Joy Air Holdings Co., Ltd. held 350,000,000 shares in Everbright Leasing as a nominee of Everbright Capital;
- (b) the equity interest transfer agreement dated April 7, 2015 entered into between Everbright Capital and Joy Air Holdings Co., Ltd., pursuant to which Joy Air Holdings Co., Ltd. transferred a 35% interest in Everbright Leasing to Everbright Capital at a consideration of RMB350,000,000;
- (c) the agreement for the sale and purchase of SHKFGL dated February 1, 2015 entered into between Sun Hung Kai and EBSHK, pursuant to which Sun Hung Kai transferred 70% shareholding interest in SHKFGL to EBSHK at an initial consideration of HK\$4,095,000,000;

- (d) a promoter agreement dated April 10, 2015 entered into between our Company and 19 other companies⁽¹⁾, pursuant to which the parties agreed to jointly establish China Securities Credit Investment Co., Ltd. (中證信用增進股份有限公司). Our Company contributed RMB200 million and as a result, holds a 6.06% interest in China Securities Credit Investment Co., Ltd.;
- (e) the agreement for the sale and purchase of 49% interest in ESIL dated June 15, 2016 entered into between EBSHK and Action Globe Limited, pursuant to which Action Globe Limited agreed to transfer the 49% interest in ESIL to EBSHK at a total consideration of HK\$930,000,000;
- (f) the corporate investment agreement dated August 3, 2016 entered into between our Company, Hengjian International Investment Holding (Hong Kong) Limited, the Joint Sponsors, the Joint Representatives and CCB International Capital Limited, details of which are set out in the section headed “Our Cornerstone Investors” in this prospectus;
- (g) the corporate investment agreement dated August 3, 2016 entered into between our Company, China Shipbuilding Capital Limited, the Joint Sponsors and the Joint Representatives, details of which are set out in the section headed “Our Cornerstone Investors” in this prospectus;
- (h) the corporate investment agreement dated August 3, 2016 entered into between our Company, CSCEC Capital (Hong Kong) Limited, the Joint Sponsors and the Joint Representatives, details of which are set out in the section headed “Our Cornerstone Investors” in this prospectus;
- (i) the corporate investment agreement dated August 3, 2016 entered into between our Company, China Life Insurance (Group) Company, the Joint Sponsors and the Joint Representatives, details of which are set out in the section headed “Our Cornerstone Investors” in this prospectus;
- (j) the corporate investment agreement dated August 4, 2016 entered into between our Company, BOCOM International Global Investment Limited, the Joint Sponsors, the Joint Representatives and BOCOM International Securities Limited, details of which are set out in the section headed “Our Cornerstone Investors” in this prospectus;

⁽¹⁾ The 19 companies are Essence Securities Co., Ltd. (安信證券股份有限公司), 東方證券股份有限公司, Soochow Securities Co., Ltd. (東吳證券股份有限公司), GF Securities Co., Ltd. (廣發證券股份有限公司), Guotai Junan Securities Co., Ltd. (國泰君安證券股份有限公司), Guoyuan Securities Co., Ltd. (國元證券股份有限公司), Qilu Securities Co., Ltd.* (齊魯證券有限公司), PICC Asset Management Company Limited (中國人保資產管理股份有限公司), Shenzhen Qianhai Financial Holdings Co., Ltd. (深圳市前海金融控股有限公司), Foshan Shunde Xinbi Trading Co., Ltd. (佛山市順德區新碧貿易有限公司), Hongda Holding Group Limited (宏達控股集團有限公司), Shenzhen Tiantu Capital Co., Ltd.* (深圳市天圖創業投資有限公司), Zhuhai Hengqin Zhongke Baiyun China Securities Equity Investment Partnership (LP)* (珠海橫琴中科白雲中證股權投資合夥企業(有限合夥)), Shenzhen Xinheng Capital Investment Corporation (LP)* (深圳市新涇資本投資企業(有限合夥)), Industrial Securities Co., Ltd. (興業證券股份有限公司), Guosen Securities Co., Ltd. (國信證券股份有限公司), Haitong Securities Co., Ltd. (海通證券股份有限公司), First Capital Investment Management Co., Ltd. (第一創業投資管理有限公司) and East Money Information Co., Ltd. (東方財富信息股份有限公司).

- (k) the corporate investment agreement dated August 4, 2016 entered into between our Company, The Prudential Insurance Company of America, the Joint Sponsors and the Joint Representatives, details of which are set out in the section headed “Our Cornerstone Investors” in this prospectus;
- (l) the corporate investment agreement dated August 4, 2016 entered into between our Company, Dazhong Transportation (Hong Kong) Limited, the Joint Sponsors, the Joint Representatives and CMB International Capital Limited, details of which are set out in the section headed “Our Cornerstone Investors” in this prospectus;
- (m) the corporate investment agreement dated August 3, 2016 entered into between our Company, Mercuries Life Insurance Company Limited, the Joint Sponsors and the Joint Representatives, details of which are set out in the section headed “Our Cornerstone Investors” in this prospectus; and
- (n) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights

Trademarks

As of the Latest Practicable Date, our Company had registered the following trademarks which we consider to be or may be material to its business:

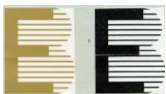
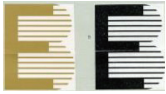
No.	Trademark	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
1.		PRC	36	7635170	December 7, 2010	December 6, 2020
2.		PRC	36	7635174	December 28, 2010	December 27, 2020
3.		Hong Kong	36	301971874	July 12, 2011	July 11, 2021
4.		Hong Kong	36	301971883	July 12, 2011	July 11, 2021

No.	Trademark	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
5.	^a 創逸 ^b 创逸	Hong Kong	36	302228706	April 20, 2012	April 19, 2022
6.	名智	Hong Kong	36	302230424	April 23, 2012	April 22, 2022
7.	基金耀達人	PRC	41	9381064	May 14, 2012	May 13, 2022
8.	基金耀達人	PRC	38	9381065	May 14, 2012	May 13, 2022
9.	基金耀達人	PRC	36	9381066	May 14, 2012	May 13, 2022
10.	基金耀達人	PRC	35	9381067	May 14, 2012	May 13, 2022
11.		Hong Kong	36	302868229	January 15, 2014	January 14, 2024
12.	智富管家	Hong Kong	36	302977994	April 28, 2014	April 27, 2024
13.	耀未来	PRC	41	11924245	June 7, 2014	June 6, 2024
14.	耀未来	PRC	35	11924138	June 7, 2014	June 6, 2024
15.	耀未来	PRC	36	11924270	June 7, 2014	June 6, 2024
16.	耀未来	PRC	38	11924350	June 7, 2014	June 6, 2024
17.	耀定投	PRC	41	11924265	June 7, 2014	June 6, 2024
18.	耀定投	PRC	38	11924359	June 7, 2014	June 6, 2024
19.	耀定投	PRC	36	11924285	June 7, 2014	June 6, 2024


No.	Trademark	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
20.	耀定投	PRC	35	11924176	June 7, 2014	June 6, 2024
21.	点金门	PRC	35	15062546	August 21, 2015	August 20, 2025
22.	点金门	PRC	36	15062599	August 21, 2015	August 20, 2025
23.	富易贷	PRC	35	15062646	August 21, 2015	August 20, 2025
24.	富易贷	PRC	36	15062705	August 21, 2015	August 20, 2025
25.	阳光极速	PRC	39	15062871	August 21, 2015	August 20, 2025
26.	富尊会	PRC	36	15062834	August 28, 2015	August 27, 2025
27.	富尊会	PRC	35	15062774	October 7, 2015	October 6, 2025
28.	富尊	PRC	36	15962171	February 21, 2016	February 20, 2026
29.	财富堡	PRC	35	15962137	February 21, 2016	February 20, 2026
30.	财富堡	PRC	36	15962160	February 21, 2016	February 20, 2026

Trademarks licensed to our Company by the Everbright Group

As of the Latest Practicable Date, our Company's controlling shareholder, the Everbright Group, had licensed the following trademarks to our Company. For details of the trademark licensing agreements entered into between our Company and the Everbright Group, see "Connected Transactions — Exempt Continuing Connected Transactions — 1. Trademark License Agreements — A. Everbright Group".

No.	Trademark	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
1.		Hong Kong	4, 5, 9, 36, 37, 38, 39, 40, 41, 42	2001B01313AA	February 6, 2001	September 15, 2016
2.	· 中國光大 · 中国光大	Hong Kong	4, 5, 9	200200154AA	January 8, 2002	September 15, 2016
3.	· 中國光大 · 中国光大	Hong Kong	36, 37, 38, 39, 40, 41, 42	200200155AA	January 8, 2002	September 15, 2016
4.	CHINA EVERBRIGHT	Hong Kong	4, 5, 36, 37, 38, 39, 40, 41, 42	2002B11241AA	August 27, 2002	September 15, 2016
5.	CHINA EVERBRIGHT	Hong Kong	9	2002B13645	October 22, 2002	September 15, 2016
6.	EVERBRIGHT	PRC	36	3377826	September 21, 2004	September 20, 2024
7.	光大	PRC	36	813804	February 7, 1996	February 6, 2026
8.		PRC	36	813805	February 7, 1996	February 6, 2026

As of the Latest Practicable Date, our Company had applied for the registration of the following trademarks which we consider to be or may be material to its business:

No.	Trademark	Place of Registration	Class	Application Number	Application Date
1.		PRC	16, 35, 36	16442227	March 5, 2015













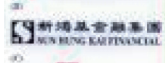

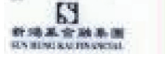

Trademarks licensed to us by Sun Hung Kai


As of the Latest Practicable Date, Sun Hung Kai had licensed the following trademarks to SHKFGL and its subsidiaries pursuant to the SHK Trademark Agreements. For details of the SHK Trademark Agreements, see “Connected Transactions — Exempt Continuing Connected Transactions — 1. Trademark License Agreements — B. Sun Hung Kai”.

No.	Trademark	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
1.		Macau	36	N/044992	January 25, 2010	January 25, 2017
2.		Macau	36	N/045077	January 25, 2010	January 25, 2017
3.		Macau	36	N/010120	April 9, 2003	April 9, 2017
4.	SUN HUNG KAI	Macau	36	N/010122	April 9, 2003	April 9, 2017
5.	SHK	Macau	36	N/010123	April 9, 2003	April 9, 2017
6.		Macau	36	N/010121	November 5, 2004	November 5, 2018
7.	 鴻財網	Hong Kong	36	301423755	September 9, 2009	September 8, 2019
8.		PRC	36	5446085	January 28, 2010	January 27, 2020
9.		PRC	36	7732656	January 28, 2011	January 27, 2021
10.		PRC	36	7732655	February 14, 2011	February 13, 2021

No.	Trademark	Place of Registration	Class	Registration Number	Registration Date	Expiry Date
11.	 新鴻基金融集團 SUN HUNG KAI FINANCIAL	Macau	36	N/023077	March 28, 2007	March 28, 2021
12.	 新鴻基金融集團 SUN HUNG KAI FINANCIAL	Macau	36	N/023078	March 28, 2007	March 28, 2021
13.	新鴻基金融	PRC	36	8197153	July 7, 2011	July 6, 2021
14.	新鴻基金融	PRC	36	8197154	July 7, 2011	July 6, 2021
15.	 SHK 鴻財 online.com 網	PRC	36	1946167	August 28, 2012	August 27, 2022
16.	SHKF shkf	Hong Kong	36	302890882	February 11, 2014	February 10, 2024
17.	SHK	PRC	36	772588	November 28, 1994	November 27, 2024
18.		PRC	36	772589	November 28, 1994	November 27, 2024
19.	新鴻基	PRC	36	779946	November 28, 2015	November 27, 2025
20.	SUN HUNG KAI	PRC	36	779947	November 28, 2015	November 27, 2025
21.		Hong Kong	14	1985B1513	July 8, 1985	December 14, 2026

As of the Latest Practicable Date, Sun Hung Kai had licensed the following trademarks which it is applying for to SHKFGL and its subsidiaries pursuant to the SHK Trademark Agreements.

No.	Trademark	Place of Registration	Class	Application Number	Application Date
1.	SUN HUNG KAI	Hong Kong	36	199206489	March 2, 1992
2.		Hong Kong	36	199206490	March 2, 1992
3.		Hong Kong	36	199206491	March 2, 1992
4.		Hong Kong	36	199206492	March 2, 1992
5.	 新鴻基金融集團 SUN HUNG KAI FINANCIAL	Hong Kong	36	200024488	November 4, 2000
6.	 A  鴻財 online.com 網 B  鴻財 online.com 網	Hong Kong	16, 36, 38, 42	300232325	June 14, 2004
7.	Sun Hung Kai Financial	Hong Kong	36	300615618	April 7, 2006
8.	 (A)  US Trader SUN HUNG KAI FINANCIAL LIMITED (B)  US Trader SUN HUNG KAI FINANCIAL LIMITED	Hong Kong	36	300639685	May 16, 2006
9.	 (a)  新鴻基金融集團 SUN HUNG KAI FINANCIAL (b)  新鴻基金融集團 SUN HUNG KAI FINANCIAL (c)  新鴻基金融集團 SUN HUNG KAI FINANCIAL (d)  新鴻基金融集團 SUN HUNG KAI FINANCIAL	Hong Kong	36	300812402	February 8, 2007
10.	 SHKdirect SHKdirect	Hong Kong	36	301423746	September 9, 2009
11.	SUN HUNG KAI	Australia	36	1360626	May 7, 2010

No.	Trademark	Place of Registration	Class	Application Number	Application Date
12.		Australia	36	1360627	May 7, 2010
13.		Australia	36	1360628	May 7, 2010
14.		Australia	36	1360629	May 7, 2010
15.		Hong Kong	36	301854072	March 9, 2011
16.		Hong Kong	36	301854090	March 9, 2011
17.		Australia	36	1633218	July 9, 2014
18.	A  B 	Hong Kong	36	303399319	May 6, 2015
19.	A  B 	Hong Kong	36	303399328	May 6, 2015

Domain Names

As of the Latest Practicable Date, our Company had registered the following domain names:

No.	Domain Name	Registration Date	Expiry Date
1.	eblease.com.cn	December 1, 2014	December 1, 2016
2.	eblease.cn	December 1, 2014	December 1, 2016
3.	ceblease.com.cn	December 1, 2014	December 1, 2016
4.	ceblease.cn	December 1, 2014	December 1, 2016
5.	ceblease.com	December 1, 2014	December 1, 2016
6.	ebgfl.com.cn	December 1, 2014	December 1, 2017
7.	ebgfl.cn	December 1, 2014	December 1, 2017

No.	Domain Name	Registration Date	Expiry Date
8.	ebgfl.com	December 1, 2014	December 1, 2017
9.	ebcnfl.com.cn	December 1, 2014	December 1, 2017
10.	ebcnfl.cn	December 1, 2014	December 1, 2017
11.	ebshk.hk	May 27, 2015	June 1, 2018
12.	ebfortune.com	November 6, 2015	November 6, 2018
13.	eb-capital.cn	November 30, 2009	November 30, 2019
14.	光大保德信基金.中國	December 27, 2010	December 27, 2020
15.	光大保德信基金.net	December 27, 2010	December 27, 2020
16.	光大保德信基金.網絡	August 20, 2014	August 20, 2021
17.	光大保德信基金.公司	August 20, 2014	August 20, 2021
18.	ebscn-am.com	December 29, 2011	December 29, 2021
19.	ebscn.com	January 5, 2001	January 5, 2022
20.	光大證券股份有限公司.cn	January 25, 2007	January 25, 2022
21.	光大證券股份有限公司.中國	January 25, 2007	January 25, 2022
22.	ebsfc.com	February 26, 2009	February 26, 2022
23.	ebsfc.net	February 26, 2009	February 26, 2022
24.	ebsfc.cn	February 26, 2009	February 26, 2022
25.	ebsfc.net.cn	February 26, 2009	February 26, 2022
26.	ebsfc.com.cn	February 26, 2009	February 26, 2022
27.	to-wallstreet.com	February 26, 2009	February 26, 2022
28.	光大證券.公司	August 20, 2014	August 21, 2022
29.	epfservice.com.cn	November 22, 2007	November 22, 2022
30.	ebfcn.com	October 22, 2007	October 22, 2023
31.	ebfcn.net	October 22, 2007	October 22, 2023

No.	Domain Name	Registration Date	Expiry Date
32.	ebfcn.org	October 22, 2007	October 22, 2023
33.	ebfcn.com.cn	October 22, 2007	October 22, 2024
34.	光大保德信基金.com	February 6, 2010	February 6, 2026
35.	everbrightpramericafund.com.cn	September 24, 2004	September 24, 2026

Domain Names licensed to us by Sun Hung Kai

As of the Latest Practicable Date, Sun Hung Kai had licensed the following domain names to SHKFGL and its subsidiaries pursuant to the Sun Hung Kai Trademark Agreements. For details of the Sun Hung Kai Trademark Agreements, see “Connected Transactions — Exempt Continuing Connected Transactions — 1. Trademark License Agreements — B. Sun Hung Kai”.

No.	Domain Name	Registration Date	Expiry Date
1.	shkforex.com	February 10, 2012	February 10, 2017
2.	shkexchange.com.hk	May 4, 2005	May 5, 2017
3.	shkonline.hk	April 6, 2004	May 11, 2017
4.	shkfg.hk	April 13, 2004	May 11, 2017
5.	shkfunds.hk	May 24, 2004	June 3, 2017
6.	shkfx.hk	May 24, 2004	June 3, 2017
7.	shkf.com.hk	June 29, 2006	June 30, 2017
8.	shkonline.com.hk	November 3, 1999	October 1, 2017
9.	shkfg.com.hk	January 21, 2002	January 23, 2018
10.	shkforex.com.hk	February 10, 2012	February 10, 2018
11.	shkforex.hk	February 10, 2012	February 10, 2018
12.	shkprivate.hk	February 18, 2011	February 18, 2018
13.	shkprivate.com.hk	February 18, 2011	February 21, 2018
14.	clubprive.com.hk	March 9, 2012	March 9, 2018
15.	shkdirect.hk	February 23, 2009	February 24, 2019
16.	shkdirect.com.hk	February 23, 2009	February 25, 2019

No.	Domain Name	Registration Date	Expiry Date
17.	shkonline.org	October 22, 1999	October 22, 2020
18.	shkfg.com	November 2, 2000	November 2, 2020
19.	shkf.com	November 17, 2001	November 17, 2020
20.	shkfg.com.cn	February 11, 2006	February 11, 2021
21.	shkfg.hk.cn	February 11, 2006	February 11, 2021
22.	shkfg.net.cn	February 11, 2006	February 11, 2021
23.	shkprivate.com	February 18, 2011	February 18, 2021
24.	shkustrader.com	February 24, 2006	February 24, 2021
25.	shkdirect.com	February 24, 2009	February 24, 2021
26.	shkprivate.cn	March 3, 2011	March 3, 2021
27.	shkprivate.com.cn	March 3, 2011	March 3, 2021
28.	shkfunds.com	April 1, 1998	March 31, 2021
29.	shkresearch.com	April 1, 1998	March 31, 2021
30.	shkfx.com	April 1, 1998	March 31, 2021
31.	shkexchange.com	May 4, 2005	May 4, 2021
32.	shkonline.com	May 11, 1999	May 11, 2021
33.	shkhedge.com	August 29, 2005	August 29, 2021
34.	shkonline.cn	August 11, 2005	August 11, 2022
35.	shkonline.com.cn	August 11, 2005	August 11, 2022
36.	shkonline.hk.cn	August 11, 2005	August 11, 2022
37.	shkonline.net.cn	August 11, 2005	August 11, 2022

Patents

As of the Latest Practicable Date, our Company had applied for the registration of the following patents:

<u>Patent</u>	<u>Proprietor</u>	<u>Place of Registration</u>	<u>Registration Number</u>	<u>Application Date</u>
Data processing method and device for real-time and continuous processing of securities trading business (實現連續實時證券交易業務處理的數據處理方法及裝置)	Company	PRC	2014102202050.0	May 23, 2014

Except as disclosed in “Intellectual Property Rights” above, there are no other trademarks or service marks, patents or other intellectual property rights which are or may be material to our Company’s business.

C. FURTHER INFORMATION ABOUT OUR COMPANY’S DIRECTORS, MANAGEMENT AND STAFF

1. Disclosure of Interests

Immediately following the completion of the Global Offering, none of our Company’s Directors or Supervisors will have any interests and short positions in the Shares, underlying Shares or debentures of our Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to it and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Hong Kong Listing Rules to be notified to our Company and the Hong Kong Stock Exchange or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein once the Shares are listed. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to our Company’s Supervisors.

2. Directors’ Competing Interests

Except as disclosed above, none of our Company’s Directors has any interests in any business, which competes or is likely to compete, either directly or indirectly, with our Company’s business.

3. Substantial Shareholders

So far as our Company's Directors are aware, immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised, the following persons will have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to it and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in indirectly interested circumstances at general meetings of our Company:

Name of Shareholder	Nature of interest	Class	Immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option)			Immediately following the completion of the Global Offering (assuming full exercise of the Over-allotment Option)		
			Number of Shares directly or indirectly held	Approximate % of interest in our Company	Approximate % of the relevant class of Shares of our Company	Number of Shares directly or indirectly held	Approximate % of interest in our Company	Approximate % of the relevant class of Shares of our Company
Huijin	Interests of controlled corporation ⁽¹⁾	A Shares	37,568,900	0.82	0.96	37,568,900	0.80	0.96
	Interests of controlled corporation ⁽²⁾	A Shares	2,298,706,183	50.12	58.84	2,298,706,183	49.05	58.84
		A Shares	<u>2,336,275,083</u>	<u>50.94</u>	<u>59.80</u>	<u>2,336,275,083</u>	<u>49.85</u>	<u>59.80</u>
Central Huijin Asset Management Ltd.	Beneficial Owner	A Shares	37,568,900	0.82	0.96	37,568,900	0.80	0.96
China Everbright Group Corporation Limited	Beneficial Owner	A Shares	1,159,456,183	25.28	29.68	1,159,456,183	24.74	29.68
	Interests of controlled corporation ⁽³⁾	A Shares	1,139,250,000	24.84	29.16	1,139,250,000	24.31	29.16
		A Shares	<u>2,298,706,183</u>	<u>50.12</u>	<u>58.84</u>	<u>2,298,706,183</u>	<u>49.05</u>	<u>58.84</u>
China Everbright Holdings	Interest of controlled corporation ⁽³⁾	A Shares	1,139,250,000	24.84	29.16	1,139,250,000	24.31	29.16
Datten Investments Limited	Interest of controlled corporation ⁽³⁾	A Shares	1,139,250,000	24.84	29.16	1,139,250,000	24.31	29.16
Honorich Holdings Limited	Interest of controlled corporation ⁽³⁾	A Shares	1,139,250,000	24.84	29.16	1,139,250,000	24.31	29.16
China Everbright Limited	Beneficial Owner	A Shares	1,139,250,000	24.84	29.16	1,139,250,000	24.31	29.16

(1) As of the Latest Practicable Date, Huijin held 100% of the total issued share capital in Central Huijin Asset Management Ltd.. Accordingly, Huijin is deemed to be interested in Central Huijin Asset Management Ltd.'s interest in our Company under the SFO.

(2) As of the Latest Practicable Date, Huijin held 55.67% of the equity interest in the China Everbright Group Corporation Limited. Accordingly, Huijin is deemed to be interested in the China Everbright Group Corporation Limited's interest in our Company under the SFO.

(3) As of the Latest Practicable Date, Honorich Holdings Limited and Everbright Investment and Management Limited held 49.386% and 0.358% of the total issued share capital in China Everbright limited, respectively; Datten Investments Limited held 100% of the total issued share capital in Honorich Holdings Limited; China Everbright Holdings held 100% of the total issued share capital in

Datten Investments Limited and Everbright Investment and Management Limited; the China Everbright Group Corporation Limited held 100% of the total share capital in China Everbright Holdings. Accordingly, each of the China Everbright Group Corporation Limited, China Everbright Holdings, Datten Investments Limited and Honorich Holdings Limited is deemed to be interested in China Everbright Limited's interest in our Company under the SFO.

4. Service Contracts

Our Company has entered into a service contract with each of the Directors and employee representative Supervisors in respect of, among other things, compliance with relevant laws and regulations, observance of the Articles of Association and provisions on arbitration. Except as disclosed above, our Company has not entered, and does not propose to enter, into any service contracts with any of the Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

5. Directors' and Supervisors' Remuneration

The aggregate pre-tax remuneration (including fees, salaries, social insurance scheme and other benefits, benefits in kind, contributions to the pension scheme and discretionary bonus) paid to our Company's Directors and Supervisors for the three financial years ended December 31, 2013, 2014 and 2015 and the three months ended March 31, 2016 was approximately RMB7.46 million, RMB11.58 million, RMB13.60 million and RMB5.35 million, respectively.

Under the arrangements currently in force, our Company estimates the total pre-tax fixed remuneration payable to its Directors and Supervisors for the year ending December 31, 2016 is approximately RMB7.19 million.

6. Agency Fees or Commissions Received

Except as disclosed in this prospectus, none of our Company's Directors or any of the persons whose names are listed in "— D. Other Information — 7. Consents" in this Appendix had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any share capital of any member of its Group within the two years preceding the date of this prospectus.

7. Disclaimers

Except as disclosed in this prospectus:

- (a) none of the Directors, Supervisors and any parties listed in "— D. Other Information — 6. Qualifications of Experts" in this Appendix is interested in our promotion, or in any assets which, within the two years immediately preceding the date of this prospectus, have been acquired or sold by or leased to our Company, or are proposed to be acquired or sold by or leased to our Company;

- (b) none of the Directors, Supervisors and any parties listed in “— D. Other Information — 6. Qualifications of Experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our Company’s business;
- (c) except in connection with the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the parties listed in “— D. Other Information — 6. Qualifications of Experts” in this Appendix is interested legally or beneficially in any of our Company’s Shares or securities, or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our Company’s Shares or securities; and
- (d) none of our Company’s Directors or Supervisors is a director or employee of a company which has an interest in our Company’s share capital which, once the H Shares are listed on the Hong Kong Stock Exchange, would have to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO.

D. OTHER INFORMATION

1. Estate Duty

Our Company’s Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group.

2. Litigation

Except as disclosed in this prospectus, no member of our Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to its Directors to be pending or threatened against any member of Company’s Group as of the Latest Practicable Date.

3. Joint Sponsors

China Everbright Capital Limited, being one of the Joint Sponsors, is one of our Company’s subsidiaries. It is not an independent sponsor according to the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong Listing Rules.

Apart from China Everbright Capital Limited, the other Joint Sponsors, Merrill Lynch Far East Limited and UBS Securities Hong Kong Limited, satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong Listing Rules.

The aggregate sponsor fee of the Joint Sponsors is US\$1,500,000, and is payable by our Company.

The Joint Sponsors have made an application on our Company’s behalf to the Listing Committee for the granting of listing of, and permission to deal in, our Company’s H Shares (including any Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option). All necessary arrangements have been made to enable the relevant Shares to be admitted into CCASS.

4. Preliminary Expenses

Our Company did not generate any preliminary expenses.

5. Promoters

The information about our Company's Promoters is as follows:

Everbright Group
 Everbright Limited
 Xiamen Xinshiji Group Co., Ltd. (廈門新世基集團有限公司)
 Dongguan City Lianjing Industrial Investment Co., Ltd. (東莞市聯景實業投資有限公司)
 Nanjing Xinding Investment Development Co., Ltd. (南京鑫鼎投資發展有限公司)

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given, or has been proposed to be paid, allotted or given, to any of the Promoters in connection with the Global Offering or the related transactions described in this prospectus.

6. Qualifications of Experts

The qualifications of the experts (as defined under the Hong Kong Listing Rules and the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given their opinions or advice in this prospectus are as follows:

<u>Name of Expert</u>	<u>Nature of Interest</u>
China Everbright Capital Limited	a corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activity
UBS Securities Hong Kong Limited	a corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activity
Merrill Lynch Far East Limited	a corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activity
King & Wood Mallesons	PRC legal advisor
KPMG	Certified public accountant
Protiviti Shanghai Co., Ltd.	Internal Control Consultant

7. Consents

Each of the Joint Sponsors, KPMG as our Company's reporting accountants and independent auditor, and King & Wood Mallesons as our Company's PRC legal advisors has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interest in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

8. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provision) of sections 44A and 44B of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. No Material Adverse Change

Except as disclosed in this prospectus, our Directors believe that since March 31, 2016 and up to the date of the Prospectus, there is no event which could materially affect the information shown in our consolidated financial statement included in the Accountants' Report set forth in Appendix I to this prospectus, and there has been no material adverse change in our financial or trading position or prospects.

10. Bilingual Prospectus

The English language and the Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Hong Kong Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

E. MISCELLANEOUS

Except as disclosed in this prospectus:

- (a) Within the two years preceding the date of this prospectus: (i) our Company has not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash, and (ii) no commission, discount, brokerage fee or other special term has been granted in connection with the issue or sale of any Shares of our Company.
- (b) No Share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option.

- (c) Our Company has not issued nor agreed to issue any founder shares, management shares or deferred shares.
- (d) There is no arrangement under which future dividends are waived or agreed to be waived.
- (e) There has been no interruption in our business which may have or have had a significant effect on our Company's financial position in the last twelve months.
- (f) We have no outstanding convertible debt securities.
- (g) Save for the A Shares of our Company that are listed on the Shanghai Stock Exchange, no part of the share capital or debt securities of our Company, if any, is currently listed on any stock exchange or traded on any trading system, and no such listing or permission to list on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought.
- (h) Our Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited company and does not expect to be subject to the Sino-foreign Joint Venture Law of the PRC.

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration include:

- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in “Appendix VI — Statutory and General Information — D. Other Information — 7. Consents”; and
- (c) copies of the material contracts referred to in “Appendix VI — Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts”.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Latham & Watkins at 18th Floor, One Exchange Square, 8 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association;
- (b) the Accountants’ Report from KPMG, the text of which is set out in Appendix I;
- (c) the report in relation to unaudited pro forma financial information, the text of which is set out in Appendix II;
- (d) the PRC legal opinion(s) dated the prospectus date issued by King & Wood Mallesons, the legal advisors on the PRC law;
- (e) the material contracts referred to in “Appendix VI — Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts”;
- (f) the audited consolidated financial statements for each of the three financial years ended December 31, 2015 and the three months ended March 31, 2016;
- (g) the consents referred to in “Appendix VI — Statutory and General Information — D. Other Information — 7. Consents”;
- (h) the service agreements referred to in “Appendix VI — Statutory and General Information — C. Further Information about Our Company’s Directors, Management and Staff — 4. Service Contracts”;

- (i) the PRC Company Law, together with its unofficial English translation version;
- (j) the Mandatory Provisions, together with its unofficial English translation version;
and
- (k) the Special Regulations, together with its unofficial English translation version.



光大證券股份有限公司
Everbright Securities Company Limited