招商证券股份有限公司
China Merchants Securities Co., Ltd.

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock code: 6099

Global Offering

Joint Sponsors

CMS 招商证券 | J.P.Morgan | Morgan Stanley

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

CMS 招商证券 | J.P.Morgan | Morgan Stanley | 華泰金融控股(香港)有限公司 HUATAI FINANCIAL HOLDINGS (HONG KONG) LIMITED | 招银国际 CMB INTERNATIONAL

Joint Bookrunners and Joint Lead Managers

Deutsche Bank | MIZUHO | 廣發証券(香港)經紀有限公司 GF SECURITIES (HONG KONG) BROKERAGE LIMITED | 光大證券 EBS INTERNATIONAL | 東方證券(香港) ORIENT SECURITIES (HONG KONG)

中信建投國際 China Securities International | 國泰君安國際 GUOTAI JUNAN INTERNATIONAL | 中国平安证券(香港) PING AN OF CHINA SECURITIES (HONG KONG) | UBS | ICBC 工银国际

農銀國際 ABC INTERNATIONAL | 建银国际 CCB International | 交銀國際 BOCOM International | BOC INTERNATIONAL

IMPORTANT

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

招商证券股份有限公司
China Merchants Securities Co., Ltd.

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

Number of Offer Shares under the Global Offering	:	**891,273,800 H Shares (subject to the Over-allotment Option)**
Number of Hong Kong Offer Shares	:	**44,564,000 H Shares (subject to adjustment)**
Number of International Offer Shares	:	**846,709,800 H Shares (subject to adjustment and the Over-allotment Option)**
Maximum Offer Price	:	**HK$12.78 per H Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	:	**RMB1.00 per H Share**
Stock code	:	**6099**

Joint Sponsors

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

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

The Offer Price is expected to be fixed by agreement between the Joint Representatives (on behalf of the Hong Kong Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, September 30, 2016 (Hong Kong time) and, in any event, not later than Saturday, October 1, 2016 (Hong Kong time). The Offer Price will be not more than HK$12.78 and is currently expected to be not less than HK$11.54 per Offer Share. If, for any reason, the Offer Price is not agreed by Saturday, October 1, 2016 (Hong Kong time) between the Joint Representatives (on behalf of the Hong Kong Underwriters) and us, the Global Offering will not proceed and will lapse.

Applicants for Hong Kong Offer Share are required to pay, on application, the maximum Offer Price of HK$12.78 for each Hong Kong Offer Share together with a brokerage fee of 1.0%, a SFC transaction levy of 0.0027% and a Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK$12.78.

The Joint Representatives, on behalf of the Underwriters and with our consent, may, where considered appropriate, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that is stated in this prospectus (which is HK$11.54 to HK$12.78) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notices will also be available on the website of our Company at www.newone.com.cn and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk. Further details are set forth in the sections headed "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus.

We are incorporated, and a substantial majority of our businesses and assets are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated businesses. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set out in "Risk Factors," "Appendix IV – Summary of Certain Legal and Regulatory Matters" and "Appendix V – Summary of Articles of Association" to this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Representatives (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting – Underwriting Arrangements and Expenses – the Hong Kong Public Offering – Grounds for Termination" of this prospectus.

We have not been, and do not intend to 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 laws in the United States. The Offer Shares may only be offered or sold (a) in the United States, or to U.S. persons or for the account or benefit of U.S. persons outside of the United States, in reliance on Rule 144A under the U.S. Securities Act or another exemption from, or in a transaction not subject to, registration under the U.S. Securities Act, in each case to persons who are both "Qualified Institutional Buyers" and "Qualified Purchasers" and (b) outside the United States to non-U.S. persons in an offshore transaction in accordance with Regulation S under the U.S. Securities Act.

September 27, 2016

Latest time for completing electronic applications under **White Form eIPO** service through the designated website www.eipo.com.hk[2]	11:30 a.m. on Friday, September 30, 2016
Application lists open[3]	11:45 a.m. on Friday, September 30, 2016
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Friday, September 30, 2016
Latest time for completing payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, September 30, 2016
Latest time for giving electronic application instructions to HKSCC[4]	12:00 noon on Friday, September 30, 2016
Application lists close[3]	12:00 noon on Friday, September 30, 2016
Expected Price Determination Date[5]	Friday, September 30, 2016
(1) Announcement of the final Offer Price, the level of indications 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, to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Thursday, October 6, 2016
(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document or business registration numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for the Hong Kong Offer Shares—11. Publication of Results" in this prospectus	Thursday, October 6, 2016
(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.newone.com.cn**[6] from	Thursday, October 6, 2016
Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function from	Thursday, October 6, 2016
Dispatch of H Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before[7][9]	Thursday, October 6, 2016
Dispatch of refund cheques and White Form e-Refund payment instructions (if applicable) in respect of wholly or partially successful applications or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before[8][9]	Thursday, October 6, 2016
Dealings in the H Shares on the Stock Exchange expected to commence on	Friday, October 7, 2016

(1) All dates and times refer to Hong Kong local dates and times, except as otherwise stated.

(2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. **If you have already submitted your application and obtained an application reference number from the designated website at or before 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 signal in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, September 30, 2016, the application lists will not open or close on that day. See "How to Apply for the Hong Kong Offer Shares—10. Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.

(4) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC via CCASS should refer to the section headed "How to Apply for the Hong Kong Offer Shares—6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this prospectus.

(5) The Price Determination Date is expected to be on or around Friday, September 30, 2016 and, in any event, not later than Saturday, October 1, 2016. If, for any reason, the Offer Price is not agreed between the Joint Representatives (on behalf of the Hong Kong Underwriters) and us by Saturday, October 1, 2016, the Global Offering will not proceed and will lapse.

(6) None of the website or any of the information contained on this website forms part of this prospectus.

(7) H Share certificates for the Hong Kong Offer Shares will only become valid certificates of title at 8:00 a.m. on Friday, October 7, 2016 provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid do so at their own risk.

(8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.

(9) Applicants who have applied on **WHITE** Application Forms or **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or H Share certificates in person from our Company's 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 between 9:00 a.m. and 1:00 p.m. on Thursday, October 6, 2016 or such other date as notified by our Company in the newspapers as the date of dispatch/collection of H Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Applicants being corporations who are eligible for personal collection must attend through their authorized representatives bearing letters of authorization from their corporation stamped with the corporation's chop. Both individuals and authorized representatives of corporations must produce evidence of identity acceptable to our H Share Registrar at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering may collect their refund cheques, if any, in person but may not elect to collect their H Share certificates as such H Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants' stock account as stated in their Application Forms. 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 for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed "How to Apply for the Hong Kong Offer Shares—l4. Dispatch/Collection of H Share Certificates and Refund Monies—Personal Collection—(iv) If you apply via Electronic Application Instructions to HKSCC" in this prospectus for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

H Share certificates and/or refund cheques (if applicable) for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected H Share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed "How to Apply for the Hong Kong Offer Shares—13. Refund of Application Monies" and "How to Apply for the Hong Kong Offer Shares—14. Dispatch/Collection of H Share Certificates and Refund Monies" in this prospectus.

The above expected timetable is a summary only. You should refer to the sections headed "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

CONTENTS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to subscribe for or buy any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with, or authorization by, the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Representatives, 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. Information contained on our website, located at www.newone.com.cn, does not form part of this prospectus.

CONTENTS

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 investing in the Offer Shares in "Risk Factors" beginning on page 29 of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

As a leading investment bank in China, we are committed to creating value for our clients through providing premier and comprehensive financial products and services. We have a collaborative, full-service business and strong innovation capabilities, which differentiate us from our competitors.

Benefiting from our comprehensive range of products and services, diverse financing channels, a high-quality and loyal client base, favorable market conditions and regulatory environment, as well as our effective risk management, we sustained rapid growth from 2013 to 2015. We adopted various strategies to achieve such growth, including: (i) enhancing our capabilities to enable clients to benefit from the increased brokerage trading volume in the PRC stock market, which helped us achieve rapid revenue growth in our brokerage and wealth management businesses, from RMB5,316.0 million in 2013 to RMB24,404.4 million in 2015; (ii) increasing the client penetration of our margin financing and securities lending business; (iii) developing strong research and client service capabilities, which has enabled us to attract a large number of institutional clients and increased our income from PRC institutional clients from RMB700.4 million in 2013 to RMB3,171.6 million in 2015; and (iv) seizing market opportunities resulting from the increased financing and investment needs of our clients through customer referrals and cross-selling among various business lines on our full-service business platform.

Our profit for the year increased from RMB2,237.5 million in 2013 to RMB10,928.3 million in 2015, representing a CAGR of 121.0%, ranking fourth among the Top Ten Securities Firms according to Wind Info. In addition, according to Wind Info: (i) our weighted average return on equity in 2015 ranked fourth among the Top Ten Securities Firms; (ii) our total assets and total equity as of December 31, 2015 ranked eighth and ninth, respectively, among PRC securities firms; and (iii) our net profit in 2015 ranked seventh among PRC securities firms. Our profit for the period decreased from RMB7,335.1 million in the six months ended June 30, 2015 to RMB2,235.6 million in the same period in 2016, which was largely as a result of the unfavorable market conditions in China and our participation in the stabilization measures in the PRC stock market since July 2015, which caused a significant decrease in our total revenue and other income from RMB20,496.2 million in the six months ended June 30, 2015 to RMB8,728.8 million in the same period in 2016.

Operating with a client-oriented approach, we offer comprehensive financial products and services to individual, institutional and corporate clients. Our principal business lines comprise the following:

- *Brokerage and Wealth Management*: We trade stocks, funds, bonds, futures and other derivatives on behalf of our clients in return for fees and commissions. We also provide capital-based intermediary services (including margin financing and securities lending as well as securities-backed lending and stock repurchases) to clients and earn interest income. We provide wealth management services and a full range of institutional client services, such as prime brokerage.

- *Investment Banking*: We provide one-stop investment banking solutions to our corporate clients, including equity underwriting and sponsorship, debt underwriting, financial advisory services and OTC investment banking. In return, we principally earn underwriting and sponsorship fees and financial advisory fees.
- *Investment Management*: We provide investment management services, including asset management, direct investment and fund management, and earn management fees, performance fees and investment income.
- *Investment and Trading*: We trade equity and fixed-income securities and other financial products for our own accounts and apply advanced trading strategies and techniques for mitigating investment risks and enhancing returns. In addition, to meet our customers' needs for investment, financing and risk management, we offer OTC financial products to, and trade with, our customers.

We continuously grow our traditional securities products and services, such as brokerage, investment banking, and asset management. Meanwhile, in response to the rapidly evolving capital markets and customer demands in China, we launched initiatives to develop and expand into new products and services, such as prime brokerage, fund custody and outsourcing, ABS, money-market products, global commodities, and derivatives trading. As a result, we have achieved leading market positions with respect to the foregoing new services that differentiated us from our competitors.

We believe that one of the key factors in achieving market leadership and rapid growth is having a high-quality and loyal client base. As of June 30, 2016, we had approximately 6.5 million brokerage and wealth management customers, including approximately 196,500 affluent customers and approximately 9,900 high-net-worth customers. As of the same date, we had over 15,000 institutional clients and over 1,100 corporate clients in China. Adopting a client-oriented approach, we have established a collaborative business model that continuously promotes cross-selling to further enhance synergies across business lines.

Our brand name originates from our Controlling Shareholder, China Merchants Group, which was established more than a century ago and is well-known for its market-oriented operations and pioneering spirit. Building on this heritage, we have grown our business and enhanced our market position and core competitiveness through strategic transformation, innovation and international expansion.

Listed on the Shanghai Stock Exchange in November 2009, our A Shares were admitted to the CSI 300 Index, the CSI 100 Index, and the SSE 180 Index in July 2010, and to the SSE 50 Index in July 2013. Our A Shares were selected as a constituent stock of the SSE Corporate Governance Index in July 2011 and the CSI SH-SZ-HK 400 Index in November 2014. In addition, our A Shares are one of the eligible securities for northbound trading under the Shanghai-Hong Kong Stock Connect pilot program under the stock name "招商證券".

Volatility and Stabilization Measures in the PRC Stock Market

In 2015, the A-share market experienced significant fluctuations, especially from mid-June to the end of August. In response to this stock market plummet, the PRC government has announced a series of measures to stabilize the stock market and restore investor confidence. On July 6, 2015, along with 20 other PRC securities firms, we agreed to contribute an amount equal to 15% of our Company's net assets as of June 30, 2015, or approximately RMB6.9 billion, to the designated accounts at China Securities Finance for purchasing blue-chip ETFs in China. On September 1, 2015, together with 49 other PRC securities firms, we agreed to further contribute approximately RMB2.4 billion to the designated accounts at China Securities Finance. Under the relevant agreements, the securities firms will share the risks and returns from the investments in proportion to their respective contributions. As of June 30, 2016, we contributed a total of RMB9.3 billion, which are accounted for as available-for-sale financial assets on our consolidated statements of financial position. As a result, changes in the fair value of such contributions will affect our equity position through other comprehensive income, based on the quarterly valuation report from China Securities Finance. As of December 31, 2015 and June 30, 2016, the fair value of our contributions to the designated accounts at China Securities Finance was RMB8.8 billion and RMB8.1 billion, respectively. The cumulative decrease in the fair value of our contributions of RMB1.2 billion as of June 30, 2016 was reflected in our equity position through other comprehensive income. We assess if the funds contributed to the designated accounts at China Securities Finance are subject to impairment by considering whether the fair value is below its initial cost by over 50% or the decline is prolonged for over one year in accordance with our accounting policies. As of June 30, 2016 and the Latest Practicable Date, we did not make an impairment provision for our contributions to the designated accounts at China Securities Finance as (i) the fair value of our contributions was not below its initial cost by over 50% based on the quarterly valuation report as of June 30, 2016 we received from China Securities Finance; and (ii) we do not consider such decrease in value as a prolonged decline, as the funds we contributed were used to purchase blue-chip ETFs in China, and there were occasions where the relevant stock index was above the point which we contributed our funds to the designated accounts at China Securities Finance. However, we may be required to impair our funds contributed to the designated accounts at China Securities Finance if the fair value of our contributions is below its initial cost by over 50% or the decline in fair value prolongs over one year. See "Risk Factors—Risks relating to Our Business and Industry—Government measures for stabilizing the PRC stock market and involvement by market participants in these measures could increase our exposure to market and other risks" on page 30 of this prospectus. As of June 30, 2016, the fair value of our contributions to the designated accounts at China Securities Finance represented 22.1% and 17.0% of our total available-for-sale financial assets and net tangible assets attributable to owners of our Company, respectively.

Furthermore, we have undertaken not to reduce our A-share proprietary trading positions below our balance as of July 3, 2015 if the SSE Composite Index is below 4,500 points. As of July 3, 2015 and June 30, 2016, the investment position of our A-share proprietary trading was RMB2,814.6 million and RMB6,378.5 million, respectively. We appointed designated personnel to closely monitor the investment position of our A-share proprietary trading. The CSRC also imposed a temporary moratorium on financing-related equity return swaps in November 2015.

These stabilization measures expose us to additional market and other risks, and have adversely affected our business operations and results of operations since July 2015, principally:

- we incurred investment losses in our long-only equity trading activities as we were unable to reduce our long-only trading positions or effectively hedge our exposures through short-selling to mitigate market risk in a highly volatile market. However, our investment performance was largely in line with the SSE Composite Index during the first half of 2016;

- there is no publicly available information regarding how our contributions to the designated accounts at China Securities Finance have been invested and when our contributions will be returned. We may incur losses from these contributions due to future disposal or impairment and our financial position may fluctuate as a result of revaluation;
- we experienced a 96.2% decrease in our income from equity return swaps in the first half of 2016, compared to the same period in 2015, primarily due to the temporary moratorium on financing-related equity return swaps imposed by the CSRC in November 2015; and
- our increased long-only equity trading position could reduce our Net Capital and make it more difficult for us to comply with the Net Capital-based risk indicators and other capital requirements in China. As of December 31, 2015 and June 30, 2016, we were in compliance with all capital adequacy, liquidity and risk control indicator requirements.

Our financial performance was affected by the stabilization measures and the market conditions. In particular, pre-tax segment profit of our investment and trading business decreased from RMB2,836.6 million in the first half of 2015 to RMB136.5 million in the same period in 2016. See "Financial Information—Factors Affecting Our Results of Operations—Stabilization Measures in the PRC Stock Market" beginning on page 308 of this prospectus.

We adopted a series of risk management measures in response to these stabilization measures. In our long-only equity trading business, we focus on the stocks of companies with strong fundamentals and attractive valuations, as well as undervalued blue-chip ETFs. Our Risk Management Department implements specific risk management guidelines, which apply specialized risk indicators to our long-only trading activities in response to the stabilization measures, such as the maximum investment scale for a single stock. The guidelines also categorize our long-only equity securities portfolios into different approving requirement levels according to their risk profiles and require our proprietary trading departments to obtain approvals from managers up to our president. Our proprietary trading departments and Risk Management Department are jointly responsible for monitoring the implementation of such risk management measures on a daily basis, and are required to report on a regular basis to our Securities Investment Decision-Making Committee, which guides our proprietary trading departments in managing our risk exposure when conducting long-only trading activities. See "Business—Risk Management and Internal Control Measures in Our Major Business Lines—Investment and Trading Business" beginning on page 224 of this prospectus. In addition, to diversify the revenue sources and investment strategies for our investment and trading business, we have expanded our proprietary trading activities to OTC options trading, exchange-traded option market-making and commodity derivatives trading.

Since the second half of 2015, the A-share market experienced significant fluctuations, and the market volatility has negatively affected our securities brokerage and our margin financing and securities lending businesses:

- *Securities Brokerage*. Our brokerage trading volume of stocks and funds decreased by 60.1% to RMB4,979.1 billion in the six months ended June 30, 2016 from RMB12,480.1 billion in the same period in 2015, primarily due to 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 market volatility, and the trading volume of margin accounts decreased from RMB4,182.9 billion in the first half of 2015 to RMB1,248.4

billion in the same period in 2016. As a result, the balance of margin financing and securities lending decreased from RMB112.8 billion as of June 30, 2015 to RMB45.8 billion as of June 30, 2016.

COMPETITIVE STRENGTHS

We are a leading investment bank in China. We are committed to creating value for our clients through providing premier and comprehensive financial products and services. We have a collaborative, full-service business and strong innovation capabilities. We believe that we will continue to expand our business, strengthen our market position and enhance our core competitiveness as a result of our competitive strengths in the following areas:

- a leading investment bank in China with robust growth and innovation capabilities;
- the prime broker of choice for institutional investors with strong institutional client service capabilities;
- a fast-growing wealth management business supported by a strategically positioned network and differentiated and diversified service capabilities;
- a comprehensive investment banking platform with premier integrated service capabilities for corporate clients;
- a highly collaborative business model with strong cross-selling capabilities;
- prudent, proactive and comprehensive risk management and internal controls;
- a core financial services platform of China Merchants Group, benefiting from the century-old "China Merchants" brand and its unique business resources; and
- a visionary management with an international perspective supported by talented professionals.

BUSINESS STRATEGIES

Our strategic objective is to become a premier investment bank in China. We intend to enhance our full-service capabilities covering the entire value chain through transformation, innovation and cross-border development. Operating with a client-oriented approach that focuses on individual, institutional and corporate clients, we strive to develop a profit model supported by a diversified business mix, a well-developed business structure and internal collaboration to achieve quality growth under varied market conditions. In particular, our business strategies include the following:

- upgrading our business models and service network, and developing a comprehensive wealth management service platform;
- expanding our investment banking workforce and optimizing our service mix to further enhance our full-service investment banking service capabilities;
- building the leading institutional client service platform and reinforcing our position as the prime broker of choice in China;
- building a diverse investment management platform to expand our investment management business and enhance innovation capabilities;
- accelerating the development of our diversified cross-border business to achieve overseas expansion;

- improving our risk management framework and IT infrastructure to support our strategic transformations; and
- improving our human resource management to attract, train and incentivize high-quality talent.

SUMMARY FINANCIAL AND OPERATING INFORMATION

The following tables present our summary consolidated financial information as of and for the years ended December 31, 2013, 2014 and 2015 and as of and for the six months ended June 30, 2015 and 2016. This summary has been derived from our consolidated financial information set forth in the Accountants' Report in Appendix I to this prospectus. You should read this summary in conjunction with our consolidated financial information included in the Accountants' Report in Appendix I to this prospectus, including the accompanying notes, and the information set forth in "Financial Information" beginning on page 306 of this prospectus.

Summary Consolidated Statements of Profit or Loss

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB millions)				
Fee and commission income	4,447.0	7,290.5	19,317.4	10,487.8	5,003.4
Interest income	1,985.1	3,884.7	9,906.1	5,234.4	3,298.1
Net investment gains/(losses)	1,269.8	2,538.1	5,681.1	4,737.2	386.6
Total revenue	**7,701.9**	**13,713.3**	**34,904.6**	**20,459.4**	**8,688.1**
Other income and gains	38.2	52.9	84.0	36.8	40.7
Total revenue and other income	**7,740.1**	**13,766.2**	**34,988.6**	**20,496.2**	**8,728.8**
Total expenses	**(5,358.7)**	**(9,133.4)**	**(21,905.7)**	**(11,474.1)**	**(6,223.6)**
Operating profit	**2,381.4**	**4,632.8**	**13,082.9**	**9,022.1**	**2,505.2**
Share of results of associates	269.0	339.1	551.1	309.1	339.5
Profit before income tax	**2,650.4**	**4,971.9**	**13,634.0**	**9,331.2**	**2,844.7**
Income tax expenses	(412.9)	(1,087.4)	(2,705.7)	(1,996.1)	(609.1)
Profit for the year or period	**2,237.5**	**3,884.5**	**10,928.3**	**7,335.1**	**2,235.6**

Summary Consolidated Statements of Financial Position

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB millions)			
Non-current assets	7,931.3	9,016.1	20,926.9	23,157.5
Current assets	75,928.5	184,391.9	270,728.7	222,107.1
Total assets	**83,859.8**	**193,408.0**	**291,655.6**	**245,264.6**
Non-current liabilities	11,771.2	16,877.3	65,639.7	53,896.5
Current liabilities	44,904.2	134,934.5	177,584.1	143,481.0
Total liabilities	**56,675.4**	**151,811.8**	**243,223.8**	**197,377.5**
Total equity	**27,184.4**	**41,596.2**	**48,431.8**	**47,887.1**

Summary Consolidated Statements of Cash Flows

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB millions)				
Net cash (used in)/generated from operating activities[1]	(13,488.8)	(3,939.4)	(29,572.8)	(63,243.8)	29,784.2
Net cash (used in)/generated from investing activities	(1,816.5)	(7,900.5)	(19,791.5)	1,678.9	(1,996.6)
Net cash generated from/(used in) financing activities	15,702.0	17,395.6	50,954.0	70,169.7	(27,787.4)
Net increase in cash and cash equivalents	**396.7**	**5,555.7**	**1,589.7**	**8,604.8**	**0.2**
Cash and cash equivalents at the beginning of the year or period	2,706.5	2,967.8	8,538.7	8,538.7	10,554.6
Effect of foreign exchange rate changes	(135.4)	15.2	426.2	(3.4)	135.2
Cash and cash equivalents at the end of the year or period	**2,967.8**	**8,538.7**	**10,554.6**	**17,140.1**	**10,690.0**

(1) Primarily due to the rapid expansion of our capital-based intermediary services, we had net cash outflow from operating activities in 2013, 2014 and 2015. Despite our negative operating cash flows in 2013, 2014 and 2015, we believe that we had strong ability to generate cash flows during the Track Record Period due to our operating profits and cash inflow arising from financing activities. Our operating cash flows before the changes in working capital amounted to RMB3,516.0 million, RMB5,755.6 million and RMB19,907.8 million, respectively, in 2013, 2014 and 2015. In addition, our net current assets increased from RMB31,024.3 million as of December 31, 2013 to RMB49,457.3 million as of December 31, 2014 and subsequently increased to RMB93,144.6 million as of December 31, 2015, which demonstrated the sufficiency of our working capital during the Track Record Period.

Key Financial and Operating Data

The following table sets forth certain key indicators of our profitability for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB millions, except for percentages)				
Operating profit[1]	**2,381.4**	**4,632.8**	**13,082.9**	**9,022.1**	**2,505.2**
—Operating margin[2]	30.8%	33.7%	37.4%	44.0%	28.7%
—Adjusted operating margin[3]	40.9%	43.4%	52.7%	57.9%	51.2%
Profit for the year or period	**2,237.5**	**3,884.5**	**10,928.3**	**7,335.1**	**2,235.6**
—Net margin[4]	28.9%	28.2%	31.2%	35.8%	25.6%
—Adjusted net margin[5]	38.4%	36.4%	44.0%	47.1%	45.7%
Return on equity[6]	**8.4%**	**11.2%**	**24.3%**	**32.8%**[7]	**9.3%**[7]
Return on assets[8]	**2.8%**	**2.8%**	**4.5%**	**5.3%**[7]	**1.7%**[7]

(1) Operating profit = total revenue and other income – total expenses.
(2) Operating margin = operating profit/total revenue and other income.
(3) Adjusted operating margin = operating profit/(total revenue and other income – fee and commission expenses and interest expenses). Adjusted operating margin is not a standard measure under IFRS, but is presented here because PRC securities firms present their operating revenue after deducting 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 adjusted operating margin provides a meaningful indicator of results of operations that is more comparable to other PRC listed securities firms in China due to different presentation requirements between PRC GAAP and IFRS. Prospective investors should be aware that the adjusted operating margin presented in this prospectus may not be comparable with other similarly titled measures reported by other companies due to different calculation methods or assumptions.
(4) Net margin = profit for the year or period/total revenue and other income.
(5) Adjusted net margin = profit for the year or period/(total revenue and other income – fee and commission expenses and interest expenses). Adjusted net margin is not a standard measure under IFRS, but is presented here because PRC securities firms present their operating revenue after deducting 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 net margin provides a meaningful indicator of results of operations that is more comparable to other PRC listed securities firms due to different presentation requirements between PRC GAAP and IFRS. Prospective investors should be aware that the adjusted net margin presented in this prospectus may not be comparable with other similarly titled measures reported by other companies due to different calculation methods or assumptions.

(6) Return on equity = profit attributable to shareholders of the Company/the average balance of total equity attributable to shareholders of the Company as of the beginning and end of the year or period.

(7) These figures have been annualized to be comparable to prior years but are not indicative of the actual results.

(8) Return on assets = profit for the year or period/the average balance of total assets as of the beginning and end of the year or period.

The following table sets forth our segment revenue and other income in absolute amount and as a percentage of total revenue and other income, as well as the segment margin, which is calculated as the segment profit before income tax divided by the segment revenue and other income, for the periods indicated:

	Year ended December 31,									Six months ended June 30,					
	2013			2014			2015			2015			2016		
	Amount	Percentage of Total	Segment Margin	Amount	Percentage of Total	Segment Margin	Amount	Percentage of Total	Segment Margin	Amount	Percentage of Total	Segment Margin	Amount	Percentage of Total	Segment Margin
										(unaudited)					
	(RMB in millions, except for percentages)														
Brokerage and wealth management	5,316.0	68.7%	37.0%	8,751.9	63.6%	40.7%	24,404.4	69.7%	43.9%	13,970.9	68.2%	50.5%	6,405.4	73.4%	31.0%
Investment banking	541.0	7.0%	13.5%	1,613.4	11.7%	49.8%	2,843.8	8.1%	52.4%	991.4	4.8%	26.5%	1,124.4	12.9%	52.3%
Investment management	437.0	5.6%	61.4%	918.6	6.7%	66.9%	1,313.3	3.8%	54.1%	723.5	3.5%	60.9%	413.3	4.7%	40.9%
Investment and trading	1,277.7	16.5%	34.3%	2,273.6	16.5%	41.1%	5,732.2	16.4%	44.0%	4,604.9	22.5%	61.6%	546.8	6.3%	25.0%
—Proprietary trading	1,277.7	16.5%	34.3%	2,265.4	16.5%	40.8%	5,524.2	15.8%	41.9%	4,491.3	21.9%	60.7%	503.5	5.8%	18.7%
Others[1]	168.4	2.2%	(57.7)%[2]	234.0	1.7%	(401.7)%[2]	694.9	2.0%	(257.6)%[2]	205.5	1.0%	(617.9)%[2]	238.9	2.7%	(15.8)%[2]
Intersegment eliminations	—	—	—	(25.3)	(0.2%)	—	—	—	—	—	—	—	—	—	—
Total	**7,740.1**	**100.0%**	**34.2%**	**13,766.2**	**100.0%**	**36.1%**	**34,988.6**	**100.0%**	**39.0%**	**20,496.2**	**100.0%**	**45.5%**	**8,728.8**	**100.0%**	**32.6%**

(1) Mainly includes interest income from our own cash, government grants, commission from tax withholding and remittance.

(2) Others segment had a negative margin during the Track Record Period, primarily due to an increase in accrued staff costs along with the growth of our business.

Our investment and trading segment primarily includes our proprietary trading activities. During the Track Record Period, substantially all of the revenue and profit of our investment and trading business were derived from proprietary trading activities. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, our proprietary trading business contributed 100.0%, 99.6%, 96.4%, 97.5% and 92.1% of the revenue and other income of our investment and trading business, respectively, and 100.0%, 99.1%, 91.9%, 96.1% and 69.0% of the pre-tax segment profit of our investment and trading business, respectively. The following table sets forth the revenue and other income and pre-tax segment profit of our proprietary trading business for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	**2014**	**2015**	**2015**	**2016**
	(RMB in millions)				
				(Unaudited)	
Revenue and other income	1,277.7	2,265.4	5,524.2	4,491.3	503.5
Segment profit before income tax	438.1	925.4	2,317.2	2,726.9	94.2

Our revenue and other income from proprietary trading activities decreased from RMB4,491.3 million in the first half of 2015 to RMB503.5 million in the same period in 2016, and the average rate of return of our proprietary trading activities decreased from 10.1% in the first half of 2015 to 0.7% in the same period in 2016, primarily due to the unfavorable market conditions and the stabilization measures. See “Financial Information—Factors Affecting Our Results of Operations—Stabilization Measures in the PRC Stock Market” on page 308 of this prospectus. Our revenue and other income from proprietary trading increased by 77.3% from RMB1,277.7 million in 2013 to RMB2,265.4 million in 2014, and further increased by 143.9% to RMB5,524.2 million in 2015, primarily driven by favorable market development and our application of advanced trading strategies and techniques to capture market opportunities. As a result, the average rate of return of our proprietary trading activities increased from 5.6% in 2013 to 9.5% in 2014, and further increased to 9.9% in 2015.

We have adopted comprehensive measures to manage the risks associated with our proprietary trading business. See “Business—Risk Management” on page 205 of this prospectus. We will continue to emphasize prudence in our business operations. In particular, we will continue to adopt advanced trading strategies and techniques to achieve stable returns while limiting our exposure to market risks. We will also continue to adjust our trading strategies based on market trends and conditions. See “Business—Risk Management and Internal Control Measures in Our Major Business Lines—Investment and Trading Business—Equity securities investment and trading” on page 226 of this prospectus.

For a discussion of our segment profit before income tax, see “Financial Information—Summary Segment Results” beginning on page 336 of this prospectus.

The following table sets forth certain key operating data of our principal business lines in China for the periods or as of the dates indicated:

	As of or for the year ended December 31,			As of or for the six months ended June 30,	
	2013	2014	2015	2015	2016
Stocks and funds brokerage trading volume (RMB in billions)	4,130.7	6,614.7	22,049.8	12,480.1	4,979.1
Market share of stocks and funds brokerage trading volume (%)	4.3	4.2	4.1	4.2	3.8
Average brokerage commission rate (bps)	7.7	7.1	6.4	6.6	5.3
Balance of margin loans and securities lent (RMB in billions)	19.8	57.9	62.9	112.8	45.8
Amount of equity securities underwritten as a lead underwriter (RMB in billions)	5.6	19.2	47.8	18.2	16.1
Amount of debt securities underwritten as a lead underwriter (RMB in billions)	28.2	59.0	225.8	37.6	157.9
Assets under management (RMB in billions)	68.9	177.3	414.4	282.7	517.5

RISK MANAGEMENT, CAPITAL ADEQUACY AND LIQUIDITY

We are committed to an effective risk management approach that strictly abides by legal and compliance requirements to achieve reasonable risk-adjusted returns. As we manage overall risk control and risk limits and prioritize businesses with higher risk-adjusted returns for purposes of resource allocation, we strive to maximize profitability provided that risks are identifiable, predictable, manageable and bearable. Through these means, we seek to ensure our long-term steady growth and business success.

We have established a dynamic Net Capital monitoring mechanism to comply with statutory net capital requirements and other regulatory standards to maintain capital adequacy. During the Track

Record Period, we complied with these risk-control indicators and received no warning or penalty from the CSRC in this regard. The CSRC has assigned us a "(Class A) AA" regulatory rating, the highest rating attained by any PRC securities firm to date, for nine consecutive years from 2008 to 2016. As of June 30, 2016, our Net Capital was RMB33.9 billion. As of June 30, 2016, our liquidity coverage ratio and net stable funding ratio stood at 255.7% and 176.9%, respectively, which were above the minimum requirements recommended by the Securities Association of China. As of the same date, our Risk Coverage Ratio was 782.2% and our leverage ratio was 3.6 times. See "Financial Information—Net Capital and Other Regulatory Requirements" on page 364 of this prospectus.

RECENT DEVELOPMENTS

Since June 30, 2016, the PRC stock market has remained volatile, and our business and results of operations have continued to be adversely affected by the unfavorable market conditions in China, characterized by a relatively lower brokerage trading volume and depressed stock market, as well as by the government measures to stabilize the PRC stock market. If the PRC stock market and investor sentiment fail to improve in the second half of 2016, we expect our financial performance for the year ending December 31, 2016 to deteriorate significantly compared to 2015.

In addition, as a securities firm listed on the Shanghai Stock Exchange, we are required by the CSRC to announce selected unconsolidated, unaudited monthly operating revenue and net profit and month-end net assets of our Company and our securities subsidiary, CMS Asset Management, on a monthly basis.

On August 5 and September 6, 2016, we announced the monthly operating results of our Company and CMS Asset Management for July and August 2016, respectively, on the website of the Shanghai Stock Exchange (http://www.sse.com.cn/):

- In July 2016, the unaudited unconsolidated revenue and net profit of our Company were RMB991.7 million and RMB488.5 million, respectively. As of July 31, 2016, the unaudited unconsolidated net assets of our Company were RMB46,518.9 million. In August 2016, the unaudited unconsolidated revenue and net profit of our Company were RMB1,030.4 million and RMB594.8 million, respectively. As of August 31, 2016, the unaudited unconsolidated net assets of our Company were RMB47,194.1 million.
- In July 2016, the unaudited unconsolidated revenue and net profit of CMS Asset Management were RMB75.6 million and RMB47.9 million, respectively. As of July 31, 2016, the unaudited unconsolidated net assets of CMS Asset Management were RMB1,797.3 million. In August 2016, the unaudited unconsolidated revenue and net profit of CMS Asset Management were RMB82.5 million and RMB61.0 million, respectively. As of August 31, 2016, the unaudited unconsolidated net assets of CMS Asset Management were RMB1,856.4 million.

The selected financial data included in these announcements were extracted from the management accounts of our Company and CMS Asset Management and were prepared in accordance with PRC GAAP on an unconsolidated basis. In connection with the Global Offering, our reporting accountants have performed a review on the unaudited unconsolidated financial statements of our Company and CMS Asset Management, respectively, for July 2016 in accordance with Hong Kong Standards on Review Engagements 2410. Our reporting accountants have performed certain agreed-upon procedures for the selected unaudited unconsolidated financial data of our Company and CMS

Asset Management for August 2016 based on the Hong Kong Standard on Related Services 4400—Engagements to Perform Agreed-Upon Procedures Regarding Financial Information. These agreed-upon procedures include: (i) agreeing the unaudited unconsolidated revenues, net profit and net assets of our Company and CMS Asset Management to the respective unconsolidated management accounts for the month of August 2016; (ii) agreeing each line item in the unconsolidated management accounts for the month of August 2016 of our Company and CMS Asset Management to their respective general ledgers; (iii) checking arithmetic accuracy of the unconsolidated management accounts of our Company and CMS Asset Management, respectively, for August 2016; (iv) for our Company, (a) obtaining a schedule from management detailing the revenue by each category of investment income and gains; (b) agreeing the total amount of investment income and gains on the schedule to the unconsolidated management accounts; and (c) agreeing each line item in the schedule to the respective unconsolidated management accounts; and (v) for CMS Asset Management, (a) obtaining a schedule from management detailing the management fee revenue by each asset management scheme; (b) agreeing the total amount of management fee revenue on the schedule to the unconsolidated management accounts; and (c) agreeing the management fee revenue of the top ten asset management schemes on the schedule to the sub-ledger. These monthly unconsolidated unaudited financial data are not indicative of our operating results for any period of a year or any full year. Information contained in these announcements does not form part of this prospectus. We strongly caution you not to place any reliance on such information when considering whether to invest in our H Shares. We have not provided a reconciliation of our selected unaudited unconsolidated financial data to IFRS as there is no material difference in accounting treatment between PRC GAAP and IFRS.

USE OF PROCEEDS

Assuming an Offer Price of HK$12.16 per H Share (being the mid-point of the stated range of the Offer Price of between HK$11.54 and HK$12.78 per H Share), we estimate that we will receive net proceeds of approximately HK$10,474.8 million from the Global Offering after deducting underwriting commissions and other estimated expenses in connection with the Global Offering and assuming that the Over-allotment Option is not exercised. We intend to use our proceeds from the Global Offering for the purposes and in the amounts set forth below:

- approximately 25%, or HK$2,618.7 million, for developing our brokerage and wealth management business to satisfy the increasing investment and financing needs of our clients;
- approximately 25%, or HK$2,618.7 million, for expanding our institutional client services and investment and trading business and investing in other financial products as approved by the PRC regulatory authorities;
- approximately 25% or HK$2,618.7 million, for expanding our overseas business by contributing additional capital to CMS International to support its business, in particular, leverage and structured financing, margin financing, and global commodities businesses;
- approximately 20%, or HK$2,095.0 million, for contributing capital to our subsidiaries such as CMS Asset Management and CMS Zhiyuan and associated companies, as well as establishing new subsidiaries for expanding our investment management business and enhancing our product development and active management capabilities; and
- approximately 5%, or HK$523.7 million, for working capital and general corporate purposes.

For more details, see “Future Plans and Use of Proceeds” beginning on page 373 of this prospectus.

OFFER STATISTICS

The statistics in the following table are based on the assumption that: (a) the Global Offering has been completed and 891,273,800 H Shares have been newly issued; and (b) the Over-allotment Option has not been exercised.

	Based on an Offer Price of HK$11.54	Based on an Offer Price of HK$12.78
Market capitalization of our H Shares(1)	HK$11,313.8 million	HK$12,529.5 million
Unaudited pro forma adjusted consolidated net tangible assets per share(2)	HK$9.77	HK$9.93

(1) The calculation of market capitalization is based on 980,401,180 H Shares (including 891,273,800 H Shares to be issued in the Global Offering and 89,127,380 H Shares to be converted from A Shares and transferred to the NSSF, which are expected to be outstanding immediately following the completion of the Global Offering).

(2) The unaudited pro forma adjusted consolidated net tangible assets per share is arrived at after the adjustments referred to in "Appendix II—Unaudited Pro Forma Financial Information" to this prospectus.

CONTROLLING SHAREHOLDER

As of the Latest Practicable Date, China Merchants Group indirectly held approximately 50.86% of our issued share capital. China Merchants Group is a large PRC state-owned conglomerate based in Hong Kong. China Merchants Group currently operates in three core business sectors, namely, transportation and related infrastructure, finance and property. Its finance-related businesses include banking, securities, funds and funds management, and insurance and insurance brokerage. With a view to maintaining an appropriate level of shareholding of China Merchants Group in our Company after the completion of the Global Offering pursuant to a governmental directive, China Merchants Group (either in its own name or through nominees) will subscribe for 67,706,400 H Shares so as to reinstate China Merchants Group's shareholding in our Company after the completion of the Global Offering. See "Waivers and Consent from Strict Compliance with the Hong Kong Listing Rules" beginning on page 60 of this prospectus for more details in relation to China Merchants Group's proposed subscription of our H Shares. See "Relationship with China Merchants Group" beginning on page 293 of this prospectus for more details of China Merchants Group. See "Substantial Shareholders" beginning on page 291 of this prospectus for more details of our Substantial Shareholders.

We have entered into the Framework Agreement (as such term is defined in the section headed "Connected Transactions" in this prospectus) with China Merchants Group. Transactions under this agreement will constitute our continuing connected transactions as defined under Chapter 14A of the Hong Kong Listing Rules. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with certain requirements under the Hong Kong Listing Rules. See "Connected Transactions" beginning on page 250 of this prospectus.

DIVIDEND POLICY

Our Articles of Association require us to distribute cash dividends (i) in any fiscal year in an amount equal to at least 10% of our annual distributable profits and (ii) in any three consecutive fiscal years in an amount equal to at least 30% of the average annual distributable profits in the same period, if there are no significant investments or capital expenditure plans. See "Financial Information—Dividend Policy" beginning on page 369 of this prospectus. In 2013, 2014 and 2015 and the six months ended June 30, 2016, we distributed cash dividends of RMB661.9 million, RMB888.6 million, RMB4,466.5 million and RMB1,434.6 million, respectively, representing a dividend of RMB0.142, RMB0.153, RMB0.769 and RMB0.247 per share, respectively. At our shareholders' meeting in June

2015, it was resolved that our accumulated undistributed profits before the Global Offering would be shared among our existing shareholders and new shareholders. On September 13, 2016, our shareholders approved a cash dividend of RMB894.5 million payable to the holders of our A Shares. We expect to pay this dividend by September 29, 2016 with our own cash. Our historical dividend distributions may not be indicative of future dividend payments.

RISK FACTORS

There are risks involved in our operations and in connection with the Global Offering, many of which are beyond our control. These risks can be categorized into (i) risks relating to our business and industry, (ii) risks relating to the PRC, and (iii) risks relating to the Global Offering. We believe our major risks include:

- General economic and market conditions could materially adversely affect our business.
- Government measures for stabilizing the PRC stock market and involvement by market participants in these measures could increase our exposure to market and other risks.
- We and our associated companies are subject to extensive and evolving regulatory requirements, non-compliance with which, or changes in which, may affect our business operations and prospects.
- We may be subject to litigation and regulatory investigations and proceedings, and may not always be successful in defending ourselves against such claims or proceedings.
- The PRC securities industry is highly competitive and gradual deregulation may attract new competitors to the market, which could adversely affect our businesses and prospects.
- Investments in PRC securities firms are subject to ownership restrictions, and prior approval from the CSRC is required for any person or entity to hold, directly or indirectly, 5% or more of the registered capital or total issued shares of a PRC securities firm. These restrictions may adversely affect the value of your investment.
- Our equity financing options may be limited due to CSRC requirements on foreign shareholdings in a listed PRC securities firm.

For further information relating to these and other risks relating to an investment in our H Shares, see "Risk Factors" beginning on page 29 of this prospectus.

REGULATORY NON-COMPLIANCE AND INSPECTIONS

We are subject to regulatory requirements and guidelines issued by the regulatory authorities in the PRC, Hong Kong, the United Kingdom and other jurisdictions where we operate. During the Track Record Period, we were involved in regulatory non-compliance incidents that led to the deduction of regulatory points. In addition, we may be subject to inspections and examinations by the CSRC, the SFC and other regulatory agencies, which may reveal certain deficiencies with respect to our business operations, risk management and internal controls. See "Business—Legal and Regulatory" beginning on page 233 of this prospectus.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Global Offering. We estimate that our listing expenses will be approximately RMB312.6 million (assuming an Offer Price of HK$12.16 per H Share (being the mid-point of the indicative Offer Price range) and no exercise of the Over-allotment Option), of which approximately RMB285.1 million is directly attributable to the issue of our H Shares to the public and will be capitalized and amortized, and approximately RMB27.5 million has been or is expected to be expensed in 2016. Our Directors do not expect such expenses to materially impact our results of operations in 2016.

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

"A Share(s)"	domestic shares of our Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi and are listed for trading on the Shanghai Stock Exchange
"A Share Offering"	the initial public offering and listing of A Shares of our Company on the Shanghai Stock Exchange in November 2009
"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, as amended, which shall become effective on the Listing Date, a summary of which is set out in Appendix V to this prospectus
"Board" or "Board of Directors"	the Board of Directors of our Company
"Bohai Rim"	the region in China comprising Beijing, Tianjin, Hebei, Liaoning and Shandong provinces
"Bosera Funds"	Bosera Asset Management Co., Limited (博時基金管理有限公司), a company with limited liability incorporated in the PRC in July 1998, of which China Merchants Securities Co., Ltd. was one of the shareholders holding 49.0% of its equity interest as of the Latest Practicable Date
"Business Day" or "business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business to the public
"CBRC"	China Banking Regulatory Commission (中國銀行業監督管理委員會)
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation

"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"China" or "PRC"	the People's Republic of China, excluding, for the purpose of this prospectus only, Hong Kong, Macau and Taiwan
"China Merchants Bank"	China Merchants Bank Co., Ltd. (招商銀行股份有限公司) (including its headquarters, branches and subsidiaries), a commercial bank established in the PRC in April 1987, of which China Merchants Group was a shareholder interested in 29.97% as of the Latest Practicable Date
"China Merchants Fund"	China Merchants Fund Management Co., Ltd. (招商基金管理有限公司), a company with limited liability incorporated in the PRC in December 2002, of which our Company held a 45.0% equity interest and China Merchants Bank was a 55.0% shareholder as of the Latest Practicable Date
"China Merchants Futures"	China Merchants Futures Co., Limited (招商期貨有限公司), a company with limited liability incorporated in the PRC in January 1993, a wholly-owned subsidiary of our Company
"China Merchants Futures (HK)"	China Merchants Futures (HK) Co., Limited, a company with limited liability incorporated in Hong Kong in January 2001, a wholly-owned subsidiary of CMS International
"China Merchants Group"	China Merchants Group Limited (招商局集團有限公司), a state-owned enterprise established in the PRC in October 1986, which is directly administered by the SASAC and is our Controlling Shareholder; or if the context requires, China Merchants Group Limited together with its subsidiaries and associated companies (except our Group) from time to time
"China Securities Finance"	China Securities Finance Corporation Limited (中國證券金融股份有限公司), a joint stock company incorporated in the PRC in October 2011 to provide, among other functions, margin and securities refinancing services to support the margin financing and securities lending business of PRC securities firms
"China Merchants Capital"	China Merchants Capital Investment Co., Ltd. (招商局資本投資有限責任公司), a company with limited liability incorporated in the PRC in January 2012, a wholly-owned indirect subsidiary of China Merchants Group
"CMS Asset Management"	China Merchants Securities Asset Management Co., Ltd. (招商證券資產管理有限公司), a company with limited liability incorporated in the PRC in April 2015, a wholly-owned subsidiary of the Company

"CMS Asset Management (HK)"	CMS Asset Management (HK) Co., Limited, a company with limited liability incorporated in Hong Kong in August 2008, a wholly-owned subsidiary of CMS International
"CMS International"	China Merchants Securities International Company Limited, a company with limited liability incorporated in Hong Kong in July 1999, a wholly-owned subsidiary of the Company, or if the context requires, China Merchants Securities International Co., Ltd. together with its subsidiaries and associated companies (except the Group) from time to time
"CMS Zhiyuan"	China Merchants Zhiyuan Capital Investment Co., Ltd. (招商致遠資本投資有限公司), a company with limited liability incorporated in the PRC in August 2009, a wholly-owned subsidiary of our Company
"CMSHK"	China Merchants Securities (HK) Co., Limited, a company with limited liability incorporated in Hong Kong in October 1986, a wholly-owned subsidiary of CMS International
"CMSUK"	China Merchants Securities (UK) Limited, a company with limited liability incorporated in the United Kingdom in October 2013, a wholly-owned subsidiary of CMS International
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (Winding up and Miscellaneous Provisions) Ordinance"	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our Company" or "China Merchants Securities"	China Merchants Securities Co., Ltd. (招商證券股份有限公司), a joint stock limited company incorporated under the laws of the PRC as an enterprise legal person in August 1993, the A Shares of which are listed on the Shanghai Stock Exchange (stock code: 600999) and if the context requires, includes its predecessor
"Company Law" or "PRC Company Law"	Company Law of the People's Republic of China (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People's Congress on October 27, 2005 and effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time, which was further amended on December 28, 2013 to take effective on March 1, 2014

"Controlling Shareholder"	has the meaning given to it in the Hong Kong Listing Rules, and in the context of this prospectus, refers to the controlling shareholder of our Company, China Merchants Group
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"Director(s)"	director(s) of our Company
"EIT Law"	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), as amended, supplemented or otherwise modified from time to time
"Exchange Participant(s)"	a person: (a) who, in accordance with the Hong Kong Listing Rules, may trade on or through the Hong Kong Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Hong Kong Stock Exchange as a person who may trade on or through the Hong Kong Stock Exchange
"GDP"	gross domestic product
"Global Offering"	the Hong Kong Public Offering and the International Offering
"GREEN Application Form(s)"	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
"Group," "our Group," "we" or "us"	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require)
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"H Share(s)"	overseas-listed foreign shares in the share capital of our Company with nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and are to be listed on the Hong Kong Stock Exchange
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC

"Hong Kong Listing Rules" or "Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Hong Kong Offer Shares"	the 44,564,000 H Shares initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to reallocation as described in the section headed "Structure of the Global Offering" in this prospectus)
"Hong Kong Public Offering"	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus) at the Offer Price (plus brokerage, SFC transaction levies and Hong Kong Stock Exchange trading fees), on and subject to the terms and conditions described in this prospectus and on the Application Forms as further described in "Structure of the Global Offering—Hong Kong Public Offering" in this prospectus
"Hong Kong Stock Exchange" or "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" in this prospectus
"Hong Kong Underwriting Agreement"	the underwriting agreement dated September 25, 2016 relating to the Hong Kong Public Offering and entered into by, among others, our Company, the Joint Sponsors, the Joint Representatives and the Hong Kong Underwriters, as further described in "Underwriting—Underwriting Arrangements and Expenses" in this prospectus
"IFRSs"	International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards and interpretation issued by the International Accounting Standards Committee
"Independent Third Party(ies)"	party(ies) not connected with us within the meaning of the Hong Kong Listing Rules as far as our Directors are aware after having made all reasonable enquiries
"International Offer Shares"	the 846,709,800 H Shares initially offered by our Company for subscription pursuant to the International Offering together with, where relevant, any additional H Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option (subject to reallocation as described in the section headed "Structure of the Global Offering" in this prospectus)

"International Offering"	the offer of the International Offer Shares by the International Underwriters at the Offer Price to non-U.S. persons outside the United States in offshore transactions in accordance with Regulation S, and to persons within the United States or to U.S. persons in each case who are both QIBs and QPs in reliance on Rule 144A or any other available exemption from registration under the U.S. Securities Act, as further described in the section headed "Structure of the Global Offering" in this prospectus
"International Underwriters"	the group of international underwriters, led by the Joint Representatives, that is 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 around September 30, 2016 by, among others, our Company and the International Underwriters in respect of the International Offering, as further described in "Underwriting—International Offering" in this prospectus
"Joint Bookrunners"	China Merchants Securities (HK) Co., Limited, J.P. Morgan Securities (Asia Pacific) Limited (in relation to the Hong Kong Public Offering only), J.P. Morgan Securities plc (in relation to the International Offering only), Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering only), Morgan Stanley & Co. International plc (in relation to the International Offering only), Huatai Financial Holdings (Hong Kong) Limited, CMB International Capital Limited, Deutsche Bank AG, Hong Kong Branch, Mizuho Securities Asia Limited, GF Securities (Hong Kong) Brokerage Limited, China Everbright Securities (HK) Limited, Orient Securities (Hong Kong) Limited, China Securities (International) Corporate Finance Company Limited, Guotai Junan Securities (Hong Kong) Limited, Ping An of China Securities (Hong Kong) Company Limited, UBS AG Hong Kong Branch, ICBC International Capital Limited, ABCI Capital Limited, CCB International Capital Limited, BOCOM International Securities Limited and BOCI Asia Limited
"Joint Global Coordinators"	China Merchants Securities (HK) Co., Limited, J.P. Morgan Securities (Asia Pacific) Limited, Morgan Stanley Asia Limited, Huatai Financial Holdings (Hong Kong) Limited and CMB International Capital Limited
"Joint Lead Managers"	China Merchants Securities (HK) Co., Limited, J.P. Morgan Securities (Asia Pacific) Limited (in relation to the Hong Kong Public Offering only), J.P. Morgan Securities plc (in relation to

	the International Offering only), Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering only), Morgan Stanley & Co. International plc (in relation to the International Offering only), Huatai Financial Holdings (Hong Kong) Limited, CMB International Capital Limited, Deutsche Bank AG, Hong Kong Branch, Mizuho Securities Asia Limited, GF Securities (Hong Kong) Brokerage Limited, China Everbright Securities (HK) Limited, Orient Securities (Hong Kong) Limited, China Securities (International) Corporate Finance Company Limited, Guotai Junan Securities (Hong Kong) Limited, Ping An of China Securities (Hong Kong) Company Limited, UBS AG Hong Kong Branch, ICBC International Securities Limited, ABCI Securities Company Limited, CCB International Capital Limited, BOCOM International Securities Limited and BOCI Asia Limited
"Joint Representatives"	China Merchants Securities (HK) Co., Limited, J.P. Morgan Securities (Asia Pacific) Limited and Morgan Stanley Asia Limited
"Joint Sponsors"	China Merchants Securities (HK) Co., Limited, J.P. Morgan Securities (Far East) Limited and Morgan Stanley Asia Limited
"Latest Practicable Date"	September 19, 2016, being the latest practicable date for the purpose of ascertaining certain information contained 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 around October 7, 2016, on which our H Shares of the Company 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
"Main Board"	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
"Mandatory Provisions"	the "Mandatory Provisions for Articles of Association of Companies to be Listed Overseas" (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong

	Kong), which were promulgated by the former Securities Commission of the State Council (國務院證券委員會) and the former State Commission for Restructuring the Economic Systems (國家經濟體制改革委員會) on August 27, 1994
"MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"NDRC"	the 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)
"NPC"	the National People's Congress of the PRC (中華人民共和國全國人民代表大會)
"NSSF"	the National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會)
"Offer Price"	the final 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%) of not more than HK$12.78 and expected to be not less than HK$11.54, 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 and Allocation" in this prospectus
"Offer Share(s)"	the Hong Kong Offer Shares and the International Offer Shares, together with, where relevant, any additional H Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option expected to be granted by our Company to the International Underwriters, exercisable by the Joint Representatives (on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an aggregate of 133,691,000 additional H Shares at the Offer Price to, among other things, cover over-allocations in the International Offering, if any, further details of which are described in the section headed "Structure of the Global Offering" in this prospectus
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"Pearl River Delta"	for the purpose of this prospectus, a region in China comprising Guangzhou, Shenzhen, Zhuhai, Foshan, Dongguan, Zhongshan, Huizhou, Jiangmen, Zhaoqing and Shantou, all located in Guangdong province
"PRC GAAP"	generally accepted accounting principles of the PRC

"Price Determination Agreement"	the agreement to be entered into by the Joint Representatives (on behalf of the Hong Kong Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price
"Price Determination Date"	the date, expected to be on or around September 30, 2016 (Hong Kong time) on which the Offer Price is determined, or such later time as the Joint Representatives (on behalf of the Hong Kong Underwriters) and our Company may agree, but in any event no later than October 1, 2016
"prospectus"	this prospectus being issued in connection with the Hong Kong Public Offering
"province"	a province or, where the context requires, a provincial level autonomous region or municipality, under the direct supervision of the central government of the PRC
"QIB" or "Qualified Institutional Buyer"	a qualified institutional buyer within the meaning of Rule 144A under the U.S. Securities Act
"QP" or "Qualified Purchaser"	a qualified purchaser, 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
"Risk Control Indicator Measures"	Administrative Measures for the Risk Control Indicators of Securities Companies in the PRC (證券公司風險控制指標管理辦法)
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"SAT"	the State Administration of Taxation of the PRC (中國國家稅務總局)
"Securities Law"	the Securities Law of the PRC (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

"Share(s)"	ordinary shares in the capital of our Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares
"Shareholders(s)"	holder(s) of the Share(s)
"SME(s)"	small and medium enterprise(s)
"SOE(s)"	state-owned enterprise(s)
"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, as amended from time to time
"SSE Listing Rules"	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (上海證券交易所股票上市規則), as amended from time to time
"Stabilizing Manager"	China Merchants Securities (HK) Co., Limited
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"subsidiary(ies)"	has the meaning ascribed to it in section 15 of the Companies Ordinance
"Supervisor(s)"	member(s) of our Supervisory Committee
"Supervisory Committee"	the supervisory committee of our Company
"Top Ten Securities Firms"	the top ten PRC securities firms in terms of total assets as of December 31, 2015, comprising CITIC Securities Co., Ltd., Haitong Securities Co., Ltd., Guotai Junan Securities Co., Ltd., Huatai Securities Co., Ltd., GF Securities Co., Ltd, Shenwan Hongyuan Group Co., Ltd., China Galaxy Securities Co., Ltd., China Merchants Securities Co., Ltd., Guosen Securities Co., Ltd., and Orient Securities Co., Ltd.
"Track Record Period"	the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"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 in Rule 902 of Regulation S
"WHITE Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant's own name
"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 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 a service provider of financial data, information and software, being an Independent Third Party
"Yangtze River Delta"	the region comprising Jiangsu and Zhejiang provinces and Shanghai
"Yangtze River Economic Zone"	the region comprising Jiangsu, Zhejiang, Anhui, Jiangxi, Hubei, Hunan, Sichuan, Yunnan and Guizhou provinces, as well as Shanghai and Chongqing
"YELLOW Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS

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

Certain amounts and percentage figures included in this prospectus have been subject to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this prospectus in both the Chinese and English languages; in the event of any inconsistency, the Chinese versions shall prevail.

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

"A share(s)"	the shares that are traded on the Shanghai Stock Exchange or the Shenzhen Stock Exchange in Renminbi
"ABS"	asset-backed securities
"affluent customer(s)"	brokerage customer(s) with an account balance of at least RMB500,000, but less than RMB8.0 million
"AUM"	the amount of assets under management
"average brokerage commission rate"	the ratio of the fee and commission income from our stocks and funds brokerage business divided by our brokerage trading volume for stocks and funds
"bps"	basis points
"CAGR"	compound annual growth rate
"capital-based intermediary"	services that assist clients in trading securities and derivatives, investment and financing by leveraging the securities firm's capital and integrated trading platform, primarily including margin financing and securities lending, securities-backed lending, equity return swaps and market-making
"ChiNext Board"	the growth enterprise board launched by the Shenzhen Stock Exchange
"collateral coverage ratio"	for collateralized stock repurchase business and repurchase agreement transaction business, it refers the ratio of the fair value of initial and supplement collateral, less any collateral already released, plus interests and dividends received, divided by the amount payable by the borrower
"CSI 300 Index"	a capitalization-weighted stock market index compiled by the China Securities Index Co., Ltd. to replicate the performance of 300 stocks traded in the Shanghai and Shenzhen stock exchanges
"equity return swap"	an OTC derivatives transaction, through which a securities firm and a qualified client agree to conduct an income swap in accordance with the agreed amount of nominal principal and income within a fixed period in the future. Income under such swap shall be linked with the performance of the subject equity securities, including stocks and indexes
"ETFs"	exchange-traded funds

"FICC"	fixed-income instruments, currencies, and commodities
"H share(s)"	overseas-listed foreign shares of PRC companies that are traded on the Hong Kong Stock Exchange
"high-net-worth customer(s)"	brokerage customer(s) with account balance of over RMB8.0 million
"IPO"	initial public offering
"IT"	information technology
"light branch(es)"	securities branches that are not equipped with on-site trading information technology facilities and do not provide on-site securities trading services
"M&A"	mergers and acquisitions
"maintenance margin ratio"	for the margin finance and securities lending business, it refers to the ratio of the fair value of the collateral, including cash and securities in the margin accounts of the clients, to the total amount of receivables from the clients, including margin loan balance, market value of securities lent and accrued interest and fees
"margin and securities refinancing"	a business in which securities firms can act as intermediaries to borrow funds or securities from the China Securities Finance Co., Ltd. (中國證券金融股份有限公司) and other authorized financial institutions, and lend such funds and securities to their clients
"NEEQ"	National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
"Net Capital"	equals net assets minus risk-adjusted financial assets minus other risk-adjusted assets and risk-adjusted contingent liability plus or minus capital from other adjustments recognized or approved by the CSRC
"OTC"	over-the-counter
"QDII"	Qualified Domestic Institutional Investors (合格境內機構投資者) as approved by the CSRC
"QFII"	Qualified Foreign Institutional Investors (合格境外機構投資者) as approved by the CSRC
"retail customer(s)"	brokerage customer(s) with account balance lower than RMB500,000

"RQFII"	RMB Qualified Foreign Institutional Investors (人民幣合格境外機構投資者)
"securities-backed lending"	a transaction in which eligible borrowers get financing from eligible lenders by pledging the stocks or other securities they hold and agree to pay back the principal and accrued interest and cancel the pledge in a period of time
"Shanghai-Hong Kong Stock Connect"	a securities trading and clearing links program developed by the Hong Kong Stock Exchange, Shanghai Stock Exchange, HKSCC and China Securities Depository and Clearing Corporation Limited for mutual market access between Hong Kong and Shanghai
"SME Board"	the Small and Medium Enterprises Board of the Shenzhen Stock Exchange
"sponsor representative"	a professional representative qualified in China to sponsor and execute the offering and listing of securities pursuant to the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities of the PRC (2009 Revision) (證券發行上市保薦業務管理辦法(2009年修訂))
"SSE 50 ETF option"	an option contract invested in the Shanghai Stock Exchange 50 Index, which is adjusted once every six months, or according to special circumstances
"stock repurchase"	securities repurchase business, a transaction pursuant to the securities repurchase agreement, in which an eligible investor sells its securities to a securities firm and agrees to repurchase such securities at a fixed price on an agreed future date
"structured notes"	a debt financing instrument issued by PRC securities firms that makes payments of return linked with the underlying assets and the principal when due
"ST stocks"	shares under special treatment by Shanghai Stock Exchange or Shenzhen Stock Exchange due to abnormal financial conditions and other matters of the issuers
"TMT"	telecommunications, media and technology
"VaR"	value at risk

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "estimate," "predict," "aim," "intend," "will," "may," "plan," "consider," "anticipate," "seek," "should," "could," "would," "continue," or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- general political and economic conditions, including those related to the PRC;
- macro-economic measures adopted by the PRC government to manage economic growth;
- changes in the global economic conditions and material volatility in the global financial markets;
- our ability to successfully implement our business plans and strategies;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our business prospects;
- our capital expenditure plans;
- the actions and developments of our competitors;
- our financial condition and performance;
- capital market developments;
- our dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate; and
- various business opportunities that we may pursue.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed under the section headed "Risk Factors" and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

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 adversely affect our business, financial condition and results of operations. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that we are a company incorporated in the PRC and most of our operations are conducted in the PRC, which is governed by a legal and regulatory environment that may differ significantly from that of other countries. For more information concerning the PRC and certain related matters discussed below, see "Regulatory Environment," "Appendix IV—Summary of Certain Legal and Regulatory Matters" and "Appendix V—Summary of Articles of Association."

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

General economic and market conditions could materially adversely affect our business.

Our business is highly dependent on economic and market conditions in China, as a substantial majority of our revenue is derived from the PRC securities markets. Like other businesses operating in the same industry, our business is directly affected by the inherent risks associated with the securities markets, such as market volatility, fluctuations in trading volume, and investor confidence. Our business is also subject to general economic and political conditions, such as macroeconomic and monetary policies, legislation and regulations affecting the financial and securities industries, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability and cost of funding, and interest rates levels.

In the past, China's securities industry and our results of operations were primarily affected by the monetary policies in the PRC and volatility in the PRC securities markets. For example, the A-share stock market in China experienced a surge from the fourth quarter of 2014 to the first half of 2015 and set a historical trading volume record in the fourth quarter of 2014 to the first half of 2015. According to Wind Info, the trading volume in the PRC stock market in the fourth quarter of 2014 was RMB33.6 trillion, representing 45.1% of the aggregate trading volume in the PRC stock market for 2014. In 2015, the trading volume in the PRC stock market was RMB255.6 trillion, a 243.5% increase compared with 2014. Accordingly, both of our securities brokerage trading volume and fee and commission income from securities brokerage increased significantly during the fourth quarter of 2014 and in 2015. However, there is no assurance that such business performance and favorable economic and market conditions will be sustained. In 2015, the A-share market experienced significant fluctuations, especially from mid-June to the end of August. For example, the CSI 300 Index fell by 43.3% from 5,335.1 on June 12, 2015 to 3,025.7 on August 26, 2015. In response to this sudden and significant market decline, the PRC government announced a series of measures to stabilize the stock market and restore investor confidence. These measures had and will continue to have a significant impact on our business. See "—Government measures for stabilizing the PRC stock market and involvement by market participants in these measures could increase our exposure to market and other risks." In the first half of 2016, the PRC stock market has been highly volatile and the CSI 300 Index plummeted by 15.5%. The average daily trading volume of the PRC stock market decreased from RMB1,158.1 billion during the first half of 2015 to RMB530.4 billion during the first half of 2016. As a result, in the first half of 2016, segment revenue and other income of our brokerage and wealth management business decreased by 54.2% compared to the same period in 2015, and segment revenue and other income of our investment and trading business also decreased by 88.1% compared to the same period in 2015.

Our businesses, financial condition and results of operations may be adversely affected by general economic and market conditions in many ways, including, among other things:

- Our securities brokerage and wealth management business depends on trading volumes and equity market performance. Unfavorable economic and market conditions can adversely affect investor confidence and trading and investment activities, resulting in reduced brokerage fees and commission income.
- Our investment banking business may be adversely affected by market conditions. Unfavorable economic and market conditions may negatively impact investor confidence and corporate finance activities, resulting in significant declines in the size and number of investment banking transactions, which may have a material and adverse effect on the revenue of our investment banking business.
- Market volatility and unfavorable market conditions may reduce our AUM, and affect the performance of the assets or funds we manage, which could adversely affect our ability to receive management fees or performance fees.
- We have net long trading positions in various equity and fixed-income securities as part of our investment and trading business. As a substantial portion of these financial instruments is marked to market, declines in fair values could directly impact our profit and/or shareholders' equity, unless we have effectively hedged our exposures to such declines. Sudden declines and significant volatility in asset values may cause us to incur significant losses.

Government measures for stabilizing the PRC stock market and involvement by market participants in these measures could increase our exposure to market and other risks.

In 2015, the A-share market experienced significant fluctuations, especially from mid-June to the end of August. In response to this stock market plummet, the PRC government has announced a series of measures to stabilize the stock market and restore investor confidence. See "Summary—Recent Developments."

On July 6, 2015, along with 20 other PRC securities firms, we agreed to contribute an amount equal to 15% of our Company's net assets as of June 30, 2015, or approximately RMB6.9 billion, to the designated accounts at China Securities Finance for purchasing blue-chip ETFs in China. On September 1, 2015, together with 49 other PRC securities firms, we agreed to further contribute approximately RMB2.4 billion to the designated accounts at China Securities Finance. As of June 30, 2016, we contributed a total of RMB9.3 billion, which are accounted for as available-for-sale financial assets on our consolidated statements of financial position. As of December 31, 2015 and June 30, 2016, the fair value of our contributions to the designated accounts at China Securities Finance was RMB8.8 billion and RMB8.1 billion, respectively. As of June 30, 2016 and the Latest Practicable Date, no impairment provision for our contributions to the designated accounts at China Securities Finance was made. However, we may be required to impair our funds contributed to the designated accounts at China Securities Finance if the fair value of our contributions is below its initial cost by over 50% or the decline in fair value prolongs over one year. In addition, on July 27, 2015, our shareholders approved a plan to expand the size of our A-share directional equity trading position to up to 50% of our Net Capital as of June 30, 2015, approximately RMB18.7 billion measured at cost, from a previous limit of 15% of our real time Net Capital. Furthermore, we have undertaken not to reduce our A-share proprietary trading positions below our balance as of July 3, 2015 if the SSE Composite Index is below 4,500 points. As a result, pre-tax segment profit of our investment and trading business decreased by 95.2% in the first half of 2016 as compared to the same period in 2015 as the A-share market experienced significant fluctuations since June 2015 while we were unable to reduce our long-only trading positions or effectively hedge our exposures through short-selling to mitigate market risk in such a highly volatile market.

These measures and our significantly increased long-only equity trading position in the PRC stock market expose us to greater market and other risks. We cannot control how China Securities Finance will make use of the funds for purchasing blue-chip ETFs in China and when our contributions will be returned. In addition, we may be unable to effectively reduce our long-only equity trading position or hedge our exposures through short-selling. Our participation in the stabilization measures and increased long-only equity trading position have resulted in a decline in fair value of our investment and trading activities in 2015 and the first half of 2016 and could reduce our Net Capital and make it more difficult for us to comply with the Net Capital-based risk indicators and other capital requirements in China. See "Appendix I—Accountants' Report."

The occurrence of any of the foregoing risks could materially adversely affect our business, financial condition, results of operations and prospects. We are unable to predict the long-term impact of the foregoing measures on our operations. There is also no assurance that the PRC government will not introduce any additional measures to stabilize the stock market in the future.

We and our associated companies are subject to extensive and evolving regulatory requirements, non-compliance with which, or changes in which, may affect our business operations and prospects.

As a financial institution, we, along with our associated companies, are subject to extensive regulations in China and overseas. Regulatory authorities regulate our business activities by imposing capital requirements, determining the types of products and services we may offer, and limiting the types of securities we may invest in.

The regulatory authorities in the jurisdictions where we and our associated companies operate, principally China and Hong Kong, conduct periodic inspections, examinations and inquiries with respect to 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. We are one of the two PRC securities firms to have received a "(Class A) AA" regulatory rating from the CSRC for nine consecutive years since 2008. For details of the factors taken into account by the CSRC in assigning regulatory ratings, see "Regulatory Environment." However, there is no assurance that the CSRC will not lower our regulatory rating in the future, which may make us unqualified for conducting certain new businesses or obtaining business permits or approvals for our businesses, or cause us to be subject to a higher risk capital reserve ratio or a higher ratio for our securities investor protection fund.

Failure to comply with the applicable regulatory requirements could result in sanctions, fines, penalties or other disciplinary actions, including, among other things, a downgrade of our regulatory rating and limitations or prohibitions on our future business activities, which may limit our ability to conduct pilot programs and launch new products and services, and harm our reputation. During the Track Record Period, we, our employees and our associated companies had been involved in certain non-compliance incidents and regulatory investigations, and received warnings or penalties from the relevant regulatory authorities. See "Business—Legal and Regulatory—Regulatory Non-compliance" and "Business—Legal and Regulatory—Regulatory Non-compliance—Non-compliance of Our Associated Company." Material non-compliance incidents may subject us to penalties, limitations, conditions or prohibitions on our business activities, which could have a material and adverse effect on our business, reputation, financial condition and results of operations.

Moreover, the PRC securities industry is highly regulated and relevant rules and regulations could be revised from time to time based on the development of the securities markets. New rules and regulations, and changes in the interpretation or enforcement of currently existing rules and regulations, may directly impact our business strategies and prospects. For example, in 2015, the CSRC introduced and amended multiple rules and regulations on margin financing and securities lending. See "—PRC rules and regulations on margin financing and securities lending have been continuously changing, resulting in certain non-compliant events and increased compliance costs, which may increase our compliance risks and credit risks" below. In addition, changes in the rules and regulations could result in limitations on the business lines that we may conduct, modifications to our business practices or additional costs, which may adversely affect our ability to compete effectively with other institutions that are not affected in the same way. For example, in the second half of 2015, the CSRC imposed a temporary moratorium on financing-related equity return swaps which caused us to discontinue this business and resulted in a decrease in our revenue from the investment and trading business.

We may be subject to litigation and regulatory investigations and proceedings, and may not always be successful in defending ourselves against such claims or proceedings.

The securities industry faces substantial litigation and regulatory risks, including the risk of lawsuits and other legal actions relating to information disclosure, sales or underwriting practices, product design, fraud and misconduct, as well as protection of personal and confidential information of our customers. We may be subject to lawsuits and arbitration claims in the ordinary course of our business. We may also be subject to inquiries, investigations, and proceedings by regulatory and other governmental agencies. Litigation, regulatory investigations and proceedings brought against us may result in settlements, injunctions, fines, penalties or other results adverse to us that could harm our reputation. Even if we are successful in defending ourselves against these actions, the costs of such defense may be significant. In market downturns, the number of legal claims and amount of damages sought in litigation and regulatory proceedings may increase.

From time to time, we are subject to litigation, regulatory investigations and proceedings arising in the ordinary course of our business. See "Business—Legal and Regulatory—Legal proceedings." A significant judgment or regulatory action against us, or a disruption in our business arising from adverse adjudications in proceedings against our directors, officers or employees, would have a material adverse effect on our liquidity, business, financial condition, results of operations and prospects.

The PRC securities industry is highly competitive and gradual deregulation may attract new competitors to the market, which could adversely affect our businesses and prospects.

The PRC securities industry is highly competitive and we face intense competition in most of our business lines.

For our brokerage and wealth management business, we compete primarily with other PRC securities firms in terms of pricing and the range of products and services offered. As of December 31, 2015, there were 125 registered securities firms in the PRC, and intense price competition has led us to reduce our fee and commission rates for securities brokerage in recent years. See "—Our brokerage and wealth management business is subject to various risks and we may not be able to maintain our brokerage fee and commission income and interest income." We also face pressure to maintain and expand our customer base and market share. As of June 30, 2016, we had approximately 6.5 million brokerage and wealth management customers. However, there is no assurance that we will be able to continue to maintain or grow our customer base. In April 2015, China Securities Depository and Clearing Corporation Limited lifted the long-standing "one investor, one account" restriction for PRC investors and allowed an individual to open up to 20 securities accounts with different PRC securities firms. This new policy provided brokerage investors with more flexibility to select and change their securities brokers, which poses a significant challenge for us to retain existing customers and attract new customers. If we are unable to address the needs of our clients by maintaining high-quality services, maintaining or reducing our fees, providing a more convenient and user-friendly trading experience or continuing to introduce new products, we may lose our existing customers to competitors or fail to attract new clients. As a result, our business, financial condition and results of operations may be adversely affected.

For our investment banking business, we compete primarily with other investment banks as well as commercial banks in terms of brand recognition, marketing and distribution capability, service quality, capital strength and pricing. Intense competition may result in lower underwriting fees, sponsorship fees and advisory fees.

For our asset management business, we compete primarily with other securities firms, fund management companies, banks, insurance companies, trust companies and other financial institutions in the PRC in terms of the range of products and services offered, pricing and quality of client service.

Our competitors may have certain competitive advantages over us, including greater financial resources, stronger brand recognition, broader product and service offerings, a branch network with wider geographic coverage and more experience.

Meanwhile, the gradual deregulation of the PRC securities industry and the tendency towards mixed business operations in the PRC financial industry may attract new competitors to the securities industry, or allow our current competitors to expand their business scope into new business lines. According to a statement made by the CSRC on March 6, 2015, the CSRC is evaluating a proposal to open up the PRC securities industry to financial institutions such as commercial banks, but did not provide a timetable on when the new policy will be implemented. We believe that allowing PRC commercial banks to enter the securities industry will intensify market competition, particularly in securities brokerage and equity underwriting, as well as accelerate industry reforms, as traditional commercial banks generally have greater financial resources, wider branch networks and larger customer bases compared with securities firms like us. The deregulation of the PRC securities industry could also attract foreign financial institutions to enter the PRC market to conduct investment banking and other related business; these institutions are currently subject to PRC regulatory limitations and restrictions on their business activities. Increased competition could materially adversely affect our business and prospects.

Our brokerage and wealth management business is subject to various risks and we may not be able to maintain our brokerage fee and commission income and interest income.

Brokerage fee and commission income and interest income represent a significant portion of our revenue. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, fee and commission income from our securities brokerage business (including trading seat leasing income) amounted to RMB3,374.6 million, RMB4,982.8 million, RMB14,488.1 million, RMB8,597.6 million and RMB2,886.5 million, respectively, representing 43.6%, 36.2%, 41.4%, 41.9% and 33.1% of our total revenue and other income, respectively. During the same periods, our interest income from advances to customers and securities lending amounted to RMB1,092.1 million, RMB2,566.9 million, RMB6,704.3 million, RMB3,909.1 million and RMB2,004.7 million, respectively, representing 14.1%, 18.6%, 19.2%, 19.1% and 23.0% of our total revenue and other income, respectively. Our brokerage and wealth management business is significantly affected by external factors, such as general economic conditions, macroeconomic and monetary policies, market conditions and fluctuations in interest rates, all of which are beyond our control. For example, due to the highly volatile market conditions in China during the first half of 2016, our brokerage trading volume of stocks and funds decreased by 60.1% which resulted in a 66.4% decrease in our fee and commission income from securities brokerage business (including trading seat leasing income) in the first half of 2016 compared to the same period in 2015. In addition, due to a substantial lower market demand for margin financing and securities lending business in the first half of 2016, we suffered a decrease in the balance of our margin loans and securities lent in China from RMB62.9 billion as of December 31, 2015 to RMB45.8 billion as of June 30, 2016, which resulted in a decrease in our interest income from margin financing and securities lending business in the first half of 2016. See "—General economic and market conditions could materially adversely affect our business."

Market competition is another key factor affecting our brokerage and wealth management business. Our average brokerage fee and commission rate was 7.7bps, 7.1bps, 6.4bps, 6.6bps and 5.3bps in 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, respectively. Some of our competitors have also actively promoted online brokerage services in recent years, and continued to lower their brokerage commission rates. If an increasing number of our competitors partner with electronic commerce companies seeking to enter and expand the online brokerage business, the brokerage fee and commission rate in the industry may further decrease, which could adversely affect our competitiveness, business, financial condition and results of operations.

The financial products that we distribute may involve high-risk investments, and our failure to identify, fully appreciate or disclose such risks will harm our reputation, client relationships and prospects.

In addition to our own asset management products, we also distribute financial products developed by third-party financial institutions, such as fund management companies, trust companies and commercial banks. As a third-party distributor, we are not liable for any investment loss or default directly derived from the third-party financial products we distribute to our customers. However, we may be subject to client complaints and potential litigation, which could have an adverse effect on our reputation and business. In addition, certain types of these third-party financial products, such as trust schemes and structured OTC products, may have complex structures and involve various risks, including credit, interest, liquidity and other risks. Our risk management policies and procedures may not be fully effective in identifying the risks of these financial products, and our sales employees may fail to fully disclose such risks to our wealth management customers, in which case our customers may invest in financial products that are too risky for their risk tolerance and investment preferences, and may suffer significant loss. This may also subject us to client complaints and litigation risks. As a result, our reputation, customer relationships, business and prospects would be materially adversely affected. See "Business—Risk Management and Internal Control Measures in Our Major Business Lines—Brokerage and Wealth Management Business—Sales of Financial Products."

PRC rules and regulations on margin financing and securities lending have been continuously changing, resulting in certain non-compliant events and increased compliance costs, which may increase our compliance risks and credit risks.

During the Track Record Period, our margin financing and securities lending business expanded rapidly and has become an important source of our revenue and profit. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, total interest income and fee and commission income from our margin financing and securities lending business in China amounted to RMB1,565.7 million, RMB3,769.0 million, RMB11,239.2 million, RMB6,698.2 million and RMB2,715.7 million, respectively. Over the same period, the number of our customers' margin accounts in China increased from over 60,000 as of December 31, 2013 to over 184,000 as of December 31, 2015 and further increased to over 188,000 as of June 30, 2016.

Based on the previous "Management Measures on Margin Financing and Securities Lending of Securities Companies (《證券公司融資融券業務管理辦法》)" announced by the CSRC in 2011, at least a six-month track record is required for any new customer, and the term of margin financing and securities lending shall be less than six months in order to engage in a margin financing and securities lending business. Due to the lack of specific interpretation of this regulatory requirement, we only required our customers to demonstrate that their brokerage accounts were opened for longer than six months. From February 2014 to January 2015, the CSRC and its local branches inspected our margin financing and securities lending business and issued regulatory letters to us stating that we opened accounts for certain customers with less than a six-month continuous trading record with us, and that we offered margin financing and securities lending services to certain customers beyond the six-month expiration date of the service contracts. These incidents led to a deduction of our regulatory points. See "Business—Legal and Regulatory—Regulatory Non-compliance" and "Regulatory Environment—Regulatory Environment of the PRC—Corporate Governance and Risk Control—Corporate Governance and Risk Control of Securities Companies—3. Classified Regulation."

On July 1, 2015, the CSRC announced the amended "Management Measures on Margin Financing and Securities Lending of Securities Companies (《證券公司融資融券業務管理辦法》)," which require a customer to have at least an average daily account balance of RMB500,000 for the 20 trading days preceding the application of the margin trading account, as opposed to the previous requirement of RMB500,000 on the day before the account opened. Moreover, considering the application of "one investor, multiple accounts," the new rule also requires that the application of the margin trading account must be made at least six months after the first transaction of a securities account under the applicant's name (regardless of whether the account was opened with us). If relevant regulatory authorities further amend the regulatory measures without offering specific implementation rules, we cannot guarantee that our customers can timely and fully meet the revised relevant measures. If the CSRC or other relevant regulatory authorities find that we lack sufficient oversight of customer accounts, we may be subject to written warnings, and possibly administrative penalties.

In addition, the amended margin financing and securities lending measures provide that, among other things, securities firms may extend the term of margin financing and securities lending contracts after the initial six-month period. The amendments also lifted the previous requirement that if a customer's maintenance margin ratio falls below 130%, such customer should be required to replenish the collateral for restoring its maintenance margin ratio to 150% within two trading days, and allowed securities firms and their customers to mutually agree on the amount of collateral and time required for replenishing the collateral. These changes are likely to increase our credit risks in our margin financing and securities lending business. We and our competitors may choose to lower our collateral ratio requirements, grant longer lending terms or elect not to liquidate a customer's trading position when the customer fails to meet the required deposit requirements. As a result, if a substantial number of customers default on us, due to a significant market downturn or otherwise, our economic interests may not be adequately covered by the customers' collateral, which could materially adversely affect our margin financing and securities lending and our results of operations.

We may suffer significant losses from our credit exposures in our capital-based intermediary services, futures brokerage business and OTC transactions.

Our capital-based intermediary services, including margin financing and securities lending, securities-backed lending and stock repurchases, as well as our futures brokerage and OTC sales and trading, are subject to the risk that a client may fail to perform its payment obligations or that the value of collateral held by us to secure the obligations might become inadequate. We also face credit risks as a counterparty in derivative contracts and other OTC transactions. Any material non-payment or non-performance by a client or counterparty could adversely affect our financial position, results of operations and cash flows. Although we regularly review our credit exposure to specific clients or counterparties and to specific industries that we believe may present credit concerns, default risks may arise from events or circumstances that are difficult to detect or foresee. We may also fail to receive all relevant information with respect to the credit risks of our clients and counterparties. See "Business—Risk Management—Monitoring and Management of Major Risks—Credit Risk."

In our capital-based intermediary services, we may enforce liquidation of collateral upon clients unable to meet their obligations as scheduled, or whose maintenance margin ratios are lower than our minimum threshold due to fluctuations in market prices of the collateral while failing to replenish the account balance. In our futures brokerage business, we require our clients to maintain a certain account balance for their futures trading. We conduct automatic valuations for clients' account balances on each trading day, and, in the event of insufficient funds in the accounts of clients, we would issue a capital replenishment notice, and execute forced liquidations when necessary. Such forced liquidation mechanism may trigger disputes between clients and ourselves, which may subject us to significant expenses or litigation risks. See "Business—Our Business—Brokerage and Wealth Management—Capital-based Intermediary Services."

Our ability to carry out forced liquidation of client positions may be adversely affected by market volatility. We may be unable to liquidate clients' positions in a timely manner if the daily price fluctuation limit applies. In addition, the suspension of trading of a particular stock may also result in our failure to liquidate client positions in a timely manner.

In addition, we also conduct OTC trades with our clients as a counterparty to provide them with customized products or services, such as repurchases or resale transactions and equity return swaps. Because there is no exchange or clearing agent for these contracts, we will be subject to the credit risk of non-performance of the counterparty.

Our investment banking business is subject to various risks, which may reduce our underwriting and sponsorship fees, subject us to regulatory penalties, and adversely affect our liquidity.

In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, the segment revenue and other income of our investment banking business amounted to RMB541.0 million, RMB1,613.4 million, RMB2,843.8 million, RMB991.4 million and RMB1,124.4 million, respectively, representing 7.0%, 11.7%, 8.1%, 4.8% and 12.9% of our total revenue and other income, respectively.

We are subject to certain risks inherent to the investment banking business, primarily related to the uncertainties in regulatory approval. The offering of securities, especially IPOs, and certain types of M&A of listed companies, are subject to a merit-based review and approval process conducted by various regulatory authorities. The result and timing of these reviews are beyond our control, and may cause substantial delays to, or the termination of, securities offerings underwritten by us and M&A advised by us. For example, between October 2012 and December 2013, the CSRC has placed a temporary moratorium on all A-share IPO applications in China and, as a result, we did not complete any IPO underwriting and sponsorship transactions in China during this period. Although the IPO review resumed in January 2014, the CSRC imposed another moratorium on IPO review from July 4, 2015 to November 21, 2015. There can be no assurance that regulatory approvals on securities offerings or M&A will be granted in a timely manner or at all in the future. A significant decline in the approval rate of the securities offerings sponsored by us or M&A advised by us could reduce our revenue from investment banking, as we normally receive most of our fees only after the completion of a transaction.

In addition, when acting as sponsors of IPOs or financial advisors for M&A transactions, we may be subject to regulatory sanctions, fines, penalties, investor compensation or other disciplinary actions or other legal liabilities for conducting inadequate due diligence in connection with an offering or the post-transaction compliance supervision, fraud or misconduct committed by issuers, their agents, other sponsors or ourselves, misstatements and omissions in disclosure documents, or other illegal or improper activities that occurred during the course of the underwriting or advisory process. See "Business—Legal and Regulatory—Regulatory Non-compliance."

The performance of our investment banking business also depends on market conditions. Unfavorable market conditions and capital market volatility may also cause delays to, or the termination of, securities offerings underwritten and sponsored by us and M&A advised by us, or may result in fewer financing and M&A activities, which may in turn materially adversely affect our revenue from the investment banking business. In addition, in case we enter into hard underwriting arrangements with our clients, we may be required to purchase the entire unsubscribed portion for our own account, which may materially adversely affect our liquidity, and may even cause us to incur losses.

Furthermore, as PRC regulatory authorities are considering changes to the regulatory requirements for investment banking business, including transitioning the A-share IPO system from a merit-based to a registration-based system, PRC securities firms are facing increasing challenges in terms of deal execution, client development, pricing and distribution capabilities. If we are unable to adjust our business strategies to meet these new challenges, we may not be able to compete effectively in the securities industry, which could in turn materially adversely affect income from our investment banking business.

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

In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, segment revenue and other income from our investment and trading business amounted to RMB1,277.7 million, RMB2,273.6 million, RMB5,732.2 million, RMB4,604.9 million and RMB546.8 million, respectively, representing 16.5%, 16.5%, 16.4%, 22.5% and 6.3% of our total revenue and other income, respectively.

We conduct trading activities on equity and fixed-income securities for our own accounts, which are subject to market volatility and, therefore, the results of our securities trading activities generally correlate with the performance of the PRC securities markets. For example, due partly to the highly volatile A-share market in the first half of 2016, segment revenue of our investment and trading business decreased substantially compared to the same period in 2015. We use derivative instruments, such as stock index futures and options, to reduce the impact of price volatility on our equity trading. We also use interest rate swaps and treasury bond futures to hedge the interest rate exposure that arises from our fixed-income trading. However, the PRC derivatives market currently does not provide sufficient means for us to hedge against volatile trading markets, which may make it difficult for us to effectively reduce our exposure to price fluctuations.

We invest in derivative financial instruments primarily for hedging our risk exposure of proprietary trading and our derivative trading with customers, as well as for the arbitrage and quantitative trading of stocks, funds and derivative instruments. We hedge our risk exposure of our proprietary trading through derivative financial instruments. In addition to using stock index futures and options to reduce the impact of price volatility on our equity trading, and interest rate swaps and treasury bond futures to hedge the interest rate exposure that arises from our fixed-income trading, we also use commodities futures and commodities options to hedge the impact of price volatility on our commodities trading, foreign exchange derivatives to hedge the exchange rate exposure. We are subject to various risks in relation to our financial position in derivatives, such as counterparty risk and market risk, most of which is due to the intrinsic market risk in relation to our arbitrage trading and the practical difficulties to achieve perfect hedging. We may suffer losses if our risk exposure increases due to unfavorable market fluctuations. We may also incur loss from derivatives trading if our counterparty defaults.

We conduct market-neutral trading by taking offsetting long and short positions in securities to neutralize certain market risk. See "Business—Our business—Investment and Trading—Equity Trading—Market-neutral trading." However, our market-neutral trading is still subject to various risks, such as market risk, counterparty risk and operational risk. For instance, we are subject to market risk arising from changes in prices and volatility of equity securities such as stocks, stock portfolio and stock index futures. To limit such risk exposure, we carry out hedging via CSI300 Index futures, CSI500 Index futures, among others. We established risk limits for our market-neutral trading and closely monitor and manage our risk exposure on a daily basis. However, the effectiveness of such measures are subject to certain limitations and various factors, such as hedging effectiveness, relevance of hedging prices and our limited ability to maintain real-time and accurate assessment of market risk. For example, our market risk exposure will increase when both the market prices of our cross-border arbitrage portfolios change in directions unfavorable to us, such as when the market price of the securities we take long position declines while that of the securities we take short position increases. We are also subject to counterparty risk and could suffer losses if improper business practices are not timely detected and rectified.

The performance of our investment and trading business is determined by our investment decisions and judgment based on our assessment of existing and future market conditions. We closely monitor the market value and financial performance of our investment and trading portfolio, and actively adjust such portfolio to allocate assets based on market conditions and internal risk management guidelines. If our decision-making for investments fails, or actual changes in market conditions differ from our projection, or if concentration risk, including risks from holding particular assets or asset classes materializes, our investment and trading business may suffer and not achieve the investment returns we anticipate, which would materially adversely affect our business, financial condition and results of operations.

We may be exposed to risks associated with our fixed-income securities, which may also be subject to price fluctuations as a result of changes in the investors' assessment of the issuer's creditworthiness, delinquency and default rates, and other factors, which could adversely affect our financial condition and results of operations. While we have internal policies and procedures to limit such occurrences, these policies and procedures may not be fully effective. In addition, we may not have sufficient access to resources and trading counterparties to effectively implement our trading and investment risk mitigation strategies and techniques. If our trading position becomes overly concentrated in a limited set of assets, asset classes, or a limited number of counterparties, or if we fail to effectively manage our exposure through our risk management policies and procedures, the volatility of any negative impact of adverse credit exposures could be magnified, and as a result we may experience significant financial losses that could materially adversely affect our business, financial condition and results of operations.

A significant decline in the size of our AUM, or unsatisfying investment performance, may materially adversely affect our asset management business.

We receive asset management fees based on the size of each asset management scheme under our management. In addition, we may earn performance fees for certain asset management schemes. Investment performance affects our AUM and is one of the most important factors in retaining our clients and competing for new asset management business. Limited investment options and hedging strategies in the PRC, as well as high market volatility, could negatively affect our ability to provide stable returns for our clients and cause us to lose clients. The following situations could adversely affect our asset management business, revenue and growth:

- existing clients might withdraw funds from our asset management business, which would result in lower management fees for us;
- growth of new clients may not be as we planned;
- clients may request that we lower our fees for asset management services; and
- our performance fees, which are based on a percentage of investment returns, would decline.

Our asset management fees or market share may decrease due to the increased competition from other securities firms, mutual fund management companies, private investment fund management companies, insurance companies, trust companies and commercial banks in China. In addition, the recent mutual recognition between PRC and Hong Kong mutual funds may introduce further competition. Market volatility, adverse economic conditions, or the failure to outperform our competitors or the market, may reduce our AUM or affect the performance of the assets or funds we manage, which could adversely affect the amount of management or performance fees we receive.

We may fail to realize returns from our direct investments, or even lose part or all of our investments.

Our direct investment business generally involves investments in private companies and in private equity funds with our own capital. We and our private equity funds aim to earn returns from dividends paid by our portfolio companies and the listing or the disposal of our portfolio companies. To make a sound investment decision, we need to carefully identify and select a target company based on its business, operations and the industry in which it operates. In general, this selection process involves a systematic analysis and forecast of the target company's profitability and sustainability. However, we may fail to identify fraudulent, inaccurate or misleading information from a target company in the course of our due diligence which may cause us to make unsound investment decisions or overvalue the target company, and there might be material and adverse changes in the target company's business and financial conditions after the completion of the investment which could negatively affect our return on such investments. Equity investments made by our private equity funds may also suffer substantial losses due to market volatility. For example, one of our private equity funds had an investment loss in 2015 and the first half of 2016 due to the substantial decline of the A-share market.

The companies we invested in may take longer than expected to become suitable for a listing or sale. As such, our investment period would be longer than we anticipated. If a listing or sale of the portfolio company cannot be achieved for any reason, the realizable value of our investment may be adversely affected. In addition, our ability to exit a private equity investment is also subject to market conditions and we may be forced to exit our investments at undesirable prices, or may not be able to exit at all. If we cannot exit our private equity investments in our anticipated period or at our anticipated prices, our investment returns will be adversely affected.

In addition, we and our private equity funds have limited control over the companies in which we have invested. We are subject to the risk that those companies may make business, financial or management decisions with which we do not agree, or that the majority shareholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. Furthermore, our portfolio companies may fail to abide by their agreements with us, for which we have limited or no recourse. If any of the foregoing were to occur, the value of our investments could decrease or our investment may fail, in which case our financial condition and results of operations could be adversely affected.

We had negative net cash flows from operating activities in 2013, 2014 and 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 RMB13,488.8 million, RMB3,939.4 million and RMB29,572.8 million in 2013, 2014 and 2015, respectively. The negative net cash flow from operating activities in 2013 primarily resulted from an increase in advances to customers as a result of the significant growth of our margin financing and securities lending business, a decrease in financial assets sold under repurchase agreements due to our reduced size of fixed-income investment in 2013, and an increase in financial assets held under resale agreements due to growth in securities-backed lending and stock repurchases in 2013. The negative net cash flow from operating activities in 2014 primarily resulted from an increase in advances to customers, an increase in financial assets at fair value through profit or loss primarily due to the increase in our investment and trading business in 2014, and an increase in financial assets held under resale agreements primarily due to a growth in our securities-backed lending in 2014 driven by increased market demand. The negative net cash flow from operating activities in 2015 primarily resulted from a decrease in financial assets sold under repurchase agreements as a result of our decreased margin loans receivable-backed financing in 2015, an increase in advances to customers as a result of the sustained growth of our margin financing and securities lending business, an increase in financial assets at fair value through profit or loss primarily due to our decision to increase in the size of our investment and trading portfolio, and an increase in financial assets held under resale agreements due to growth in repurchase transactions and securities-backed lending driven by increased market demand. 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.

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

Maintaining adequate liquidity is crucial to our business operations as we continue to expand our capital-based intermediary services, investment and trading, investment banking, and other business activities with substantial cash requirements. We meet our liquidity needs primarily through cash generated from operating activities and debt financing. A reduction in our liquidity could affect our ability to develop our business, reduce the confidence of our customers or counterparties in us, which may result in the loss of business and customer accounts. In addition, according to the CSRC's requirements, a PRC securities firm's Net Capital to net assets ratio shall not fall below 40.0%, the Net Capital to total liabilities ratio shall not fall below 8.0%, and the net assets to total liabilities ratio shall not fall below 20.0%.

According to the Securities Association of China, our Company is required to maintain both our liquidity coverage ratio (ratio of high-quality liquid assets to forecast net cash outflow for the next 30 days) and net stable funding ratio (ratio of available amount of stable funding to required amount of stable funding) at not less than 100% by December 31, 2015. As of December 31, 2015, our liquidity coverage ratio and net stable funding ratio stood at 157.5% and 171.8%, respectively. As of June 30, 2016, our liquidity coverage ratio and net stable funding ratio stood at 255.7% and 176.9%, respectively. On September 22, 2014, the CSRC announced a new requirement that for PRC securities firms whose risk coverage ratio (ratio of Net Capital to risk capital reserves) is below 200%, or liquidity coverage ratio is below 120%, their leverage ratio (ratio of total assets (excluding customer deposits held on behalf of brokerage customers) to net assets) shall be less than five times. As of June 30, 2016, our risk coverage ratio was 782.2% and our leverage ratio was 3.6 times. Failure to comply with these requirements may result in the CSRC and Securities Association of China imposing penalties on us, or disciplinary action, which could, in turn, have a material and adverse effect on our financial condition and results of operations.

Factors that may adversely affect our liquidity position include a significant increase in our capital-based intermediary services, increased regulatory capital requirements, substantial investments, loss of market or customer confidence, or other regulatory changes. When cash generated from our operating activities is not sufficient to meet our liquidity or regulatory capital needs, we must seek external financing. During periods of disruption in the credit and capital markets or changes of regulatory environment, potential sources of external financing could be limited and our borrowing costs could increase. Although our management believes that we have diversified sources of external financing, including a mix of short-term and long-term debt financing instruments, such financing may not be available on acceptable terms or at all due to unfavorable market conditions and disruptions in the credit and capital markets.

Our equity financing options may be limited due to CSRC requirements on foreign shareholdings in a listed PRC securities firm.

According to Article 25 of Rules for the Formation of Securities Companies with Foreign Shareholders (外資參股證券公司設立規則) prescribed by the CSRC, the aggregate of direct holdings and/or indirect control in the equity interest of a listed PRC-incorporated securities firm by all foreign investors shall not exceed 25% of its total share capital. Taking into account (a) the size of the Global Offering (including the exercise of the Over-allotment Option) and (b) the trading of our A Shares through the Northbound trading of the Shanghai-Hong Kong Stock Connect, the QFII schemes or other channels, our ability to further issue H Shares or other equity or equity-linked securities offshore may be restricted due to the 25% foreign ownership limit unless (i) the relevant regulatory requirements are relaxed or we are able to obtain a waiver from the regulatory authorities from strict compliance with the foreign ownership limit and/or (ii) we issue additional A Shares on the Shanghai Stock Exchange.

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

We have established an internal risk management framework and procedures to manage our risk exposures, primarily including market, credit, liquidity, compliance and operational risks. Certain areas within our risk management policies and internal control systems and procedures may require constant monitoring, maintenance and continual improvement by our senior management and staff. Although we implement our risk management policies and internal control systems, they may not be adequate or effective in mitigating our risk exposures or protecting us against unidentified or unanticipated risks. In particular, some risk management approaches are based on observations of historical market behavior and our experience in the securities industry. These methods may fail to predict future risk exposures, which could be significantly greater than those indicated by our historical measures. Other risk management methods depend upon an evaluation of available information regarding operating and market conditions and other matters, which may not be accurate, complete, up to date or properly evaluated. In addition, in markets that are rapidly developing, the information and experience data that we rely on for our risk management methods may quickly become outdated as markets and regulations continue to evolve. Moreover, our risk management framework may not totally prevent the occurrence of non-compliance incidents, such as the incidents described in "Business—Legal and Regulatory—Regulatory Non-compliance," which incidents led to a deduction of our regulatory points. See "Regulatory Environment—Regulatory Environment of the PRC—Corporate Governance and Risk Control—Corporate Governance and Risk Control of Securities Companies—3. Classified Regulation" for the details of the scoring system. Our business and prospects may be materially adversely affected if our efforts to maintain these policies, systems and procedures are ineffective or inadequate. Deficiencies in our risk management and internal control systems and procedures may adversely affect our ability to identify any reporting errors and non-compliance with rules and regulations, which may also have a material adverse effect on our business, financial condition and results of operations.

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

We are committed to providing new products and services in order to strengthen our leading market position in the PRC securities industry. We expanded our business in recent years to include margin financing and securities lending, prime brokerage, and equity return swaps, as well as OTC trading. These new businesses expose us to additional risks, particularly credit risk. See "—We may suffer significant losses from our credit exposures in our capital-based intermediary services, futures brokerage business and OTC transactions."

We will continue to expand our product offerings and business as permitted by relevant regulatory authorities and enter into new markets. These activities may expose us to new and increasingly challenging risks, including, but not limited to:

- we may have insufficient experience or expertise in offering new products and services and dealing with new counterparties and customers;
- we may be subject to stricter regulatory scrutiny, and increased credit, market, compliance and operational risks;
- we may be unable to hire additional qualified personnel to support the offering of a broader range of products and services;
- our new products and services may not be accepted by our customers or meet our profitability expectations;
- we may be unable to obtain sufficient financing from internal and external sources to support our business expansion; and
- we may not be successful in enhancing our risk management capabilities and IT systems to identify and mitigate the risks associated with these new products and services, new customers and new markets.

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

Our overseas expansions may not be successful.

We conduct our overseas business through the subsidiaries of our Hong Kong subsidiary, CMS International, which engage in a full range of corporate finance and underwriting services. As part of our business strategy, we expect to further expand our overseas business, and build a global business, which may otherwise expose us to additional risks, including, among others:

- difficulties in managing overseas operations, including complying with the various regulatory and legal requirements of different jurisdictions, and obtaining different approval or license requirements;
- challenges in providing products, services and support, and recruiting in these overseas markets; and in managing the sales channels and overseas distribution network effectively;
- differences in accounting treatment in different jurisdictions; potential adverse tax implications; and foreign exchange losses;
- inability to effectively enforce contractual or legal rights; and

- changes in local government laws, regulations and policies; and local political and economic instability or civil unrest.

If we are unable to effectively avoid or mitigate these risks, our ability to expand our overseas business will be impaired, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Our interest rate risk is primarily related to our interest income, interest expenses and fixed-income investment. We earn interest income from bank deposits (including our own deposits and customer deposits), margin financing and securities lending, securities-backed lending, stock repurchases and financial assets held under resale agreements as well as leveraged financing. During periods of declining interest rates, our interest income may fall.

We also make interest payments on deposits we hold on behalf of our customers, short-term financing bills, corporate bonds and repurchase transactions, as well as subordinated bonds and other debt securities. These interest expenses are directly linked to the then prevailing market interest rates. During periods of rising interest rates, our interest expenses and financing costs would generally increase.

In addition, we hold fixed-income investments. Although we hedge through interest rate swaps and treasury bond futures to reduce interest rate risks, during periods of rising interest rates, market prices and our investment returns on fixed-income securities would generally fall.

Significant interest rate fluctuations may reduce our interest income or returns on fixed-income investments, or increase our interest expenses, any of which could adversely affect our financial condition and results of operations.

Our operations depend on key management and professional staff, and our business may suffer if we are unable to retain or replace them.

The success of our business is dependent, to a large extent, on the continuity of our senior management and our ability to attract and retain quality professional staff who possess in-depth knowledge in and understanding of the securities and financial markets. See "Directors, Supervisors and Senior Management" for details of our key management. If we lose the services of our core management members or professional personnel, we may not be able to execute our existing business strategy effectively or may have to change our existing business direction, which may materially adversely affect our business prospects. These professional personnel include members of our mid-level management, experienced investment and trading managers, licensed sponsor representatives, risk management officers, research analysts and IT specialists. Therefore, we devote considerable resources to recruiting and retaining these personnel. However, the market for quality professionals is increasingly competitive. Intense competition may require us to offer more competitive compensation and other benefits in order to attract and retain qualified professionals, which could materially adversely affect our financial condition and results of operations.

We may not be able to manage fraud or other misconduct committed by our employees, agents, customers or other third parties.

We may be exposed to fraud or other misconduct committed by our employees, agents, customers or other third parties that could subject us to financial losses and sanctions imposed by regulatory authorities, and adversely affect our reputation.

Our internal control procedures are designed to monitor our operations and ensure overall compliance. However, our internal control procedures may be unable to identify all non-compliance incidents or suspicious transactions in a timely manner or at all. See "Business—Legal and Regulatory—Regulatory Non-compliance." Furthermore, it is not always possible to timely detect and prevent fraud and other misconduct, and the precautions we take to prevent and detect such activities may not be effective. Our failure to detect and prevent fraud and other misconduct may have a material adverse effect on our business reputation, financial condition and results of operations.

We may fail to detect money laundering and other illegal or improper activities in our business operations on a timely basis.

We are required to comply with applicable anti-money laundering and anti-terrorism laws and regulations in the jurisdictions where we operate. These laws and regulations require financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Such policies and procedures require us to, among other things, establish or designate an independent anti-money laundering department, conduct customer identification in accordance with relevant rules, duly preserve customer identity information and transaction records and report suspicious transactions to relevant authorities.

While we have adopted policies and procedures aimed at detecting and preventing the use of our business platforms to facilitate money laundering activities and terrorist acts, such policies and procedures may not be comprehensive and completely eliminate instances in which we may be used by other parties to engage in money laundering and other illegal or improper activities. In the past, certain on-site inspections conducted by the PRC regulators have revealed that we had insufficient internal regulation of certain aspects of the anti-money laundering internal control system and inadequate anti-money laundering training at certain branches. See "Business—Legal and Regulatory—Regulatory Inspections." In the event that we fail to fully comply with applicable laws and regulations, the relevant government agencies may freeze our assets or impose fines or other penalties on us. There can be no assurance that there will not be failures in detecting money laundering or other illegal or improper activities which may adversely affect our business reputation, financial condition and results of operations.

We rely heavily on IT systems to process and record our transactions and offer online products and services.

Our operations rely heavily on our IT systems to record and process accurately a large number of transactions across numerous and diverse markets and different business segments in a timely manner. Our system for processing securities transactions is highly automated. A prolonged disruption to, or failure of, our information processing or communications systems would limit our ability to process transactions. This would impair our ability to service our customers and execute trades on behalf of customers and for our own account, which could materially adversely affect our competitiveness, financial condition and results of operations.

The proper functioning of our core IT systems, online platform, data processing system, mobile applications, risk management and legal and compliance system and other data processing systems, together with the communication networks between our headquarters and branches, are critical to our business and our ability to compete effectively. We have established backup centers in Shenzhen and Shanghai to carry on principal functions in the event of a catastrophe or failure of our systems, including those caused by human error. However, there can be no assurance that our operations will not be materially disrupted if any of our systems fail. In addition, if the capacity of our trading system is unable to process all trading orders, we may be subject to client complaints, litigation or adverse effects on our reputation. For example, on May 29, 2015, our trading system was interrupted due to software malfunction and backup server conversion failure, which affected customer trading activities and was classified as a major information security incident by the CSRC Shenzhen Bureau and led to a deduction of our regulatory points. See "Business—Legal and Regulatory—Regulatory Non-compliance" and "Regulatory Environment—Regulatory Environment of the PRC—Corporate Governance and Risk Control—Corporate Governance and Risk Control of Securities Companies—3. Classified Regulation."

The securities industry is characterized by rapidly changing technology. Online trading platforms and mobile applications are becoming increasingly popular among our customers due to their convenience and user-friendliness. We rely heavily on technology, including our online platform, and mobile applications to provide a wide range of brokerage and wealth management services. However, our technology operations are vulnerable to disruptions from human error, natural disasters, power disruption, computer viruses, spam attacks, unauthorized access and similar events. Disruptions to, or the instability of, our technology or external technology that allows our customers to use our online products and services could harm our business and reputation.

Our business might be affected by the operational failure of third parties.

We face the risk of operational failure or termination of any of the exchanges, depositaries, clearing agents or other financial intermediaries we use to facilitate our securities transactions. We were not subject to any material operational failure of third parties during the Track Record Period. Any future operational failure or termination of the particular financial intermediaries that we use could adversely affect our ability to execute transactions, service our customers and manage our exposure to various risks.

In addition, as our interconnectivity with our customers grows, our business also relies heavily on our customers' use of their own systems, such as PCs, mobile devices and websites, and we will increasingly face the risk of operational failure in connection with our customers' systems. The operational failure of third parties may harm our business and reputation.

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

As we expand the scope of our business and our client base, it is critical for us to be able to address potential conflicts of interest, including situations where two or more interests within our business legitimately exist but are in competition or conflict. See "Business—Risk Management and Internal Control Measures in Our Major Business Lines—Conflicts of Interest."

We have extensive internal control procedures that are designed to identify and address conflicts of interest. However, appropriately identifying and dealing with potential conflicts of interest is complex and difficult. Our failure to manage conflicts of interest could harm our reputation and erode client confidence in us. In addition, potential or perceived conflicts of interest may also give rise to litigation or regulatory actions. Any of the foregoing could adversely affect our business, financial condition and results of operations.

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

We are subject to various laws, regulations and rules governing the protection of the personal data and confidential information of our clients. We routinely transmit and receive personal data and confidential information of our clients through the Internet, by email and other electronic means. 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 the confidentiality of such information. In addition, there is no assurance that our employees who have access to the personal data and confidential information of our clients will not improperly use such data or information. If we fail to protect our 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, incidents of mishandling personal information or failure to protect the confidential information of our clients could bring reputational harm to us, which may materially adversely affect our business and prospects.

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 certificates for the properties we lease from them, which may materially adversely affect our right to use such properties.

As of the Latest Practicable Date, we owned 81 properties in China with an aggregate gross floor area of 23,087.4 square meters. Among these 81 properties, we have not obtained proper building ownership certificates and/or land use rights certificates for two properties with a gross floor area of approximately 2,588.7 square meters, representing 11.2% of the aggregate gross floor area of properties we own. As of the same date, we leased 211 properties in China, with an aggregate gross floor area of 146,433.2 square meters. Among these 211 properties, we have not been provided by the landlords with the building ownership certificates for 28 properties with a gross floor area of approximately 15,216.3 square meters, representing approximately 10.4% of the aggregate gross floor area of the buildings we lease. We used these 28 leased properties primarily for our offices and securities branches. See "Business—Properties."

We are in the process of applying for the remaining two building ownership certificates and/or land use rights certificates, and requiring our landlords to obtain the proof of title or to obtain the title certificates for the remaining 28 leased properties, but the timing for obtaining such relevant certificates is beyond our control. Before we or our landlords obtain the proper building ownership certificates and/or the land use rights certificates for such properties, our rights in relation to such properties might not be entirely protected. Any dispute or claim related to the title of the properties owned or leased by us may result in the relocation of our operating premises and offices.

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

Our substantial amounts of deferred tax assets and level 2 financial assets are subject to accounting uncertainties.

In the application of our accounting policies, our management is required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Therefore, actual results may differ from these accounting estimates. See note 4 of the Accountants' Report in Appendix I to this prospectus. We believe that the substantial amounts of our deferred tax assets and level 2 financial assets are subject to accounting uncertainties and therefore warrant particular attention.

Our deferred tax assets increased significantly from RMB225.4 million as of December 31, 2013 to RMB726.2 million as of December 31, 2015 and further to RMB2,101.8 million as of June 30, 2016. See "Financial Information—Liquidity and Capital Resources" for a discussion of the increases in our deferred tax assets. Based on our accounting policies, deferred tax assets are recognized in case of timing differences between the carrying amount of assets for financial reporting purpose and the amounts used for taxation purposes. The realization of a deferred tax asset mainly depends on our management's judgment as to whether sufficient future profits or taxable temporary differences will be available in the future. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered. If sufficient profits or taxable temporary differences are not expected to be generated, our deferred tax assets would be reversed in the future periods.

For financial reporting purposes, we categorize fair value measurements of financial assets and liabilities into level 1, level 2 or level 3, based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement. As of December 31, 2015 and June 30, 2016, we had RMB56.3 billion and RMB50.6 billion of level 2 financial assets, respectively. Compared to level 1 financial assets, level 2 financial assets are not quoted in an active market or whose values are based on models and we use valuation technique to estimate the fair value of these assets. When estimating fair value using valuation technique, we consider observable inputs and market data, such as yield curve of interest rate products, foreign currency exchange rate, implied volatility, among other things. Changes in these factors will affect the estimated fair value of our level 2 financial assets and therefore these assets face uncertainty in accounting estimation.

The application of IFRS 9 and its amendments in the future will affect the classification and measurement of our financial assets and financial liabilities.

The International Accounting Standards Board, or IASB, which is responsible for developing and revising international accounting standards, issued IFRS 9 and its amendments in November 2009, October 2010 and July 2014, which will take effect on January 1, 2018 and replace the information related with classification, measurement and derecognization of financial assets and financial liabilities under IAS 39, and give rise to substantial changes in the classification and measurement of financial assets and financial liabilities. The application of IFRS 9 will affect the classification and measurement of our financial assets and financial liabilities in various ways, including measurement of recognized financial assets, measurement of financial liabilities designated as at fair value through profit of loss, impairment of financial assets based on expected credit loss model, and greater flexibility regarding the types of transactions eligible for hedge accounting. See note 2 in "Appendix I—Accountants' Report." Our Directors anticipate that the application of IFRS 9 in the future will affect the classification and measurement of our financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Any change to our current practice in the future in accordance with IFRS 9 and its amendments, and any other future amendments to IAS 39 or similar standards, including any authoritative interpretive guidance on the application of such new or revised standards, may materially affect our business, financial condition and results of operations.

Our Controlling Shareholder is able to exercise significant influence over us.

Following the completion of the Global Offering, China Merchants Group will remain our Controlling Shareholder. Immediately after completion of the Global Offering, China Merchants Group will hold approximately 44.09% of our outstanding Shares, assuming that the Over-allotment Option is not exercised and China Merchants Group or its nominees has subscribed for 67,706,400 H Shares at the Global Offering; China Merchants Group will hold approximately 43.08% of our outstanding Shares, assuming that the Over-allotment Option is fully exercised. China Merchants Group will remain our largest Shareholder, and it will have the ability to exercise significant influence over us, including, among other things, matters relating to:

- the nomination and election of our Directors and supervisors;
- business strategies;
- dividend and other distributions; and
- major corporate activities, including securities offerings, mergers, acquisitions or investments.

Although China Merchants Group has undertaken to us that it will not prejudice the interests of our Company or our other Shareholders by taking advantage of its position as our Controlling Shareholder, it has substantial influence over us and its interests may not be consistent with that of our other Shareholders.

The use of the "China Merchants" brand name by other members of China Merchants Group may expose us to reputational risks if these entities take actions that damage the "China Merchants" brand name.

China Merchants Group, our Controlling Shareholder, is a large, state-owned conglomerate with significant interests in diverse industry sectors, including transportation and related infrastructure, finance and property in China. As the "China Merchants" brand name is also used by other members of China Merchants Group, if these entities take any action that damages the "China Merchants" brand name, or any material negative publicity is associated with them, our reputation, business, growth prospects, results of operations and financial condition may be adversely affected.

RISKS RELATING TO THE PRC

Economic, political and social conditions in the PRC and government policies could affect our business and prospects.

A substantial majority of our assets are located in the PRC, and a substantial majority of our revenue is derived from our businesses in the PRC. Accordingly, our financial condition, results of operations and prospects are, to a material extent, subject to economic, political and legal developments in the PRC. The PRC economy differs from the economies of developed countries in many respects, including, among other things, government involvement, the level of economic development, growth rate, foreign exchange controls and resource allocation.

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. Some of these measures benefit the overall PRC economy, but may negatively affect us. If the business environment in China deteriorates, our business in China may also be materially adversely affected.

The PRC legal system has inherent uncertainties that could limit the legal protection available to you.

PRC laws and regulations govern our operations in China. We and most of our operating subsidiaries are organized under PRC laws. China's legal system is based on written statutes. Previous court decisions may be cited for reference but have limited precedential value unless the Supreme People's Court of the People's Republic of China has otherwise stipulated. 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 those with respect to the financial services industry, are relatively new and evolving, are subject to different interpretations, and may be inconsistently implemented and enforced. In addition, only limited volumes of published court decisions may be cited for reference, and such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation, implementation and enforcement of China's laws and regulations and a system of jurisprudence that gives only limited precedential value to previous court decisions can affect the legal remedies and protections available to investors, and can adversely affect the value of your investment.

In particular, the PRC financial services industry is highly regulated. Many aspects of our business depend upon the receipt of the relevant government authorities' approvals and permits. As the PRC legal system and financial services industry develop, changes in such laws and regulations, or in their interpretation or enforcement, could materially adversely affect our business, financial condition and results of operations.

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

Investments in PRC securities firms are subject to ownership restrictions. Prior approval from the CSRC is required for any person or entity to hold, directly or indirectly, 5.0% or more of the registered capital or total issued shares of a PRC securities firm. If a shareholder of a PRC securities firm increases its direct and indirect shareholding to 5.0% or more without obtaining prior approval from the CSRC, such shareholder's voting right is invalid to the extent that it exceeds the 5.0% threshold and the shareholder could be subject to CSRC sanctions, such as the correction of such misconduct, fines and confiscation of any related gains. In addition, our Articles of Association prohibit any entity or individual from directly or indirectly holding more than 5.0% equity interest in our Company without the approval of the CSRC. If any violation is not rectified in a timely manner, any shares that exceed the 5.0% limit will not carry voting rights during the period of violation. Current ownership restrictions and future changes in ownership restrictions as imposed by the PRC government and our Articles of Association may materially adversely affect the value of your investment.

Investors may experience difficulties in effecting service of legal process and enforcing judgments against us and our Directors, Supervisors and management.

We are a company incorporated under the laws of the PRC, and a substantial majority of our assets and subsidiaries are located in the PRC. In addition, most of our Directors, Supervisors and executive officers reside within the PRC, and the assets of most of our Directors, Supervisors and executive officers are likely to be located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon our Directors, Supervisors and executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, the PRC does not have treaties providing for the reciprocal enforcement of court judgments with the United States, the United Kingdom, Japan or most western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of court judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in the United States, the United Kingdom, Japan or most western countries in relation to any matter that is not subject to a binding arbitration provision may be difficult or impossible.

You may be subject to PRC taxation on dividends received from us.

Non-PRC resident individual holders of H Shares whose names appear on the register of members of H Shares ("non-PRC resident individual holders") are subject to PRC individual income tax on dividends received from us. Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045 (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) (Guo Shui Han [2011] No. 348) (國稅函[2011]348號), dated June 28, 2011, issued by the SAT, the tax rate applicable to dividends paid to non-PRC resident individual holders of H Shares varies from 5.0% to 20.0% (usually 10.0%), dependent on whether there is any applicable tax treaty between the PRC and the jurisdiction in which the non-PRC resident individual holder of H Shares resides as well as the tax arrangement between the PRC and Hong Kong. Non-PRC resident individual holders who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20.0% withholding tax on dividends received from us. For additional information, see "Appendix III—Taxation and Foreign Exchange—PRC Taxation." In addition, under the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》) and its implementation regulations, non-PRC resident individual holders of H Shares are subject to individual income tax at a rate of 20.0% on gains realized upon the sale or other disposition of H Shares. However, pursuant to the Circular Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) issued by the MOF and the SAT on March 30, 1998, gains of individuals derived from the transfer of listed shares in enterprises may be exempt from individual income tax. To our knowledge, as of the Latest Practicable Date, in practice the PRC tax authorities had not collected individual income tax on such gains. If such tax is collected in the future, the value of such individual holders' investments in H Shares may be materially adversely affected.

Under the EIT Law and its implementation regulations, a non-PRC resident enterprise is generally subject to enterprise income tax at a rate of 10.0% with respect to its PRC-sourced income, including dividends received from a PRC company and gains derived from the disposal of equity interests in a PRC company, subject to reductions under any special arrangement or applicable treaty between the PRC and the jurisdiction in which the non-PRC resident enterprise resides. Pursuant to the Circular on Questions Concerning Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H Shares of the Enterprises (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897) (國稅函 [2008] 897 號), promulgated by the SAT on November 6, 2008, we intend to withhold tax at 10.0% from dividends payable to non-PRC resident enterprise holders of H Shares (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the PRC tax authorities' approval. See "Appendix III—Taxation and Foreign Exchange—PRC Taxation." There are uncertainties as to their interpretation and implementation by the PRC tax authorities, including whether and how enterprise income tax on gains derived upon the sale or other disposal of H Shares will be collected from non-PRC resident enterprise holders of H Shares. If such tax is collected in the future, the value of such non-PRC resident enterprise holders' investments in H Shares may be materially adversely affected.

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

Most of our revenue is denominated in Renminbi, which is also our reporting currency. Renminbi is not a freely convertible currency. A portion of our cash may be required to be converted into other currencies, particularly US dollars, in order to meet our foreign currency needs, including cash payments on declared dividends, if any, on our Offer Shares.

However, the PRC government may restrict future access to foreign currencies for current account transactions at its discretion. If this were to occur, we might not be able to pay interest to the holders of our Offer Shares in foreign currencies. On the other hand, foreign exchange transactions under capital account in the PRC continue to be not freely convertible and require the approval of SAFE. These limitations could affect our ability to obtain foreign currencies through equity financing, or to obtain foreign currencies for capital expenditure.

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

While we generate most of our revenue in the PRC, we also offer securities products and services in Hong Kong to overseas customers. A portion of our revenue, expenses and bank borrowings is denominated in Hong Kong dollars and US dollars, although our functional currency is the Renminbi. As a result, fluctuations in exchange rates, particularly between the Renminbi, Hong Kong dollar and US dollar, could affect our profitability and may result in foreign currency exchange losses of our foreign currency-denominated assets and liabilities.

The exchange rates of the Renminbi against the US dollar and other currencies fluctuate and are affected by, among other things, changes in the PRC and international political and economic conditions and the PRC government's fiscal and currency policies. Since 1994, the conversion of the Renminbi into foreign currencies, including the Hong Kong dollar and the US dollar, has been based on rates set daily by the PBOC based on the previous business day's interbank foreign exchange market rates and exchange rates in global financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of the Renminbi to US dollars was generally stable. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand with reference to a basket of currencies. On June 19, 2010, the PBOC announced that the PRC government would reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. In April 2012, the PBOC enlarged the floating band for the trading price of the Renminbi against the US dollar on the interbank spot exchange market to 1.0% around the central parity rate. In March 2014, the PBOC further enlarged the floating band for the trading price of the Renminbi against the US dollar on the interbank spot exchange market to 2.0% around the central parity rate. For example, from August 10, 2015 to August 13, 2015, the exchange rate of the Renminbi against US dollar decreased by 4.7%. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in further appreciation or depreciation of the Renminbi against the US dollar. There can be no assurance that the Renminbi will not experience significant appreciation or depreciation against Hong Kong dollars and US dollars in the future.

Currently, we have not entered into any hedging transactions to mitigate our exposure to foreign exchange risk. As a result, any significant increase in the value of the Renminbi against foreign currencies could reduce the value of our foreign currency-denominated revenue and assets.

Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC may materially adversely affect our business, financial condition and results of operations.

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, swine influenza caused by the H1N1 virus, or H1N1 influenza, the Ebola virus or Middle East Respiratory Syndrome, may materially adversely affect our business, financial condition and results of operations. In 2009, there were reports of the occurrence of H1N1 influenza in certain regions of the world, including the PRC and Hong Kong, where we conduct business. An outbreak of an epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may, in turn, materially adversely affect our business. Moreover, the PRC has experienced natural disasters such as earthquakes, floods and droughts in the past few years. Any future occurrence of severe natural disasters in the PRC may materially adversely affect its economy and therefore our business. We cannot assure you that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, H1N1 influenza or other epidemics, or the measures taken by the PRC government or other countries in response to such contagious diseases, will not seriously disrupt our operations or those of our customers, which may materially adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

Our A Shares were listed in China in 2009, and the characteristics of the A-share and H-share markets may differ.

Our A Shares were listed on the Shanghai Stock Exchange in November 2009. 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. Under current PRC laws and regulations, without approval from the relevant regulatory authorities, our H Shares and A Shares are neither interchangeable nor fungible, and there is no trading or settlement between the H-share and A-share markets. With different trading characteristics, the H-share and A-share markets have divergent trading volumes, liquidity and investor bases, as well as different levels of retail and institutional investor participation. As a result, the trading performance of our H Shares and A Shares may not be comparable. Nonetheless, 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 H-share and A-share markets, the historical prices of our A Shares may not be indicative of the performance of our H Shares. You should therefore not place undue reliance on the previous trading history of our A Shares when evaluating an investment in our H Shares.

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

Prior to the Global Offering, there has been no public market for our H Shares. The initial issue price range for our H Shares resulted from negotiations between ourselves and the Joint Representatives on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied for the listing of, and permission to deal in, our H Shares on the Hong Kong Stock Exchange. A listing on the Hong Kong Stock Exchange, however, does not guarantee that an active and liquid trading market for our H Shares will develop, or if it does develop, will be sustained following the Global Offering or that the market price of our H Shares will not decline following the Global Offering. Furthermore, the price and trading volume of our H Shares may be volatile. The following factors may affect the volume and price at which our H Shares will trade:

- actual or anticipated fluctuations in our revenue and results of operations;
- news regarding the recruitment or loss of key personnel by ourselves or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control; and
- the release of lock-up or other transfer restrictions on our outstanding H Shares, or sales or perceived sales of additional H Shares by us or other shareholders.

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

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

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

Future sales or perceived sales of substantial amounts of our H Shares in the public market or the conversion of our A Shares into H Shares could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise additional capital in the future.

The market price of our H Shares could decline as a result of substantial future sales of our H Shares or other securities relating to Shares in the public market. Such a decline could also occur with 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 Shares could materially adversely affect the prevailing market price of our H Shares and our ability to raise future capital at a favorable time and price. Our shareholders would experience a dilution in their holdings upon the issuance or sale of additional securities for any purpose.

In addition, subject to the approval of the CSRC or the authorized securities regulatory authorities of the State Council, our A Shares may be transferred to overseas investors and such transferred shares may be listed or traded on an overseas stock exchange provided certain conditions are met and certain procedures are completed. In the event of the conversion of A Shares into H Shares for listing and trading on the Hong Kong Stock Exchange, we must obtain prior approval from the CSRC and other relevant PRC regulatory authorities and the Hong Kong Stock Exchange. Approvals from holders of our A Shares and H Shares as separate classes are not required for the listing and trading of the converted H Shares. See "Share Capital—Conversion of A Shares into H Shares for Listing and Trading on Hong Kong Stock Exchange." Conversion of a substantial number of our A Shares into H Shares, or the perception that such conversion may occur, could materially adversely affect the price of our H Shares.

In addition, assuming the Over-allotment Option is not exercised, 89,127,380 A Shares will be converted into H Shares and transferred to the NSSF in connection with the Global Offering. The NSSF has not entered into any lock-up agreement with us or the Underwriters and would be free to sell its H Shares any time after the Global Offering. This may also materially adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future at a time and price favorable to us.

As the Offer Price of our H Shares is higher than our consolidated net tangible book value per share, purchasers of our H Shares in the Global Offering may experience immediate dilution upon such purchases.

As the Offer Price of our H Shares is higher than the consolidated net tangible assets per share immediately prior to the Global Offering, purchasers of our H Shares in the Global Offering will experience an immediate dilution in pro forma adjusted consolidated net tangible assets of HK$9.85 per H Share (assuming an Offer Price of HK$12.16 per H Share, being the mid-point of the stated Offer Price range, and assuming the Over-allotment Option for the Global Offering is not exercised). Our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share of their shares. In addition, holders of our H Shares may experience further dilution of their interest if the Underwriters exercise the Over-allotment Option or if we issue additional shares in the future to raise additional capital.

Dividends distributed in the past may not be indicative of our dividend policy in the future.

In 2013, 2014 and 2015 and the six months ended June 30, 2016, we distributed cash dividends of RMB661.9 million, RMB888.6 million, RMB4,466.5 million and RMB1,434.6 million, respectively. Under the applicable PRC laws, dividends may be paid only out of distributable profits. Distributable profits means, as determined under PRC GAAP or IFRS, whichever is lower, our net profits for a period, plus the distributable profits or net of the accumulated losses, if any, at the beginning of such period, less appropriations to general risk reserve, transaction risk reserve, statutory surplus reserve (determined under PRC GAAP) and discretionary surplus reserve (as approved by our shareholders' meeting). As a result, we may not have sufficient profit to enable us to make future dividend distributions to our shareholders, even if one of our financial statements prepared in accordance with PRC GAAP or IFRS indicates that our operations have been profitable.

Certain facts and statistics derived from government and third-party sources contained in this prospectus may not be reliable.

We have derived certain facts and other statistics in this prospectus, particularly those relating to the PRC, the PRC economy and the PRC securities industry, from information provided by the PRC and other government agencies, industry associations, independent research institutes and other third-party sources. While we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the underwriters or any of our or their respective affiliates or advisors and, therefore, we cannot assure you as to the accuracy and reliability of such facts and statistics, which may not be consistent with other information compiled inside or outside the PRC. The facts and other statistics include the facts and statistics included in the sections entitled "Risk Factors," "Industry Overview" and "Business." Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable with statistics produced for other economies, and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts or statistics.

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

We have applied for, and the Hong Kong Stock Exchange has granted to us, a number of waivers and consents from strict compliance with the Hong Kong Listing Rules. See "Waivers and Consent from Strict Compliance with the Hong Kong Listing Rules" for further details. We cannot assure you that the Hong Kong Stock Exchange will not revoke any of these waivers granted or impose certain conditions on any of these waivers. If any of these waivers were to be revoked or to be subject to certain conditions, we may be subject to additional compliance obligations, incur additional compliance costs, and face uncertainties arising from issues of multi-jurisdictional compliance, all of which could materially adversely affect us and our Shareholders.

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.

Following 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, from time to time we publicly release information relating to ourselves on the Shanghai Stock Exchange or other media outlets designated by the CSRC. However, the information announced by us in connection with our A Shares is based on the regulatory requirements of the securities authorities and market practices in the PRC which are different 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 our 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 with respect to the Global Offering.

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

We have not been, and do not intend to be, registered as an investment company under the U.S. Investment Company Act.

We have not been, and do not intend to be, registered with the U.S. Securities and Exchange Commission as an "investment company" as defined in Section 3 of the U.S. Investment Company Act, which provides certain protections to shareholders of and imposes certain restrictions on entities that are registered as investment companies. Accordingly, unlike registered investment companies, we will not be subject to the provisions of the U.S. Investment Company Act, including provisions that: (i) require the oversight of independent directors; (ii) prohibit or proscribe transactions between us and our affiliates; (iii) impose qualifications as to who may serve as custodian for our assets; and (iv) limit our ability to use leverage in connection with effecting purchases and sales of our investments.

However, if we were to become subject to registration under the U.S. Investment Company Act because of a change of law or otherwise, the various restrictions imposed by the U.S. Investment Company Act, and the substantial costs and burdens of compliance therewith, could adversely affect our operating results and financial performance. We intend to rely on the exclusion from the registration requirements of the U.S. Investment Company Act provided by Section 3(c)(7) thereof in addition to any other applicable exemptions or exclusions. In order to help ensure compliance with the exclusion provided by Section 3(c)(7) of the U.S. Investment Company Act, we have, among other measures, implemented restrictions on the ownership and transfer of Offer Shares by any persons acquiring Offer Shares in the Offering who are in the United States or who are U.S. persons. Purchasers in the United States or who are U.S. persons will be required to execute and deliver a U.S. Qualified Purchaser Letter, in which, among other things, they certify their eligibility to purchase Offer Shares in the Global Offering and their understanding of the resale restrictions applicable to them, and agree to abide by certain restrictions in the resale of the Offer Shares. The restrictions set forth in the U.S. Qualified Purchaser Letter may make it materially more difficult to resell the Offer Shares. There can be no assurance that U.S. persons or persons in the United States will be able to locate acceptable purchasers to effect a sale.

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 U.S. Securities and Exchange Commission and the Commodity Futures Trading Commission, commonly known as the "Volcker Rule." The Volcker Rule generally prohibits, subject to certain 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 such 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 exclusions provided by Section 3(c)(1) or 3(c)(7) of the U.S. Investment Company Act.

As we intend to, in addition to any other applicable exemptions or exclusions, rely on the exclusion 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 Offer Shares may constitute "ownership interests" for the purposes of the Volcker Rule. If we are deemed to be a "covered fund" and the Offer Shares are determined to be "ownership interests", then a banking entity would generally be prohibited from acquiring or retaining the Offer Shares, unless such a banking entity could rely on an exemption from the Volcker Rule's prohibitions. These limitations could result in some banking entities being restricted in their ability to purchase the Offer Shares or prohibited from purchasing the Offer Shares, which, in turn, could reduce the liquidity of the Offer 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 Offer Shares.

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

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

In preparation for the Listing, we have applied to the Stock Exchange for the following consent and waivers from strict compliance with the relevant provisions of the Hong Kong Listing Rules.

MANAGEMENT PRESENCE

Pursuant to Rules 8.12 of the Hong Kong Listing Rules, our Company must have sufficient management presence in Hong Kong, which normally means that at least two of our executive Directors must ordinarily reside in Hong Kong. Rule 19A.15 of the Hong Kong Listing Rules further provides that the requirement in Rule 8.12 may be waived by having regard to, among other considerations, the applicant's arrangements for maintaining regular communication with the Stock Exchange. Given that our business operations are principally located, managed and conducted in the PRC and the Group's head office is situated in, and the Group's executive Directors and senior management team principally reside in, the PRC, and the management and operation of the Group have mainly been under supervision of the executive Directors of our Company, who are principally responsible for the corporate strategy, overall management, planning, business development and control of the Group's business, we consider that it would be unduly burdensome for us to maintain sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rules 8.12 and 19A.15 of the Hong Kong Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Hong Kong Listing Rules, subject to the following conditions to maintain regular and effective communication between the Stock Exchange and ourselves:

1. **Authorized Representatives:** We have appointed Mr. Gong Shaolin and Ms. Peng Lei as our authorized representatives ("Authorized Representatives") for the purpose of Rule 3.05 of the Hong Kong Listing Rules. The Authorized Representatives will act as our principal channel of communication with the Stock Exchange and would be readily contactable by the Stock Exchange, and if required, will be able to meet with the Stock Exchange to discuss any matters in relation to our Company on short notice;

2. **Directors:** When the Stock Exchange wishes to contact our Directors on any matter, each of the Authorized Representatives will have all necessary means to contact all of our Directors (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. To enhance communication between the Stock Exchange, our Authorized Representatives and our Directors, we have implemented the following measures: (a) each Director must provide his/her mobile number, office number, e-mail address and facsimile number to the Authorized Representatives; (b) in the event that a Director expects to travel and/or otherwise be out of office, he or she will provide the phone number of the place of his or her accommodation to the Authorized Representatives; and (c) we have provided the mobile number, office number, e-mail address and facsimile number of each Director to the Stock Exchange.

   Each of the Directors who does not ordinarily reside in Hong Kong possesses valid travel documents or can apply for a visa to visit Hong Kong within a reasonably short period of time. Accordingly, each of the Directors will be able to meet with the Stock Exchange within a reasonable period of time;

3. **Compliance Advisor**: We have appointed J.P. Morgan Securities (Far East) Limited as our compliance advisor ("Compliance Advisor") in compliance with Rule 3A.19 of the Hong Kong Listing Rules, who will provide us with professional advice on continuing obligations under the Hong Kong Listing Rules and act as our additional channel of communication with the Stock Exchange during the period from the Listing Date to 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 immediately after the Listing. The Compliance Advisor will be available to answer inquiries from the Stock Exchange and will act as our principal channel of communication with the Stock Exchange when the Authorized Representatives are not available.

We have provided the Stock Exchange with the names and contact details including, mobile and office telephone numbers, facsimile numbers and e-mail addresses of at least two of the Compliance Advisor's officers who will act as the Compliance Advisor's contact persons between the Stock Exchange and our Company pursuant to Rule 19A.06(4) of the Hong Kong Listing Rules.

Pursuant to Rule 19A.05(2) of the Hong Kong Listing Rules, we shall ensure that the Compliance Advisor retained by us will have access at all times to our Authorized Representatives, our Directors and other officers. We shall also ensure that such persons will provide promptly such information and assistance as the Compliance Advisor may need or may reasonably request in connection with the performance of the Compliance Advisor's duties as set forth in Chapter 3A and Rule 19A.06 of the Hong Kong Listing Rules. We shall ensure that there are adequate and efficient means of communication between our Company, our Authorized Representatives, our Directors and other officers and the Compliance Advisor, and will keep the Compliance Advisor informed of all communications and dealings between us and the Stock Exchange.

COMPANY SECRETARY

Pursuant to Rules 3.28 and 8.17 of the Hong Kong Listing Rules, we must appoint a company secretary who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Note (1) to Rule 3.28 of the Hong Kong Listing Rules further provides that the Stock Exchange considers the following academic or professional qualifications to be acceptable:

1. a member of the Hong Kong Institute of Chartered Secretaries;
2. a solicitor or a barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and
3. a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

In assessing "relevant experience", the Stock Exchange will consider the individual's (i) length of employment with the issuer and other issuers and the roles he or she has undertaken, (ii) familiarity with the Hong Kong Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code, (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Hong Kong Listing Rules, and (iv) professional qualifications in other jurisdictions.

Our Company has appointed Mr. Wu Huifeng as one of the joint company secretaries. He has extensive experience in board and corporate management matters but presently does not possess any of the qualifications under Rules 3.28 and 8.17 of the Hong Kong Listing Rules, and may not be able to solely fulfill the requirements of the Hong Kong Listing Rules. Therefore, we have appointed Ms. Kwong Yin Ping Yvonne, a fellow member of the Hong Kong Institute of Chartered Secretaries, who fully complies with the requirements stipulated under Rules 3.28 and 8.17 of the Hong Kong Listing Rules to act as the other joint company secretary and to provide assistance to Mr. Wu Huifeng for an initial period of three years from the Listing Date to enable Mr. Wu Huifeng to acquire the "relevant experience" under Note (2) to Rule 3.28 of the Hong Kong Listing Rules so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Hong Kong Listing Rules.

Ms. Kwong Yin Ping Yvonne will work closely with Mr. Wu Huifeng to jointly discharge the duties and responsibilities of company secretary and assist Mr. Wu Huifeng with acquiring the relevant experience as required under Rules 3.28 and 8.17 of the Hong Kong Listing Rules. In addition, Mr. Wu Huifeng will endeavor to attend relevant training and familiarize himself with the Hong Kong Listing Rules and duties required of a company secretary of a PRC issuer listed on the Stock Exchange.

We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Hong Kong Listing Rules. The waiver is valid for an initial period of three years from the Listing Date, and is granted on the condition that we engage Ms. Kwong Yin Ping Yvonne, who possesses the requisite qualifications required under Rule 3.28 of the Hong Kong Listing Rules, to assist Mr. Wu Huifeng with discharging his duties as a joint company secretary and in gaining the "relevant experience" as required under Note (2) to Rule 3.28 of the Hong Kong Listing Rules. If Ms. Kwong Yin Ping Yvonne ceases to render assistance to Mr. Wu Huifeng during this period, the waiver will be immediately withdrawn.

Upon the expiration of the initial three-year period, the qualifications of Mr. Wu Huifeng will be re-evaluated to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Hong Kong Listing Rules can be satisfied and whether the need for ongoing assistance will continue. In the event Mr. Wu Huifeng fulfills all the requirements stipulated at the end of the initial three-year period, the above joint company secretary arrangement would no longer be necessary for our Company.

CONTINUING CONNECTED TRANSACTIONS

We have entered into and are expected to continue with certain transactions which, after the Listing, will constitute our continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver under Rule 14A.105 of the Hong Kong Listing Rules from strict compliance with the relevant requirements in respect of continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. We have also applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirement of setting a maximum daily balance for our bank deposits with China Merchants Group and/or its associates under Rule 14A.53 of the Hong Kong Listing Rules. See "Connected Transactions" in this prospectus.

CLAWBACK MECHANISM UNDER PARAGRAPH 4.2 OF PRACTICE NOTE 18 OF THE HONG KONG LISTING RULES

Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached. We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules such that, provided the initial allocation of Offer Shares under the Hong Kong Public Offering shall be not less than 5% of the Global Offering, in the event of oversubscription, the Joint Representatives shall apply a clawback mechanism following the closing of the application lists on the following basis:

1. if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 66,845,600 Offer Shares, representing approximately 7.5% of the Offer Shares initially available under the Global Offering;
2. if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 89,127,600 Offer Shares, representing approximately 10% of the Offer Shares initially available under the Global Offering; and
3. if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 178,254,800 Offer Shares, representing approximately 20% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate. In addition, the Joint Representatives may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint 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.

See "Structure of the Global Offering—The Hong Kong Public Offering—Reallocation."

ALLOCATION OF H SHARES TO EXISTING MINORITY SHAREHOLDERS AND THEIR CLOSE ASSOCIATES UNDER RULE 10.04 OF AND PARAGRAPH 5(2) OF APPENDIX 6 TO THE HONG KONG LISTING RULES

Rule 10.04 of the Hong Kong Listing Rules provides that a person who is an existing shareholder of the issuer may only subscribe for or purchase any 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 conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are fulfilled.

The conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are as follows: (i) no securities are 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 that, unless with the prior written consent of the 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 Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of 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 our Company to allocate H Shares in the International Offering to existing minority shareholders and their close associates subject to the following conditions:

1. each existing minority shareholder to whom our Company may allocate H Shares in the International Offering must hold less than 5% of our Company's voting rights prior to the completion of the Global Offering;
2. each existing minority shareholder is not, and will not be, a core connected person (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;
3. such existing minority shareholders have no right to appoint directors and do not have other special rights;
4. allocation to such existing minority shareholders and their close associates will not affect our ability to satisfy the public float requirement under Rule 8.08 of the Hong Kong Listing Rules;
5. each of our Company, the Joint Bookrunners and the Joint Sponsors (based on their discussions with and confirmations from our Company and the Joint Bookrunners) confirm to the Stock Exchange in writing that no preferential treatment has been, nor will be, given to such existing minority shareholders and their close associates by virtue of their relationship with our Company in any allocation in the International Offering; and
6. the relevant information in respect of the allocation to such existing minority shareholders and/or their close associates will be disclosed in the allotment results announcement.

SUBSCRIPTION OF H SHARES BY CHINA MERCHANTS GROUP

Rule 10.04 of the Hong Kong Listing Rules provides that a person who is an existing shareholder of the issuer may only subscribe for or purchase any 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 conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are fulfilled.

The conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are as follows: (i) no securities are 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 that, unless with the prior written consent of the 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.

China Merchants Group, being the controlling shareholder (as defined under the Hong Kong Listing Rules) of our Company, indirectly held 2,953,733,617 A Shares in our Company as of the Latest Practicable Date, representing approximately 50.86% of the total share capital of our Company. In accordance with the relevant PRC regulations regarding the reduction of holdings in state-owned shares, the state-owned shareholders of our Company are required to transfer to the NSSF such number of Shares which in aggregate would be equivalent to 10% of the number of Offer Shares to be issued under the Global Offering.

Subsidiaries of China Merchants Group through which China Merchants Group holds A Shares in our Company are required to transfer to the NSSF 67,706,396 A Shares (including the 195,126 A Shares to be transferred to the NSSF on behalf of another state-owned shareholder of the Company), in aggregate, which shall be converted into H Shares upon the Listing, assuming the Over-allotment Option is not exercised. The shareholding of China Merchants Group in our Company will decrease from 50.86% to 44.09% immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), taking into account the mandatory transfer of Shares to the NSSF by China Merchants Group and the dilutive effect of the Global Offering.

In order to maintain China Merchants Group's appropriate shareholding in our Company after the completion of the Global Offering, SASAC has issued a governmental directive to require China Merchants Group to apply to the relevant regulators for subscription of such number of H Shares that is no less than the number of state-owned shares that China Merchants Group is required to transfer to the NSSF in connection with the Global Offering (i.e. 67,706,396 A Shares). As such, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rule 10.04 and its consent under Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules to permit China Merchants Group or its nominees to subscribe for such number of H Shares that equals to the number of state-owned shares (rounded up to the nearest whole board lot of 200 H Shares) (i.e. 67,706,400 H Shares) that China Merchants Group is required to transfer to the NSSF in connection with the Global Offering, assuming the Over-allotment Option is not exercised at all, at the Offer Price in the International Offering, so as to reinstate China Merchants Group's shareholding in our Company after the completion of the Global Offering, on the following basis:

1. such subscription will be conducted to comply with, and in accordance with, the anti-dilution requirement set out in the SASAC directive. As a central-level state-owned enterprise directly under the administration of the SASAC, China Merchants Group has an obligation to comply with the SASAC directive and use its best endeavor to satisfy the requirements imposed by the SASAC. Such reinstatement is necessary for China Merchants Group to comply with the PRC governmental directive applicable to it;

2. the Company has been controlled by China Merchants Group with a majority shareholding of over 50%. Such subscription is in line with the long-term strategic value that China Merchants Group has attached to its controlling stake in our Company. In addition, it is in the interest of our Company that China Merchants Group maintains a similar level of control stake upon completion of the Global Offering. The transfer of state-owned shares by China Merchants Group to the NSSF and the dilutive effect consequential to the Global Offering will reduce the shareholding of China Merchants Group in the Company, potentially affecting the Company's business and management stability;

3. the placing of Offer Shares with China Merchants Group will be undertaken at the same price and substantially on the same terms as all other Offer Shares being offered to other investors pursuant to the Global Offering (save for the lock-up period and the basis of allocation);

4. China Merchants Group has agreed to be subject to a lock-up period of three years from the Listing Date in respect of the H Shares acquired by it in the Global Offering. The lock-up period is longer than that required under Rule 10.07 of the Listing Rules;

5. details of the final allocation, including the number of H Shares allocated, to China Merchants Group or its nominees will be disclosed in the allotment results announcement for the Global Offering; and

6. the Offer Shares to be placed with China Merchants Group shall form part of the International Offering, and as a result, it will not have an impact on the H Shares to be offered to public investors in Hong Kong under the Hong Kong Public Offering.

PUBLIC FLOAT REQUIREMENTS

Rule 8.08(1) of the Listing Rules requires that there must be an open market in the securities for which listing is sought and that a sufficient public float of an issuer's listed securities must be maintained.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver that the minimum public float requirement under Rule 8.08(1) be reduced and the minimum percentage of our Company's H Shares (being the securities for which listing on the Stock Exchange is sought) from time to time held by the public to be the higher of:

(a) 13.62% of the total issued share capital of the Company; or

(b) such a percentage of H Shares held by the public immediately after completion of the Global Offering, as increased by the H Shares to be issued upon 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 we will confirm sufficiency of public float in our successive annual reports after the Listing.

In the event that the public float percentage falls below the minimum percentage prescribed by the Stock Exchange, we will take appropriate steps to ensure that the minimum percentage of public float prescribed by the Stock Exchange is complied with.

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 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 Listing Rules for the purpose of giving 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 matters the omission of which would make any statement herein or this prospectus misleading.

CSRC APPROVAL

The CSRC issued an approval letter on August 3, 2016 for the Global Offering and our application to list the H Shares on the 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. No other approvals are required to be obtained for the listing of the H Shares on the Stock Exchange.

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. The Global Offering comprises the Hong Kong Public Offering of initially 44,564,000 Offer Shares and the International Offering of initially 846,709,800 Offer Shares (subject, in each case, to reallocation on the basis as set out in "Structure of the Global Offering"). 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 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 advisors or any other party involved in 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 this prospectus.

OFFER SHARES FULLY UNDERWRITTEN

The listing of our H Shares on the Stock Exchange is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Representatives. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to us and the Joint Representatives (on behalf of the Hong Kong

Underwriters) agreeing on the Offer Price on or before the Price Determination Date. An International Underwriting Agreement relating to the International Offering is expected to be entered into on or around September 30, 2016, subject to the Offer Price being agreed. The International Offering will be fully underwritten by the International Underwriters under the terms of the International Underwriting Agreement to be entered into.

If, for any reason, the Offer Price is not agreed among us and the Joint Representatives (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" in this prospectus.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for the 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 the section headed "Structure of the Global Offering" in this prospectus.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the section headed "Structure of the Global Offering" in this prospectus.

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 is aware of the restrictions on offers and sales of the Hong Kong Offer Shares described in this prospectus and the Application Forms.

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 in any jurisdiction other than Hong Kong. Accordingly, this prospectus 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 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 ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, (i) 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); and (ii) the H Shares to be converted from A Shares and transferred to NSSF pursuant to the relevant PRC regulations relating to reductions of State-owned shares.

Under section 44B(l) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the permission for the H Shares to be listed on the 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 Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

COMMENCEMENT OF DEALINGS IN THE H SHARES

Dealings in the H Shares on the Stock Exchange are expected to commence at 9:00 a.m. on October 7, 2016. Except for the A Shares and other debt securities that have been listed on the Shanghai Stock Exchange and our pending application to the Stock Exchange for the listing of, and permission to deal in, the H Shares, no part of our share or debt securities is listed on or dealt in on the Stock Exchange or any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

H SHARE REGISTER AND STAMP DUTY

All Offer Shares 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, in 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. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the H Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the H Shares. In addition, a fixed duty of HK$5 is charged on each instrument of transfer (if required).

Unless determined otherwise by the Company, dividends payable in respect of our H Shares will be paid to the Shareholders listed on the H Share register of our Company in Hong Kong, by ordinary post, at the Shareholders’ risk, to the registered address of each Shareholder of the Company.

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 Companies Ordinance, the 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 of our Shareholders that our H Shares are freely transferable by the holders thereof; and

(iv) authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

Persons applying for or purchasing H Shares under the Global Offering are deemed, by their making an application or purchase, to have represented that they are not close associates (as such term is defined in the Hong Kong Listing Rules) of any of the Directors of our Company or any existing Shareholders of our Company or a nominee of any of the foregoing.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors as to the taxation implications of subscribing for, purchasing, holding or disposing of, and/or dealing in the H Shares or exercising rights attached to them. None of us, the Joint Sponsors, Joint Representatives, the 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 and of Renminbi amounts into U.S. dollars at specified rates. Unless indicated otherwise, the translation of Renminbi into Hong Kong dollars and of Renminbi into U.S. dollars, and vice versa, in this prospectus was made at the following rates:

RMB0.8608 to HK$1.00 (being the prevailing exchange rate on September 19, 2016 set by the People's Bank of China); and

RMB6.6707 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 September 16, 2016).

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

LANGUAGE

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 shall prevail.

ROUNDING

Unless otherwise stated, all the numerical figures are rounded to one or two decimal places. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

DIRECTORS

Name	Position	Address	Nationality
Mr. GONG Shaolin (宮少林)	Chairman of the Board and executive Director	Room 31B, Block 16 Phase II, Donghai Garden Shenzhen, Guangdong PRC	Chinese
Ms. SU Min (蘇敏)	Non-executive Director	Flat F, 25/F Manrich Court 33 St. Francis Street Wan Chai Hong Kong	Chinese
Mr. HUA Li (華立)	Non-executive Director	Room 11B, No. 8 Building Phase I, Lanxi Valley Yanshan Road, Nanshan District Shenzhen, Guangdong PRC	Chinese
Mr. XIONG Xianliang (熊賢良)	Non-executive Director	Flat D, 3/F Sun Shing Mansion No. 27-39 Queen's Road West Hong Kong	Chinese
Mr. WANG Yan (王岩)	Executive Director, President and Chief Executive Officer	Room 1001 No. 4088 Yi Tian Road Futian District Shenzhen, Guangdong PRC	Chinese
Mr. GUO Jian (郭健)	Non-executive Director	No. 504, Block 10 Shuiwan No. 2 District Nanshan District Shenzhen, Guangdong PRC	Chinese
Ms. PENG Lei (彭磊)	Non-executive Director	Flat D, 5/F Borita Building No. 135-143 Third Street Sai Ying Pun Hong Kong	Chinese
Mr. WANG Daxiong (王大雄)(1)	Non-executive Director	Flat H, 33/F, Tower 3 Island Harbour View 11 Hoi Fai Road Kowloon Hong Kong	Chinese
Mr. HUANG Jian (黃堅)	Non-executive Director	Room 1201, Block 10, Yuan No. 6 Yuetan West Street Xicheng District Beijing PRC	Chinese

(1) Mr. WANG Daxiong was nominated by the Board to be non-executive Director pursuant to a resolution of the Board dated May 20, 2016. The appointment of Mr. Wang was approved by the Shareholders at a general meeting on June 30, 2016 and was pending the approval of the CSRC on director's qualification as of the Latest Practicable Date.

Name	Position	Address	Nationality
Mr. CAO Dong (曹楝)	Non-executive Director	No. 10, Unit 3, Block 104 Qinhuang Residential Quarter Haigang District Qinhuangdao, Hebei PRC	Chinese
Mr. YI Xiqun (衣錫群)	Independent non-executive Director	No. 1101, Door Yi, Block 1 Fangcheng Garden, No. 1 District Fengtai District Beijing PRC	Chinese
Mr. LIU Jialin (劉嘉凌)	Independent non-executive Director	House No. 16 No. 8 Plunkett's Road Hong Kong	Chinese Hong Kong
Mr. DING Huiping (丁慧平)	Independent non-executive Director	No. 804, Block 7 No. 3 Shangyuan Village Haidian District Beijing PRC	Chinese
Mr. ZHU Haiwu (朱海武)	Independent non-executive Director	No. 40, No. 3 Central District Longcheng Garden Changping District Beijing	Chinese
Mr. YANG Jun (楊鈞)	Independent non-executive Director	Room 302 No. 2, Lane 39, Yinxiao Road Pudong New District Shanghai PRC	Chinese

SUPERVISORS

Name	Position	Address	Nationality
Ms. ZHOU Linda Lei (周語菡)	Chairman of the Supervisory Committee	Room 604, Building No. 9 Cuizhu Garden Liyuan Road Shekou, Nanshan District Shenzhen, Guangdong PRC	Chinese Hong Kong
Mr. LI Xiaofei (李曉霏)	Supervisor	Flat 1F, Tower III Academic Terrace 101 Pok Fu Lam Road Hong Kong	Chinese
Mr. FANG Xiaobing (房小兵)	Supervisor	No. 701, Unit 2, Block 12 No. 22, Yuanda Road Haidian District Beijing PRC	Chinese

Name	Position	Address	Nationality
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Further information is disclosed in "Directors, Supervisors and Senior Management."

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This section contains information and statistics on the industry in which we operate. We have extracted and derived such information and statistics, in part, from various official and publicly available sources. In addition to statistics, market share information and industry data from publicly available government sources, certain information and data contained in this section is derived from Wind Info. As a leading integrated service provider of financial data, information and software in the PRC domestic market, Wind Info serves financial enterprises, including securities firms, fund management companies, insurance companies, banks and investment companies. The financial database of Wind Info contains comprehensive information on stocks, bonds, futures, foreign exchange, insurance, derivatives and the macro-economy. Historical data provided by Wind Info are collected by Wind Info independently from various public information sources, including, among others, the Securities Association of China, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. The information and data derived from Wind Info are not commissioned by us or the Joint Sponsors and can be accessed by all of its subscribers.

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OVERVIEW OF THE PRC ECONOMY

After experiencing rapid growth over the past 30 years, the PRC economy has entered into a "new normal" stage during which it is expected to maintain a moderate rate of growth. The PRC economic structure is expected to be further optimized and upgraded, and economic growth is expected to be driven by the service industry and domestic consumption. As a result, it is expected that the PRC economy will transform from an investment-driven model into an innovation-driven model. In addition, the PRC government has enhanced its administrative efficiency and improved various regulatory policies, which has further boosted the PRC economy.

During the "New Normal" stage, the PRC government is placing greater emphasis on trade liberalization to promote cooperation among different regions and countries. The PRC government aims to further open up its market by introducing the New Silk Road Economic Zone (新絲綢之路), which links 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 connects China with Southeast Asia, Africa and Europe. It is expected that this strategy will drive future economic growth in China. The collaborative development of the Beijing-Tianjin-Hebei area, the establishment of the Yangtze River Economic Zone and economic cooperation in the Pan-Pearl River Delta also provide a solid foundation for the sustainable growth of the PRC economy. In addition, the expansion of the domestic free trade zones, such as the Shanghai Free-Trade Zone and the Qianhai Cooperation Zone, is expected to bring new momentum to regional economic development.

The Qianhai Cooperation Zone offers unique geographical advantages for companies based in Shenzhen. Adjacent to Hong Kong, the Qianhai Cooperation Zone has great potential under the PRC government's strategy to restructure its economy. The objective of establishing the Qianhai Cooperation Zone is to promote domestic high-end service and financial industries. Leveraging the competitive advantages and international experience of Hong Kong in these two areas, the Qianhai Cooperation Zone will facilitate the overseas expansion of local business by consolidating and strengthening cooperation with overseas enterprises. Hong Kong companies can expand their businesses into the Pearl River Delta and other regions by using their businesses in Qianhai as a stepping stone, which will in turn drive the economic transformation and development of the Pan-Pearl River Delta area. In addition, the Qianhai Cooperation Zone has strong financial innovation capabilities. There are over 10,000 financial companies registered in the Qianhai Cooperation Zone, including private equity funds, financial leasing companies, internet finance companies, microfinance companies and other innovative financial institutions.

OVERVIEW OF THE PRC CAPITAL MARKETS

The establishment of multi-layer capital markets

Despite their rapid growth, the PRC capital markets are still immature compared with those of major, developed countries. As of December 31, 2015, the securitization rate (calculated based on the total market capitalization of companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange divided by the nominal local GDP) in PRC was 78.5%, which was far behind that of 139.7% in the United States. According to "Several Opinions of the State Council on Further Promoting the Healthy Development of the Capital Markets" (國務院關於進一步促進資本市場健康發展的若干意見) published on May 8, 2014, by 2020 the PRC is expected to establish a multi-layer capital markets system with a sound structure and comprehensive functions. The opinions provide strategic direction for the development and reform of the PRC capital markets.

Equity market

Driven by the significant economic development of the PRC, the rapid growth in household income and the steady increase in demand for financing, the PRC stock market has grown substantially in scale and maturity during the past 20 years. According to data of the Shanghai Stock Exchange and the Shenzhen Stock Exchange, the total number of PRC companies listed on these two stock exchanges increased from 2,342 as of December 31, 2011 to 2,827 as of December 31, 2015. The total market capitalization of listed companies on these two stock exchanges increased from RMB21.5 trillion as of December 31, 2011 to RMB53.1 trillion as of December 31, 2015. The PRC stock market ranked first in terms of total stock trading volume in 2015 and second globally in terms of total market capitalization as of December 31, 2015 respectively. According to the CSRC and the two stock exchanges, in 2013, 2014 and 2015, the combined average daily trading volume of stocks on these stock exchanges was RMB196.9 billion, RMB303.6 billion and RMB1,045.3 billion, respectively.

The PRC stock market has developed a multi-layer structure consisting of the main board, the SME Board, the ChiNext Board, the NEEQ and regional equity exchanges. In 2013, the previous restriction that only companies in four high and new technology zones can be listed on NEEQ was lifted. Shares of companies eligible for listing on the NEEQ are allowed to be quoted and transferred on the NEEQ. More opportunities are available for medium, small and micro enterprises to participate in the capital markets. The number of companies listed on the NEEQ increased from 200 as of December 31, 2012 to 5,129 as of December 31, 2015. In addition, the size of the companies listed on the NEEQ has been expanding. According to Wind Info, as of April 26, 2016, there were 33 regional equity exchanges, and over 8,300 companies were listed on the Shanghai Equity Exchange alone.

Bond market

In recent years, the PRC bond market has developed rapidly. Fixed-income securities have been expanding in variety since 2005. Short-term financing bills, corporate bonds and medium-term notes were introduced to the bond market in 2005, 2007 and 2008, respectively. The launch of privately-placed bonds for medium, small, and micro enterprises in 2012 provided alternative sources of financing for SMEs in the PRC. According to Wind Info, the total proceeds raised by PRC non-financial institutions through the issue of bonds, mainly short-term financing bills, medium-term notes, enterprise bonds, corporate bonds, private placement notes, and asset-backed securities increased from RMB2,216.7 billion in 2011 to RMB7,426.3 billion in 2015, representing a CAGR of 35.3%.

On January 15, 2015, the CSRC issued the "Administrative Measures for the Issuance and Trading of Corporate Bonds" (《公司債券發行與交易管理辦法》), which expanded the scope of issuers and trading markets and streamlined approval procedures for corporate bonds issuance. These measures stipulate that the public issuance of corporate bonds requires regulatory approval while the private placement of corporate bonds requires only regulatory filing. As a result, it is believed that financing through issuing bonds will be more common for companies in China.

Fund market

The PRC fund market has experienced significant growth in recent years driven by the favorable regulatory environment and accumulation of personal wealth. According to the Asset Management Association of China, as of December 31, 2015, the aggregate size of mutual funds managed by fund management companies amounted to RMB8.4 trillion. The "Measures for the Registration of Private Investment Funds Managers and Filing of Funds (Trial Implementation)" (私募投資基金管理人登記和基金備案辦法(試行)) became effective on February 7, 2014 to stipulate the procedures and requirements for the registration of private investment fund managers and filing of private investment funds. As a result, the private investment funds market in the PRC has became more standardized and the market scale has been expanding. As of December 31, 2015, 25,005 private investment fund management companies have registered with the Asset Management Association of China, and the subscribed assets managed by them amount to RMB5.1 trillion.

Derivatives market

Since its launch in the 1990s, the PRC derivatives market has experienced significant growth. Currently, the PRC standard derivatives market available for securities firms consists primarily of commodity futures, financial futures and interest rate swaps. According to the CSRC, the total trading volume of commodity futures in the PRC increased from RMB93.7 trillion in 2011 to RMB136.5 trillion in 2015, representing a CAGR of 9.8%. In terms of market size, China is one of the largest commodity futures markets in the world. Stock index futures have recorded rapid growth since their launch in the PRC in April 2010. The total trading volume of stock index futures increased from RMB43.8 trillion in 2011 to RMB411.7 trillion in 2015, representing a CAGR of 75.1%. On February 9, 2015, the SSE 50 ETF option was launched, which has further expanded the PRC derivatives market. The total trading volume of treasury bond futures amounted to RMB6.0 trillion in 2015.

Development trends of PRC capital markets

Financing structure is becoming disintermediated

In recent years, the PRC capital markets have experienced the advancement of interest rate liberalization, and financial disintermediation is accelerating. Driven by the reforms of financial regulation and debt restructuring of local governments, the PRC financing structure is transforming from indirect financing to direct financing, comprising of equity and debt securities primarily. The following table sets out the annual incremental size of direct financing and indirect financing in the PRC in 2011 and 2015:

	2011		2015	
	(RMB in trillions, except for percentage)			
Direct financing(1)	1.8	14.1%	3.7	24.0%
Indirect financing(2)	11.0	85.9%	11.7	76.0%
Total	**12.8**	**100.0%**	**15.4**	**100.0%**

Sources: PBOC

(1) Direct financing includes corporate bond offerings and onshore equity offerings by non-financial institutions.
(2) Indirect financing includes RMB loans, foreign currency loans, entrusted loan, trust loan, undiscounted bank acceptance bill and others.

Liberalization and internationalization of the PRC capital markets

As the internationalization of the Renminbi has accelerated, the improved circulation and convertibility of Renminbi under capital accounts continue to promote the opening up of the PRC capital markets. In 2014, the launch of the Shanghai-Hong Kong Stock Connect strengthened the financial connection between Hong Kong and China, attracting more overseas investors to China and more Chinese investors to international markets. It is expected that the financial connection between Hong Kong and China will be further strengthened after the launch of the Shenzhen-Hong Kong Stock Connect (深港通).

Also, due to the relaxation of regulatory approvals, the number and transaction value of overseas IPOs, bond issuances and cross-border M&As by PRC companies are increasing. The proceeds raised from overseas IPOs of PRC companies increased from RMB127.3 billion in 2011 to RMB197.3 billion in 2015. Moreover, overseas-listed PRC companies have become increasingly interested in China as a new source of raising funds. In particular, a number of financial institutions in China with their shares listed in Hong Kong have already entered, or are preparing to enter, the A-share market in China. PRC securities firms operating investment banking businesses both in China and Hong Kong will have a better chance of capturing such market opportunities.

THE DEVELOPMENT STATUS OF THE PRC SECURITIES INDUSTRY

In recent years, the PRC securities industry has entered a stage of strategic development with significant opportunities due to the rapid growth of multi-layer capital markets in the PRC.

According to the Securities Association of China, there were 125 registered securities firms in China as of December 31, 2015. As of December 31, 2015, the total assets, net assets and net capital of all PRC securities firms amounted to RMB6.4 trillion, RMB1.5 trillion and RMB1.3 trillion, respectively. The return on equity of the PRC securities industry has increased from 5.8% in 2013 to 16.9% in 2015.

Since 2012, the PRC securities industry has entered into a new stage of innovation and transformation with significant regulatory reforms and business innovation, as well as breakthroughs in major business areas:

- ***Brokerage and wealth management***: the regulatory authorities allow securities firms to provide remote account opening and fund custody services. PRC securities firms have promoted the establishment of "light branches" and introduced new businesses, including wealth management, as well as margin financing and securities lending, to reduce cost and increase sources of income. According to Wind Info, the brokerage trading volume of stocks and funds increased from RMB42.8 trillion in 2011 to RMB270.3 trillion in 2015, representing a CAGR of 58.5%. The net operating income from brokerage of the entire industry also increased from RMB68.9 billion in 2011 to RMB269.0 billion in 2015, representing a CAGR of 40.6%. Net operating income from brokerage of the entire industry to brokerage trading volume of stocks and funds decreased from approximately 0.080% in 2011 to approximately 0.050% in 2015, as a result of the intensification of the competition among the industry players and the rapid growth of internet finance which encouraged investors to trade stocks and funds through internet portal or mobile apps rather than physically in securities branches. It is expected that such trend will continue in the foreseeable future. As a result of the decrease in the brokerage commission rate in the industry, securities firms in the PRC have been promoting other businesses to broaden their income source, such as capital-based intermediary services. The balance of margin loans and securities lent increased from RMB38.2 billion as of December 31, 2011 to RMB1.2 trillion as of December 31, 2015, representing a CAGR of 135.5%.

- ***Investment banking***: the CSRC issued the "Opinions on Further Promoting the Reform of IPOs System" (《關於進一步推進新股發行體制改革的意見》) on November 30, 2013, and began a new round of reform on the A-share IPO system, representing a major step towards a registration-based IPO system. The market size of NEEQ has been increasing at an accelerated rate since 2014, and the trading system was undergoing constant innovation. New financing instruments, such as preferred shares, perpetual bonds and exchangeable bonds, were also introduced. According to Wind Info, the total amount of equity financing in the PRC increased from RMB695.6 billion in 2011 to RMB1.5 trillion in 2015, and the amount of corporate bonds and enterprise bonds financing increased from RMB377.7 billion in 2011 to RMB1.4 trillion in 2015. Moreover, many PRC securities firms have established or acquired subsidiaries in Hong Kong to fulfill customers' demand for offshore corporate finance services. As of December 31, 2015, all of the Top Ten Securities Firms have subsidiaries in Hong Kong to provide corporate finance services.

- ***Asset management***: the scope of investment under asset management plans was expanded and the relevant limitations on investment were lifted. The pre-issuance approval requirement for asset management plans has been changed to a post-issuance filing requirement. The asset management business of PRC securities firms has grown substantially in recent years. According to the Securities Association of China, the total amount of AUM of all asset management plans in China increased from RMB281.9 billion as of December 31, 2011 to RMB11.9 trillion as of December 31, 2015.

- ***Investments and trading***: the permitted investment scope for securities firms' securities investment and trading business has been substantially expanded to include securities and derivatives traded on the exchanges and the OTC market. With the launch of stock index futures, treasury bond futures and stock options, trading strategies and investment instruments available for the PRC securities firms have become more diverse. With the introduction of market-making services for ETFs, stock options and shares listed on the NEEQ, securities firms have also enhanced their trading functions and strengthened their liquidity risk management capabilities.

Intense competition exists in the PRC securities industry. Securities firms also face different levels of cross-industry and cross-business competition with other institutions in the PRC financial market. According to Wind Info, the securities firm with the highest operating revenue among all PRC securities firms only accounted for less than 9% of the industry's aggregate operating revenue in 2015, which indicates that competition among the PRC securities firms has been, and is likely to remain, intense.

In addition to competition within the securities industry, competition with other financial institutions also exists in various business lines. For instance, in terms of asset management business, securities firms compete with banks, insurance companies and trust companies. The securities firms also face intense competition from commercial banks in the debt underwriting business. Furthermore, PRC commercial banks have been actively developing Hong Kong corporate finance business in recent years, intensifying competition in the corporate finance sector in Hong Kong. With the development of internet finance, securities firms will also face intense competition from internet companies. Moreover, the regulatory authority has relaxed the restriction on the business scope of commercial banks. For example, Bank of Communications Co., Ltd. was allowed to acquire a 33% equity interest in Hua Ying Securities Co., Ltd. It is expected that the PRC securities industry will open up to commercial banks and other financial institutions. While other financial institutions are allowed to enter the securities market, securities firms are also allowed to operate new businesses which were previously restricted, such as fund custody. Cross-business competition brings new opportunities and challenges to all business lines, and also facilitates the transformation and innovation of the products and businesses of securities firms.

DEVELOPMENT TRENDS OF THE PRC SECURITIES INDUSTRY

The PRC economic transition brings enormous business opportunities to the PRC securities industry

As the PRC economy structure has been further optimized and upgraded, the contribution of tertiary industries (including the securities industry) to GDP has increased from 44.3% in 2011 to 50.5% in 2015. The increasing proportion of direct financing will drive the financing activities in both equity and bond markets. In addition, with a new round of household registration system reform and the new-type urbanization, the increasing household income, and the gradual shift of assets allocation from bank deposits and real estate investment to fund investment, the securities firms and other assets management institutions will benefit from the increasing demand for assets management and fund investment services. In recent years, the PRC government has been actively reducing leverage and eliminating excessive production capacity, which provides great opportunities for the securities firms to quickly develop their M&A businesses.

The regulatory transition in the securities industry provides favorable policies to increase innovation

In May 2014, the CSRC published the "Opinions on Further Promoting the Innovative Development of Securities Service Providers" (the "Opinions")—(關於進一步推進證券經營機構創新發展的意見), which set out the major tasks and specific measures to promote the innovation of securities firms in three areas:

- To establish modern investment banks. The Opinions support securities firms enhancing their comprehensive financial service capabilities, consolidating their basic functions and broadening their financing channels, so as to establish modern investment banks with international competitiveness, influential brand recognition and system importance.
- To support product and service innovation. The Opinions encourage securities firms to steadily grow their derivatives business, proactively develop their OTC business and to support the development of their asset management business and innovation in financing business.
- To promote regulatory transformation. Regulatory transformation encompasses the transformation from an approval-based to a filing-based system. This regulatory transition also focuses on further transforming the vetting process and lessening market entry requirements.

The Opinions provide the strategic direction for further development of the PRC securities industry, encourage the innovative development of the securities industry with favorable policies, and promote an advanced, market-oriented regulatory transition.

According to the 2016 Report on the Work of the Government, the PRC government intends to further its reform of the financial regime. Through accelerating the optimizing process of the modern financial regulatory system, the PRC government aims at enhancing the economic efficiency of financial service providers and regulating the financial risk comprehensively. Furthermore, the PRC government plans to continually contribute to the marketization of the Renminbi currency and the reform and institutionalization of equity and bond capital markets, and launch Shenzhen-Hong Kong Stock Connect in due course, so as to promote the sound development of the capital markets on various levels and increase the proportion of direct financing in total finance.

Rapid growth of capital-based intermediary services

As investors' demand for financing and liquidity increases, the PRC securities industry has begun to offer capital-based intermediary services which utilize securities firms' capital to facilitate trading, investments or financing. Products under capital-based intermediary services have become increasingly diverse in the PRC securities industry.

Types of capital-based intermediary services have been increasing, and mainly include margin financing and securities lending, stock repurchases, securities-backed lending, equity return swaps and market-making. These businesses are growing rapidly and have become an important growth driver of securities firms. According to the Securities Association of China, in 2015, the total interest income from margin financing and securities lending of the industry amounted to approximately RMB118.5 billion, representing 20.6% of the total revenue of the securities industry, which is the third-largest income contributor to the PRC securities industry. According to Wind Info, the reference market capitalization of the trading pledged equities held by securities firms increased from RMB264.6 billion in 2013 to RMB2,005.1 billion in 2015.

The availability of the financial resources of securities firms has become more important as capital-based intermediary services grow. Since 2014, the Top Ten Securities Firms have conducted a number of equity or debt financing activities to satisfy their business development requirements.

The synergies of domestic and foreign resources have given PRC securities firms opportunities to develop cross-border businesses

The accelerated internationalization of the Renminbi and the further opening up of the capital markets are expected to reinforce the leading position of PRC capital markets in the international capital markets. The launch of Shanghai-Hong Kong Stock Connect in November 2014 is expected to strengthen connectivity between the PRC and the Hong Kong capital markets by allowing eligible investors to trade on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange. The PRC companies are seeking business development through overseas listing and financing, outbound investment and cross-border mergers and acquisitions.

The PRC securities firms with overseas platforms are expected to benefit from immense cross-border growth opportunities. In recent years, the PRC securities firms have been expanding their overseas businesses and establishing overseas platforms through organic growth or acquisitions. As of December 31, 2015, all of the Top Ten Securities Firms have subsidiaries in Hong Kong to provide overseas services.

Internet finance accelerates the transformation of securities firms' operating and management model

The commission-based business is increasingly standardized and the operations have become increasingly centralized. There has been an increasing number of securities firms bringing their business online and centralizing their middle- and back-offices in order to streamline operations, reduce service costs and enhance overall operating efficiency. By collecting and analyzing a high volume of client data, securities firms are able to evaluate their customers' needs in order to enhance customers' experience and attract new customers. This, in turn, enables them to provide an extensive choice of products and services through their internet platforms.

Securities firms seek to centralize customized services at the branch level with the aim of enhancing their integrated services capabilities. High-net-worth individual and institutional investors' demand for professional services, in particular, advisory service on wealth management, has increased as standardized products can no longer satisfy their customized needs. As a result, securities firms are better able to meet customers' demands for financial products and services by delivering customized services through branch networks and standardized services through online platforms.

COMPETITIVE LANDSCAPE IN THE PRC SECURITIES INDUSTRY

There were 125 registered securities firms in the PRC as of December 31, 2015. The following table sets out the total assets and net assets as of December 31, 2015, total revenue and net profit in 2015, and CAGR of net profit from 2013 to 2015 of the Top Ten Securities Firms:

	As of and for the year end December 31,					2013 to
	2015					2015
Name	Total assets	Net assets	Total revenue	Net profit	Return on equity	CAGR of net profit
	(RMB in millions)				(%)	(%)
1. CITIC Securities Company Limited	616,108	141,737	56,013	20,360	16.6	95.9
2. Haitong Securities Company Limited	576,449	116,928	38,086	16,841	18.0	98.3
3. Guotai Junan Securities Company Limited	454,342	101,637	37,597	16,695	22.9	134.8
4. Huatai Securities Company Limited	452,615	81,529	26,262	10,798	17.5	118.2
5. GF Securities Company Limited	419,097	79,821	33,447	13,612	22.5	120.0
6. Shenwan Hongyuan Group Company Limited	332,509	51,990	30,348	13,263	25.8	163.1
7. China Galaxy Securities Company Limited	300,656	57,249	26,260	9,877	22.9	114.1
8. China Merchants Securities Company Limited	291,656	48,432	25,292	10,928	24.3	121.0
9. Guosen Securities Company Limited	244,353	49,888	29,139	13,949	33.8	157.2
10. Orient Securities Company Limited	207,898	35,376	15,435	7,374	27.5	174.0
Total	**3,895,683**	**764,587**	**317,879**	**133,697**		

Source: Wind Info, financial statements of the Company.

Note: The above financials were prepared under PRC GAAP.

Brokerage

In 2015, the stocks and funds trading volume of the top ten PRC securities firms accounted for 51.0% of the industry's total trading volume. The following table sets forth the top ten PRC securities firms in terms of stock and fund trading volume on a consolidated basis in 2015:

	Huatai Securities Co., Ltd.	CITIC Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	China Galaxy Securities Co., Ltd.	Haitong Securities Co., Ltd.	GF Securities Co., Ltd.	Shenwan Hongyuan Group Co., Ltd.	China Merchants Securities Co., Ltd.	Guosen Securities Co., Ltd.	China Securities Co., Ltd.
Trading volume of stocks and funds (RMB in billions)	45,157.5	34,390.9	29,295.1	27,494.2	26,927.5	25,827.6	25,322.5	22,186.0	21,006.9	17,148.6
Market share	8.4%	6.4%	5.4%	5.1%	5.0%	4.8%	4.7%	4.1%	3.9%	3.2%

Source: Wind Info.

In 2015, the revenue from trade seat leasing of the top ten PRC securities firms accounted for 51.3% of the industry's total revenue from trading seat leasing. The following table sets out the top ten PRC securities firms in terms of revenue from trading seat leasing on a consolidated basis in 2015:

	CITIC Securities Co., Ltd.	Haitong Securities Co., Ltd.	Shenwan Hongyuan Group Co., Ltd.	Guotai Junan Securities Co., Ltd.	China Merchants Securities Co., Ltd.	Essence Securities Co., Ltd.	Industrial Securities Co., Ltd.	Guosen Securities Co., Ltd.	GF Securities Co., Ltd.	Orient Securities Co., Ltd.
Revenue from trading seat leasing (RMB in millions)	1,263.2	974.4	881.6	878.0	854.6	794.1	764.4	713.1	712.3	684.8
Market share	7.6%	5.9%	5.3%	5.3%	5.1%	4.8%	4.6%	4.3%	4.3%	4.1%

Source: Securities Association of China.

Margin Financing and Securities Lending

As of December 31, 2015, the balance of margin loans and securities lent by the top ten PRC securities firms accounted for 53.5% of the industry's total balance of margin loans and securities lent. The following table sets forth the top ten PRC securities firms in terms of the balance of margin loans and securities lent on a consolidated basis as of December 31, 2015:

	GF Securities Co., Ltd.	CITIC Securities Co., Ltd.	Shenwan Hongyuan Group Co., Ltd.	China Galaxy Securities Co., Ltd.	Huatai Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	China Merchants Securities Co., Ltd.	Haitong Securities Co., Ltd.	Guosen Securities Co., Ltd.	Everbright Securities Co., Ltd.
Balance of margin loans and securities lent (RMB in millions)	75,331.4	73,957.6	69,809.2	69,121.3	66,082.0	65,183.6	62,816.1	60,659.2	45,947.6	38,764.5
Market share	6.4%	6.3%	5.9%	5.9%	5.6%	5.6%	5.4%	5.2%	3.9%	3.3%

Source: Wind Info.

In 2015, the interest income from margin financing and securities lending of the top ten PRC securities firms accounted for 56.1% of the industry's total interest income from margin financing and securities lending. The following table sets out the top ten PRC securities firms in terms of interest income from margin financing and securities lending on a consolidated basis in 2015:

	GF Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	China Galaxy Securities Co., Ltd.	CITIC Securities Co., Ltd.	Huatai Securities Co., Ltd.	Shenwan Hongyuan Group Co., Ltd.	Haitong Securities Co., Ltd.	China Merchants Securities Co., Ltd.	Guosen Securities Co., Ltd.	Everbright Securities Co., Ltd.
Interest income from margin financing and securities lending (RMB in millions)	7,497.9	7,407.1	7,356.8	7,227.2	6,888.5	6,854.0	6,645.9	6,585.3	5,894.1	4,064.2
Market share	6.3%	6.3%	6.2%	6.1%	5.8%	5.8%	5.6%	5.6%	5.0%	3.4%

Source: Securities Association of China.

Investment Banking

The net revenue from underwriting and sponsorship business of the top ten PRC securities firms represented 44.6% of the industry's total net revenue from underwriting and sponsorship business in 2015. The following table sets out the top ten PRC securities firms in terms of net revenue from underwriting and sponsorship business on a consolidated basis in 2015:

Securities Firms	CITIC Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	China Securities Co., Ltd.	China Merchants Securities Co., Ltd.	Guosen Securities Co., Ltd.	GF Securities Co., Ltd.	Haitong Securities Co., Ltd.	China International Capital Corporation Limited	Shenwan Hongyuan Group Co., Ltd.	Ping An Securities Company Ltd.
Net revenue from underwriting and sponsorship business (RMB in millions) . . .	3,042.5	2,434.0	2,420.2	1,938.1	1,749.7	1,283.6	1,243.1	1,214.9	1,069.5	1,026.1
Market share	7.8%	6.2%	6.2%	5.0%	4.5%	3.3%	3.2%	3.1%	2.7%	2.6%

Source: Securities Association of China.

In 2015, the amount of equity securities underwritten by the top ten PRC securities firms as lead underwriter accounted for 52.3% of the industry's total amount of equity securities underwritten by lead underwriters. The following table sets out the top ten PRC securities firms in terms of amount of equity securities underwritten by lead underwriters on a consolidated basis in 2015:

	CITIC Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	China Securities Co., Ltd.	GF Securities Co., Ltd.	China Merchants Securities Co., Ltd.	Huatai Securities Co., Ltd.	Guosen Securities Co., Ltd.	Southwest Securities Co., Ltd.	Haitong Securities Co., Ltd.	China International Capital Corporation Limited
Underwriting amount(1) (RMB in millions)	94,267.5	75,784.5	52,528.5	51,386.9	47,515.3	46,576.2	42,149.9	35,551.5	34,141.4	31,572.5
Market share	9.6%	7.7%	5.4%	5.3%	4.9%	4.8%	4.3%	3.6%	3.5%	3.2%

(1) Includes IPO, secondary offering, placement and convertible bonds.
Source: Wind Info.

In 2015, the amount of debt securities underwritten by the top ten PRC securities firms as lead underwriter accounted for 56.7% of the industry's total amount of debt securities underwritten by lead underwriters. The following table sets out the top ten PRC securities firms in terms of amount of debt securities underwritten by lead underwriters on a consolidated basis in 2015:

	CITIC Securities Co., Ltd.	China Securities Co., Ltd.	China Merchants Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	Haitong Securities Co., Ltd.	GF Securities Co., Ltd.	China International Capital Corporation Limited	China Galaxy Securities Co., Ltd.	China Development Bank Securities Co., Ltd.	Guosen Securities Co., Ltd.
Underwriting amount (RMB in millions) . . .	415,243.0	375,686.7	262,781.7	253,675.2	147,010.1	142,562.2	140,472.7	127,775.2	106,342.1	102,037.4
Market share . . .	11.4%	10.3%	7.2%	6.9%	4.0%	3.9%	3.8%	3.5%	2.9%	2.8%

Source: Wind Info.

In 2015, the amount of ABS underwritten by the top ten PRC securities firms accounted for 78.3% of the industry's total underwriting amount of ABS. The following table sets out the top ten PRC securities firms in terms of amount of ABS underwritten on a consolidated basis in 2015:

	China Merchants Securities Co., Ltd.	CITIC Securities Co., Ltd.	China Development Bank Securities Co., Ltd.	China Galaxy Securities Co., Ltd.	China Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	Hengtai Securities Co., Ltd.	GF Securities Co., Ltd.	China International Capital Corporation Limited	Orient Securities Co., Ltd.
Underwriting amount (RMB in millions)	79,405.0	71,680.7	60,333.0	49,477.7	38,897.7	38,731.2	24,631.0	20,860.6	19,345.2	14,189.9
Market share	14.9%	13.4%	11.3%	9.3%	7.3%	7.3%	4.6%	3.9%	3.6%	2.7%

Source: Wind Info.

In 2015, the amount of Hong Kong IPOs underwritten by the top ten Hong Kong IPO underwriters accounted for 49.1% of the industry's total underwriting amount of Hong Kong IPOs. The following table sets out the top ten Hong Kong IPO underwriters in terms of the underwriting amount of Hong Kong IPOs on a consolidated basis in 2015:

	Morgan Stanley	Goldman Sachs	China Construction Bank	China Merchants Securities (HK) Co., Ltd.	CITIC Securities	China International Capital Corporation Limited	Agricultural Bank of China	China Merchants Bank	HSBC	ICBC
Underwriting amount (US$ in millions)	2,673.8	2,104.5	1,936.4	1,809.8	1,454.4	1,352.9	1,344.3	1,272.6	1,219.3	1,198.2
Market share	8.0%	6.3%	5.8%	5.4%	4.4%	4.1%	4.0%	3.8%	3.7%	3.6%

Source: Bloomberg.

Asset Management

In 2015, the net revenue from asset management business of the top ten PRC securities firms accounted for 48.3% of the industry's total net revenue from asset management business. The following table sets out the top ten PRC securities firms in terms of net revenue from asset management business on a consolidated basis in 2015:

	Shenwan Hongyuan Group Co., Ltd.	CITIC Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	Haitong Securities Co., Ltd.	Orient Securities Co., Ltd.	Huatai Securities Co., Ltd.	GF Securities Co., Ltd.	China Merchants Securities Co., Ltd.	Everbright Securities Co., Ltd.	Industrial Securities Co., Ltd.
Net revenue from asset management business (RMB in millions)	1,956.0	1,750.5	1,522.6	1,414.7	1,407.6	1,204.5	1,162.6	1,061.8	960.5	796.0
Market share	7.1%	6.4%	5.6%	5.2%	5.1%	4.4%	4.2%	3.9%	3.5%	2.9%

Source: Securities Association of China.

Institutional Client Services

As of December 31, 2015, the number of registered private investment funds under the custody of the top ten PRC securities firms accounted for 99.0% of the industry's total number of registered private investment funds under custody. The following table sets out the top ten PRC securities firms in terms of number of registered private investment funds under custody on a consolidated basis as of December 31, 2015:

	China Merchants Securities Co., Ltd.	Guosen Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	CITIC Securities Co., Ltd.	GF Securities Co., Ltd.	China Securities Co., Ltd.	Haitong Securities Co., Ltd.	Huatai Securities Co., Ltd.	Industrial Securities Co., Ltd.	China Galaxy Securities Co., Ltd.
Number of registered private investment funds under custody	2,370	1,890	1,243	969	402	373	259	242	239	85
Market share	29.1%	23.2%	15.2%	11.9%	4.9%	4.6%	3.2%	3.0%	2.9%	1.0%

Source: Asset Management Association of China.

In 2015, the stock trading volume of mutual funds using the top ten PRC securities firms' trading seats accounted for 47.6% of the industry's total stock trading volume of mutual funds using trading seats of PRC securities firms. The following table sets out the top ten PRC securities firms in terms of the stock trading volume of mutual funds using trading seats in 2015:

	China Merchants Securities Co., Ltd.	CITIC Securities Co., Ltd.	Haitong Securities Co., Ltd.	Shenwan Hongyuan Group Co., Ltd.	Guosen Securities Co., Ltd.	China Galaxy Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	Essence Securities Co., Ltd.	China Securities Co., Ltd.	GF Securities Co., Ltd.
Stock trading volume (RMB in millions)	798,125.4	788,047.3	724,507.8	704,767.5	694,380.1	693,471.6	684,763.1	664,698.6	652,715.8	648,290.2
Market share	5.4%	5.3%	4.9%	4.7%	4.7%	4.7%	4.6%	4.5%	4.4%	4.4%

Source: Wind Info.

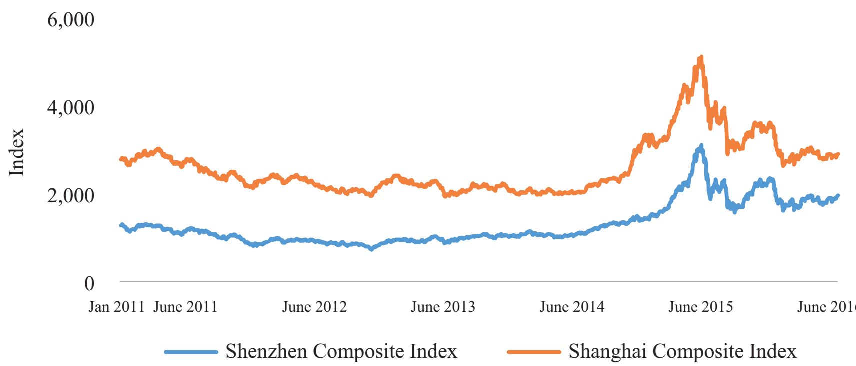
In 2015, the total commission income from leasing trading seats to mutual funds by the top ten PRC securities firms accounted for 46.7% of the industry's total commission income from leasing trading seats to mutual funds. The following table sets out the top ten PRC securities firms in terms of total commission income from leasing trading seats to mutual funds in 2015:

	CITIC Securities Co., Ltd.	China Merchants Securities Co., Ltd.	Haitong Securities Co., Ltd.	Guosen Securities Co., Ltd.	Essence Securities Co., Ltd.	China Galaxy Securities Co., Ltd.	Guotai Junan Securities Co., Ltd.	GF Securities Co., Ltd.	Shenwan Hongyuan Group Co., Ltd.	China Securities Co., Ltd.
Commission income (RMB in millions)	669.6	668.1	608.8	587.2	581.9	567.4	562.4	560.6	552.6	536.0
Market share	5.3%	5.3%	4.8%	4.7%	4.6%	4.5%	4.5%	4.4%	4.4%	4.2%

Source: Wind Info.

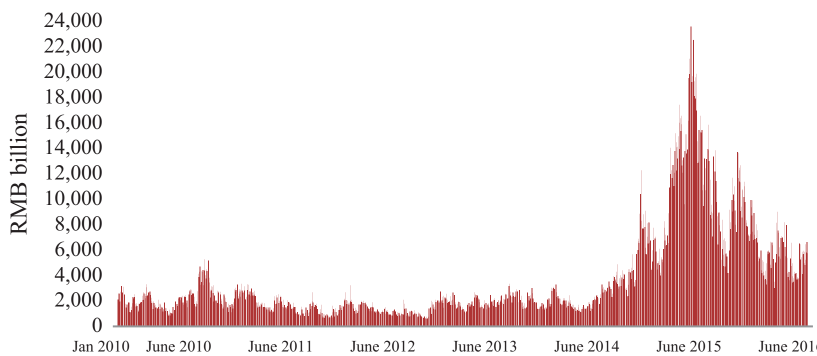
RECENT DEVELOPMENT AND MARKET OUTLOOK

The Shanghai Composite Index and Shenzhen Composite Index decreased steadily from January 2011 to early 2014, when both indices surged to a record high in mid 2015 and began to fluctuate and decrease in the second half of 2015, until, as of June 2016, they were close to the level of late 2014. Set out below is the chart showing the Shanghai Composite Index and Shenzhen Composite Index from January 2011 to June 2016.



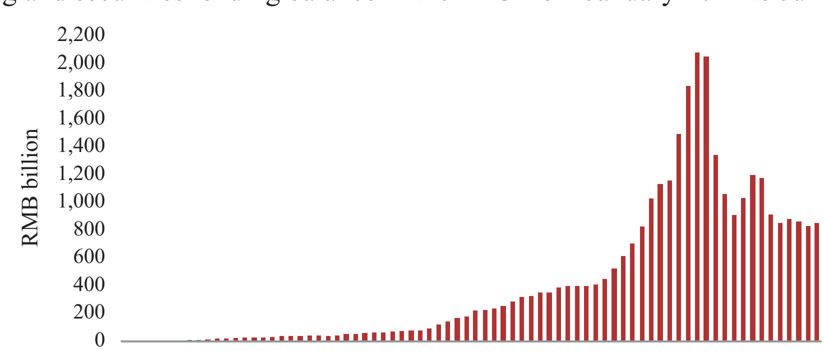
Source: Wind Info.

The average daily trading volume of stocks in the PRC has declined significantly since the second half of 2015. However, the average daily trading volume of stocks in the PRC for the first half of 2016 is still much higher than that before 2015. Set out below is the chart showing the average daily trading volume of stocks in the PRC from January 2011 to June 2016:



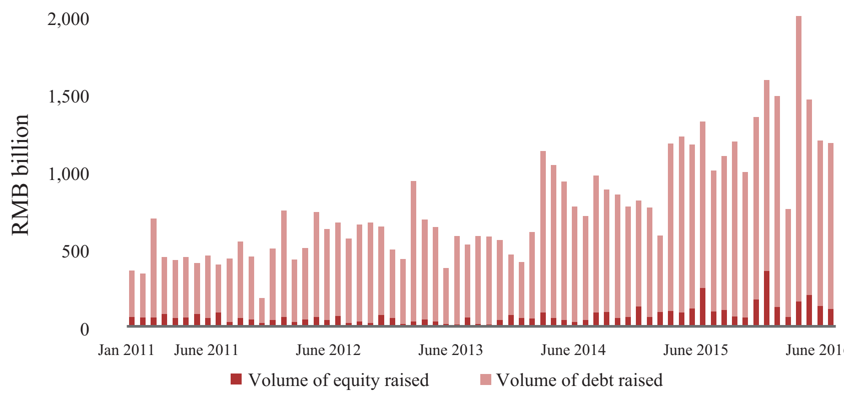
Source: Wind Info.

The total margin financing and securities lending balance has exhibited a similar pattern as for the average daily trading volume of stocks in the PRC. Set out below is the chart showing the total margin financing and securities lending balance in the PRC from January 2011 to June 2016:



Source: Wind Info.

Unlike the trading volume and total margin financing and securities lending balance which experienced a decrease since the second half of 2015, the financing amount in the PRC capital markets has been increasing since 2011. Set out below is the chart showing financing amount in the PRC capital markets from January 2011 to June 2016:



Source: Wind Info.

It is considered that there are still many growth opportunities for the PRC securities market going forward, in particular, the robust demand for wealth management products as a result of the growth of wealth in the country; the increase in the needs of capital markets financing as a result of the continuous development of the multi-layer capital markets; the continuous increase in the importance of institutional investors in the market; and the continuous demand for cross-border investments of domestic investors.

REGULATORY ENVIRONMENT OF THE PRC

Overview

The Company is a securities company in the PRC and is primarily engaged in the business of securities, futures, and direct investments. The Company is subject to the regulations of the CSRC and other authorities. The securities, futures, and direct investment business of the Company are subject to the applicable regulations of the PRC in the areas of industry access, business regulation, corporate governance and risk control. Our operations are also subject to other general regulations of the PRC, including laws, rules, regulations and other statutory documents in respect of foreign exchange controls, taxation and anti-money laundering.

Major Regulatory Authorities and Self-regulatory Organizations

The operations of the Company are mainly supervised and regulated by the following authorities in the PRC:

CSRC

The CSRC is authorized by the State Council to supervise the securities and futures markets of the PRC so as to maintain the orderly and lawful operation of the markets in accordance with the relevant laws and regulations. According to the Securities Law and the Futures Trading Regulations (《期貨交易管理條例》) (amended on and took effect from July 18, 2013), the main duties of the CSRC are as follows:

- to formulate the regulations and rules in relation to the supervision and administration of the securities, securities investment funds and futures markets and to exercise the right of examination, approval or verification according to law;
- to supervise and regulate the issuance, listing, trading, registration, deposit and settlement of securities and the listing, trading, settlement and delivery of futures and related activities;
- to supervise and regulate the securities activities of securities issuers, listed companies, securities firms, securities investment fund management companies and other fund managers and custodians, securities services organizations, stock exchanges and securities registration and settlement organizations;
- to supervise and regulate the futures activities of market participants, including futures exchanges, futures companies, other futures business institutions, futures clearing members, futures margin security depository management companies, futures margin depository banks, settlement houses and so forth;
- to determine and supervise the qualification standards and practice codes of participants in securities and futures businesses; to supervise the disclosure of information in relation to the issuance, listing and trading of securities, information on funds and information on futures trading;
- to regulate and supervise the activities of the Securities Association of China, funds industry associations, futures associations and other organizations; to investigate activities in violation of laws and administrative regulations in relation to the securities and futures markets and impose punishments; and
- to perform other duties stipulated in the applicable laws and administrative regulations.

Stock Exchange

According to the Securities Law, a stock exchange is a self-regulatory legal entity which provides venues and facilities for the centralized trading of securities and organizes and supervises the trading of securities. Shanghai Stock Exchange and Shenzhen Stock Exchange are the two major stock exchanges in the PRC. According to the Securities Law and the Measures for the Administration of Stock Exchange (《證券交易所管理辦法》) effective from December 12, 2001, the main duties of a stock exchange are as follows: to provide venues and facilities for the trading of securities; to formulate the rules of the stock exchanges; to accept applications for, and to arrange, the listing of securities; to organize and supervise the trading of securities; to supervise its members; to supervise listed companies; to establish securities registration and settlement facilities; to manage and disclose market information; to handle the suspension and resumption of listing and delisting of shares and bonds issued by listed companies; to implement contingent measures in case of emergency, including suspending trading on technical grounds and deciding to impose a temporary trading halt; and to perform other duties authorized by the CSRC.

Futures Exchange

Under the Futures Trading Regulations, a futures exchange is a non-profit, self-regulatory legal entity which provides venues and facilities for the centralized trading of futures and organizes and supervises the trading of futures. The main duties of a futures exchange are as follows: to provide venues, facilities and services for trading; to standardize futures trading contracts and to arrange the listing of futures trading contracts; to organize and supervise the trading, clearing and settlement of futures; to provide centralized guarantees for contract performance in futures trading; to supervise and administrate its members in accordance with its articles of association and trading rules; and to perform other duties as specified by the futures supervision and management authorities of the State Council. According to the Measures for the Administration of Futures Exchanges (《期貨交易所管理辦法》) effective from April 15, 2007, a futures exchange shall also fulfill the following duties: to enact and implement its trading rules and implementing regulations; to disclose market information; to regulate its members and their clients, recognized settlement houses, futures margin depository banks and the futures businesses of other participants in the futures market; and to investigate non-compliance and impose punishments.

The Securities Association of China (SAC)

According to the Securities Law and the Regulations on the Registration and Management of Social Organizations (《社會團體登記管理條例》) effective from October 25, 1998, the SAC is a self-regulatory organization of the securities industry and is a non-profit, public legal entity. It is subject to the guidance and regulation of the CSRC and the Ministry of Civil Affairs of the PRC. The SAC regulates the securities industry through a general meeting of members, which are primarily securities companies. The main duties of the SAC include the formulation of rules for its members and the monitoring and investigation of the conduct of its members.

China Futures Association (CFA)

Pursuant to the Administration Regulations on Futures Trading, the CFA is a self-regulatory organization of the futures industry and is a non-profit, public legal entity. The CFA is subject to the guidance and management of the CSRC and the Ministry of Civil Affairs of the PRC. The main duties of the CFA include the formulation of rules for its members, the supervision and investigation of the conduct of its members, and the formulation of codes of conduct and business rules for the futures industry.

Asset Management Association of China (AMAC)

Pursuant to the Securities Investment Funds Law (《證券投資基金法》) (amended on and took effect from April 24, 2015), the Asset Management Association of China is a self-regulatory organization of the securities investment fund industry and is a public legal entity. Its main duties include the formulation and implementation of self-regulatory rules, the supervision and investigation of the practices of its members, regulation of the industry, the resolution of disputes between members and between members and investors, as well as the formulation of codes of practice and business rules.

Other Industry Organizations

Other major industry organizations include The People's Bank of China (PBOC), State Administration of Foreign Exchange (SAFE), China Securities Depository and Clearing Corporation Limited, China Securities Investor Protection Fund Corporation Limited, China Futures Market Monitoring Center Co., Ltd., China Securities Finance Corporation Limited, National Association of Financial Market Institutional Investors, and National Equities Exchange and Quotations System Co. Ltd.

Industry Entry

Industry Entry of Securities Companies

1. Establishment

The Securities Law and the Regulations on Supervision and Administration of Securities Companies (《證券公司監督管理條例》), amended on and took effect from July 29, 2014, explicitly set out the scope of business, industry entry standards, organizations, business rules of securities companies and other requirements. The establishment of a securities company shall be approved by the CSRC by issuing a business license on the following conditions:

- its articles of association shall comply with the laws and administrative regulations;
- its major shareholders shall have sustainable profitability, a good reputation and no record of major violation of laws or regulations in the previous three years and shall have net assets of not less than RMB200 million;
- it shall have the necessary registered capital required by the Securities Law. For a securities company operating securities brokerage, securities investment consultation and financial advisory business in relation to securities trading and securities investment, the minimum registered capital shall be RMB50 million;
- for companies operating in one of the areas of securities underwriting and sponsorship, proprietary securities trading, securities asset management or other securities businesses, the minimum registered capital shall be RMB100 million;
- for companies operating in two or more of the areas of securities underwriting and sponsorship, proprietary securities trading, securities asset management or other securities businesses, the minimum registered capital shall be RMB500 million;

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

According to the Judging Criteria and Guidelines on Controlling Relationships of Securities Companies (《關於證券公司控制關係的認定標準及相關指導意見》) promulgated in March 2008, the same unit or individual, or units or individuals under de facto common control of the same unit or individual, shall not hold equity interests in more than two securities companies and shall not hold controlling interests in more than one securities company.

The Rules for the Formation of Foreign-invested Securities Companies (《外資參股證券公司設立規則》) promulgated by the CSRC (as amended on October 11, 2012 with immediate effect) stipulate the conditions and procedures for the formation of foreign-invested securities companies. A foreign-invested securities company is subject to the following conditions:

- the aggregate direct and/or indirect equity and interest of foreign shareholders in a foreign-invested securities company shall not exceed 49%;
- foreign investors who lawfully acquire 5% or more of the shares in a listed domestic securities company through securities trading on a stock exchange or who jointly acquire 5% or more of the shares in a listed domestic securities company with others by agreement and other arrangement must obtain approval from the CSRC;
- the direct and/or indirect equity interest of a single foreign investor in a listed domestic securities company shall not exceed 20%; and
- the aggregate direct and/or indirect equity interest of foreign investors in a listed domestic securities company shall not exceed 25%.

The Rules for the Formation of Foreign-invested Securities Companies do not prescribe any legal consequences if foreign ownership in a listed domestic securities company exceeds 25%.

Following the Global Offering (assuming the exercise in full of the Over-allotment Option), the H Shares then in issue (excluding the H Shares to be converted and transferred to NSSF which shall not be counted towards shares held by foreign investors) will represent approximately 18.56% of our enlarged issued share capital. In addition, our A Shares may be traded by investors in Hong Kong under the pilot program of Shanghai-Hong Kong Stock Connect.

As of September 14, 2016, the A Shares held by investors through the Northbound trading represent approximately 0.17% of our existing issued share capital and will represent approximately 0.14% of our enlarged issued share capital following the Global Offering (assuming the exercise in full of the Over-allotment Option and no change in position of Northbound trading in the A Shares since the Latest Practicable Date). We will closely monitor the movement in trading volume of the A Shares held by foreign investors and the H Shares held by domestic investors (if applicable) to assess whether the 25% foreign ownership limit is complied with. We will promptly communicate and discuss with the CSRC if we become aware that our H Shares held by foreign investors have come close to or exceeded 25% of our issued share capital.

In addition, according to the Guidelines on Examination and Approval of the Administrative Licensing of Securities Companies No.10—Increase and Change in Equity Interest of Securities Companies (《證券公司行政許可審核工作指引第10號–證券公司增資擴股和股權變更》) amended on and took effect from, August 27, 2015, if a company that is directly or indirectly owned by a foreign investor invests in a securities company, the equity interest of the foreign investor in the securities company, based on the effective equity holding, shall not be more than 5%.

According to the Decisions on the Cancellation and Adjustment of Various Administrative Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) issued by the State Council which took effect from February 24, 2015, the pre-establishment approval of securities finance companies by the CSRC changed into Post-establishment approval. Furthermore, the checks and approval of the qualifications of directors, supervisors and senior management in futures companies by the CSRC were cancelled according to the Decisions.

2. Business Scope

According to the Securities Law, a securities company can conduct the following businesses with approval from the CSRC: securities brokerage; securities investment consultation; financial advisory in relation to securities trading and securities investment; securities underwriting and sponsorship; proprietary securities trading; securities asset management; and other securities businesses.

According to the Regulations on the Examination and Approval of the Scope of Business of Securities Companies (Provisional) (《證券公司業務範圍審批暫行規定》) effective from December 1, 2008, securities companies under common control of an entity or individual or securities companies with a control relationship shall not engage in the same business, unless the relevant companies adopt effective measures to clearly define their respective operating regions or target clients, and there is no competition between the companies. Unless otherwise approved by the CSRC, the scope of business of a securities company is subject to the approval of the CSRC upon its establishment in accordance with the statutory requirements and no more than four types of business shall be approved. A securities company shall obtain approval from the CSRC for any change in its scope of business, and no more than two additional types of business can be applied for. Subject to approval by the CSRC, a securities company may operate businesses not explicitly prescribed in the Securities Law, the Regulations on Supervision and Administration of Securities Companies and the rules and regulations of the CSRC (referred to as innovative business).

3. Material Changes

According to the Securities Law and the Regulations on Supervision and Administration of Securities Companies, approval from the CSRC shall be obtained for the establishment, acquisition or deregistration of a branch of a securities company, change of the scope of business or registered capital, change of any shareholder(s) holding more than 5% of the shares or de facto controller(s), change of important provisions of the articles of association of the company, merger, division, change of incorporation, cessation, dissolution and bankruptcy or the establishment, acquisition or equity participation in securities institutions overseas by securities companies or other material changes.

The CSRC has gradually authorized its local branches to approve some applications for material changes by securities companies. In October 2012, according to the Decision of the State Council in Relation to the Cancellation and Adjustment of the Sixth Group of Items Requiring

Administrative Approval (《國務院關於第六批取消和調整行政審批項目的決定》) effective from September 23, 2012, the approval authority of the following material changes of securities companies was formally delegated to local branches of the CSRC:

- change of material provisions of the articles of association of the company;
- establishment, acquisition or deregistration of a branch;
- change of registered capital, including the approval of the qualification of shareholder(s) or the de facto controller(s), or the change of de facto controller(s), controlling shareholder(s) or shareholder(s) with the largest shareholding of an unlisted securities company in connection with an increase in its registered capital, and approval of a reduction of capital by an unlisted securities company;
- change of shareholder(s) with more than 5% of shareholdings and de facto controller(s) of an unlisted securities company; and
- increase and decrease in the business of securities brokerage, securities investment consultation and financial advisory in relation to securities trading and securities investment, proprietary securities trading, securities asset management and securities underwriting.

According to the Decision of the State Council on Cancellation and Delegation of Certain Administrative Examination and Approval Items (《國務院關於取消和下放一批行政審批項目的決定》) issued on January 28, 2014 with immediate effect, the CSRC cancelled the approval requirements for the following three matters: borrowing of subordinated debts by securities companies, annual foreign exchange risk exposure of licensed overseas futures companies, and special investment of securities companies.

According to the Decision of the State Council on Cancellation and Adjustment of Certain Administrative Examination and Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) issued on October 23, 2014 with immediate effect, the CSRC cancelled the approval requirements for the following five matters: reorganization of securities companies and extension of the reorganization period, administration measures of margin and securities refinancing mutual funds, business rules of margin and securities refinancing, rules and regulations of margin financing and securities lending business of securities companies, the borrowing, issuance, payment and settlement of subordinated debts by institutions engaging in securities-related businesses.

4. Establishment of Subsidiaries, Branches and Securities Business Units

According to the Regulations on Formation of Subsidiaries of Securities Companies (Provisional) (《證券公司設立子公司試行規定》) amended on October 11, 2012 with immediate effect, subject to the approval of the CSRC, securities companies may establish wholly-owned subsidiaries and invest jointly in the establishment of subsidiaries with other investors who meet the requirements for shareholders of securities companies stipulated in the Securities Law. A securities company and its subsidiaries, or subsidiaries under the control of the same securities company, shall not operate similar businesses that have conflicts of interest or which are in competition.

Pursuant to the Regulatory Requirements on Branches of Securities Companies (《證券公司分支機構監管規定》) effective from March 15, 2013, branches of a securities company refer to branches and securities operation units established by such securities company in the PRC for business operation. The establishment, acquisition and deregistration of branches of securities companies are subject to the approval from securities regulatory authorities under the CSRC. Securities companies shall meet the following requirements in order to establish or acquire branches: have a sound governance structure and effective internal management and be able to control the risks of their existing branches and the branches to be established; have risk control indicators in compliance with relevant rules for the previous year and those indicators remain in compliance after the additional branches are established; have not received any administrative or criminal penalties for any material breach of rules or regulations for the past two years and have not had any material regulatory measures imposed on them for the previous year, and are not subject to any investigation for any branch-related activities based on any alleged material breach of rules or regulations; have a secure and stable information technology system and no material information technology incident has occurred during the previous year; and existing branches are under effective management.

Entry Requirements for Futures Companies

1. Establishment

According to the Administrative Regulations on Futures Trading (《期貨交易管理條例》) and the Administrative Measures for Futures Companies (《期貨公司監督管理辦法》) (effective from October 29, 2014), the establishment of futures companies shall be approved by the CSRC subject to the following conditions:

- the minimum registered capital shall be RMB30 million;
- directors, supervisors and senior management shall be qualified for their positions while practitioners shall have futures practice qualifications;
- the number of staff with futures practice qualifications shall not be less than 15;
- the number of senior management staff with practice qualifications shall not be less than three;
- the articles of association of the company shall comply with the requirements of laws and administrative regulations;
- major shareholders and the de facto controller shall have sustainable profitability, a good reputation, and shall not have a record of material violation of laws or regulations in the past three years;
- premises and operation facilities shall be up to standard;
- risk management and internal control systems shall be satisfactory; and
- other conditions as stipulated by the CSRC.

According to the Provisions on Issues Relating to the Regulation of Controlling Interests and Equity Interests in Futures Companies (《關於規範控股、參股期貨公司有關問題的規定》) effective from June 1, 2008, an entity shall not hold controlling interests and equity interests in more than two futures companies and shall not hold controlling interests in more than one futures company.

In accordance with the Decisions on the Cancellation and Adjustment of Various Administrative Approval Items (promulgated on and effective from February 24, 2015), the compulsory pre-establishment approval of futures companies by the CSRC changed into Post-establishment approval.

2. Material Changes

According to the Administrative Measures for Futures Companies (《期貨公司監督管理辦法》), approval of the CSRC shall be obtained for changes of shareholdings in any of the following conditions:

- change of controlling shareholders or the largest shareholder;

- shareholding of an individual shareholder or an associated shareholder to be increased to 100%; and
- shareholding of an individual shareholder or the aggregate shareholding of associated shareholders to be increased to 5% or above, which involves foreign shareholders.

Save as aforesaid, an approval from the local branch office of the CSRC where the futures company is located shall be obtained if the shareholding of an individual shareholder or the aggregate shareholding of associated shareholders in futures companies is to be increased to 5% or above.

In accordance with the Decisions of the State Council on Cancellation and Adjustment of Certain Administrative Examination and Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) issued by the State Council which took effect from October 23, 2014, the establishment of domestic branches by futures companies is no longer subject to administrative approval of a local branch of the CSRC.

In accordance with the Decisions on the Cancellation and Adjustment of Various Administrative Approval Items (promulgated on and effective from February 24, 2015), the merger, division or dissolution of the futures trade venues, the change of domicile or business premises of the futures trade venues and the listing, revising and termination of contract are no longer subject to administrative approval of the CSRC.

Industry Entry Requirements for Direct Investment Company

Scope of Business

Pursuant to the Rules for Direct Investment Business of Securities Companies (《證券公司直接投資業務規範》) amended on January 3, 2014 with immediate effect, a direct investment subsidiary may engage in the following businesses:

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

Direct investment subsidiaries are not allowed to engage in securities business conducted by securities companies.

Industry Entry Requirements for Asset Management Business

Qualification

Pursuant to the Administrative Measures for the Client Asset Management Business of Securities Companies (《證券公司客戶資產管理業務管理辦法》) amended on June 26, 2013 with immediate effect, to engage in client asset management business, the securities companies shall file applications with the CSRC for the qualifications to conduct client asset management business. Securities companies without qualifications for client asset management business may not engage in client asset management business. The securities companies with qualifications for client asset management business may conduct targeted asset management business. To conduct specialized asset management business, they shall submit applications to the CSRC item by item.

Scope of Business

Subject to the Administrative Measures for the Client Asset Management Business of Securities Companies, a securities company may engage in the following client asset management business: operating targeted asset management business for a single client; operating collective asset management business for multiple clients; and operating specialized asset management business for clients.

Regulation of Operations of Securities Companies

We are primarily engaged in securities and related business, including, but not limited to, securities brokerage, futures brokerage, agency sales of financial products, sales of securities investment funds, margin financing and securities lending, securities investment advisory, securities underwriting and sponsorship, securities asset management, direct investment, proprietary trading, stock index futures.

Securities Brokerage

According to the Regulations on Supervision and Administration of Securities Companies and the Provisions on Strengthening the Management of the Securities Brokerage Business (《關於加強證券經紀業務管理的規定》) effective from May 1, 2010, a securities company engaging in securities brokerage business shall be in compliance with the following requirements:

- it shall have a sound management system for securities brokerage business;
- it shall objectively indicate its business qualifications, service responsibility, scope and other information of its securities brokerage business;
- it shall have a sound client management and service system for the securities brokerage business and strengthen the education of investors and protect the legitimate rights and interests of clients;
- it shall have a sound management system and rational performance appraisal system for securities brokers to regulate their behavior;
- it shall have a management system for its securities business department to ensure law-abiding, stable and safe operation;
- it shall establish and manage the information systems for client accounts, client deposits, nominee trading, nominee clearing and settlement, securities depository and transaction risk monitoring, and shall establish central storage for the above business data;
- if an employee or a practitioner of a securities company violates laws, administrative regulations, provisions stipulated by regulatory agencies and other administrative departments, self-regulatory rules or regulations stipulated by securities companies for securities brokerage business, it shall hold the employee or practitioner accountable; and
- if it or its securities business department violates the above provision, the CSRC and its local branch office will take such measures as demand for rectification, regulatory interview, issuance of caution letter, temporarily suspending license-related approvals, punishment of related personnel, suspending approval of new businesses, limiting business activities and other regulatory measures. Any violation of laws and regulations will be punished in accordance with the law. If a crime was committed during the event, the company or department will be submitted to the proper judicial organization for prosecution.

Futures Brokerage

The Administrative Regulations on Futures Trading (《期貨交易管理條例》) set out a licensing system that applies to the business of futures companies. The CSRC is responsible for the issuance of licenses according to the types of business of commodity futures and financial futures. Apart from domestic futures brokerage business, futures companies may also apply to conduct business of overseas futures brokerage, futures investment consulting and other futures business as specified by the CSRC. Futures trading shall strictly comply with the deposits system. A futures company shall trade futures for its clients who shall be solely liable for the transaction. The futures company shall comply with the Company Law of the People's Republic of China (《中華人民共和國公司法》) and satisfy the conditions set out below:

- its registered capital shall not be less than RMB30 million;
- its directors, supervisors and senior management shall have the relevant qualifications and its practitioners shall have the qualifications for futures business;
- it shall have articles of association in accordance with the applicable laws and administrative regulations;
- its substantial shareholders and de facto controllers shall have sustainable profitability and a good reputation with no record of material violation and non-compliance for the most recent three years;
- it shall have proper operating premises and business facilities;
- it shall have a sound risk management and internal control system;
- it shall satisfy other conditions stipulated by the futures regulatory authorities of the State Council.

Agency Sale of Financial Products

According to the Administrative Provisions on the Agency Sale of Financial Products by Securities Companies (《證券公司代銷金融產品管理規定》) promulgated on November 12, 2012 with immediate effect, a securities company shall obtain relevant qualifications to carry out the agency sale of financial products. Its personnel engaging in the agency sale of financial products shall obtain the relevant qualifications. A securities company shall centralize the regulation of agency sale of financial products and examine the eligibility of the client before the agency sale of financial products. The information given on the financial products shall be comprehensive, fair and accurate. A securities company is also required to set up a client feedback system.

Sales of Securities Investment Funds

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

Margin Financing and Securities Lending

According to the Management Measures on Margin Financing and Securities Lending of Securities Companies (《證券公司融資融券業務管理辦法》) (amended on July 1, 2015), securities companies engaging in margin financing and securities lending business shall open accounts in their own name at securities registrars, including special securities lending account, margin guarantee account, margin settlement account and margin capital settlement account. Such securities companies shall also open accounts at commercial banks, including special margin financing account and margin capital guarantee account. Securities companies shall, with reference to third-party custody of the clients' transaction settlement funds, enter into a margin custody agreement with their clients and commercial banks. The capital and securities provided by securities companies to their clients are limited to those in the special margin financing account and special securities lending account. Securities companies should not provide margin financing and securities lending business for clients who do not provide the relevant required information, have engaged in securities trading for less than six months, have an average daily securities assets under RMB500,000 during the last 20 trading days or have a material breach record, and should also not provide services for shareholders (excludes shareholders who hold 5% and below of tradable shares of a listed securities company) or connected persons of the company. The amount of margin financing and securities lending of a securities firm shall not be more than four times its net capital. A securities company that applies for the qualification to engage in margin financing and securities lending business must satisfy the following conditions:

- it shall obtain the qualification to conduct securities brokerage business;
- it shall have a sound system of corporate governance and effective internal controls in place to identify, control and prevent any potential operational risks and internal control risks;
- it shall not be subject to any current investigation or rectification for any breach of rules or regulations by the CSRC;
- it shall have a sound financial position, with each of its risk control indicators in compliance with the relevant requirements for the most recent two years and its registered capital and Net Capital also in compliance with the requirements subsequent to the commencement of the margin financing and securities lending business;
- its clients' assets remain secured and intact with effective measures in place for clients' third-party fund depository, and clients' particulars remain true and intact;
- it shall maintain a comprehensive, compliant feedback mechanism that ensures the prompt and proper resolution of any disputes with clients;
- it shall maintain a resilient information security system, with no material incidents during the past year due to any management issues, and the systems designed for margin financing and securities lending business have been approved by stock exchanges and registrars;
- it shall have an appropriate number of senior management and professionals who are responsible for the margin financing and securities lending business; and
- any other conditions stipulated by the CSRC.

According to the Guidelines of the Internal Control of Margin Financing and Securities Lending of Securities Companies (《證券公司融資融券業務內部控制指引》) (amended and promulgated on

October 26, 2011), the Implementation Rules of Shanghai Stock Exchange on Margin Financing and Securities Lending (《上海證券交易所融資融券交易實施細則》) (amended in 2015) (effective from November 23, 2015), and the Implementation Rules of the Shenzhen Stock Exchange on Margin Financing and Securities Lending (《深圳證券交易所融資融券交易實施細則》) (amended in 2015) (effective from November 23, 2015), securities companies engaging in margin financing and securities lending business shall keep clients' assets secured, establish a management system for client base and strengthen risk control and business inspection.

Securities Investment Consulting

According to the Provisional Measures on Management of Investment Consultations on Securities and Futures (《證券、期貨投資諮詢管理暫行辦法》) effective from April 1, 1998, a firm which engages in securities investment consulting business shall obtain the necessary qualifications and a business license from the CSRC. Practitioners of securities investment consulting shall obtain the relevant qualifications and provide securities investment consulting services under a qualified securities investment consulting institution. A firm which engages in securities and futures investment consulting business shall satisfy the following conditions:

- it shall have more than five professionals with qualifications for securities or futures investment advisory. A firm engaging in securities and futures investment advisory shall have more than 10 professionals with relevant qualifications. At least one member of its senior management shall obtain the relevant qualifications;
- its registered capital shall not be less than RMB1 million;
- it shall have fixed business premises and relevant communication and other information transmission facilities;
- it shall have articles of association;
- it shall have a sound internal management system; and
- it shall satisfy other conditions stipulated by the CSRC.

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

The Provisions on the Release of Securities Research Reports (Provisional) (《發佈證券研究報告暫行規定》) effective from January 1, 2011, stipulate that the publishing of securities research reports by securities companies and securities investment advisory agencies shall abide by laws, administrative regulations and other relevant requirements, follow the principles of independence, objectiveness, fairness and prudence, effectively prevent conflicts of interest, and treat objects under issuance in a fair manner. They shall also be prohibited from disseminating false, untrue and misleading information, and from engaging in or participating in insider trading or securities market manipulation.

Securities Underwriting and Sponsorship

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》) amended on May 13, 2009 and effective from June 14, 2009, securities companies shall apply for the sponsoring institution qualification from the CSRC in accordance with the regulations for the operation of listing and sponsoring business. In order to discharge sponsorship responsibilities, sponsoring institutions shall designate an individual, who has obtained sponsor representative qualification, to be responsible for sponsorship duties. Issuers shall employ securities companies which have obtained sponsoring institution qualification to perform the sponsorship duties for the following matters: initial public offering and listing, issuance of new shares or convertible corporate bonds by listed companies and other conditions identified by the CSRC.

Any securities company applying for sponsoring institution qualification shall meet the following requirements:

- its registered capital shall not be less than RMB100 million and its Net Capital shall not be less than RMB50 million;
- it shall have sound systems of corporate governance and internal control and indicators of risk control in line with relevant regulations;
- its sponsor business shall have sound mechanisms of business procedures, internal risk assessment and control as well as a reasonable internal structure, and proper research and marketing capabilities;
- it shall have a strong sponsor business team, with reasonable professional structure, the number of professionals shall not be less than 35, among which, the number of personnel who have engaged in sponsor-related businesses in the past three years shall not be less than 20;
- the number of its professionals who have qualified as sponsor representatives shall not be less than four;
- it has not been subject to any administrative penalties for any material breach of laws and regulations during the past three years; and
- it shall meet all other requirements of the CSRC.

The Administrative Measures on Securities Issuance and Underwriting (《證券發行與承銷管理辦法》) (amended on December 30, 2015, and effective from January 1, 2016) regulate the issuance of shares or convertible bonds in the PRC by issuers, or the underwriting of securities in the PRC by securities companies in various aspects, including quotation and pricing, sale of securities, underwriting of securities, and information disclosure. A securities company shall submit offering and underwriting plans to the CSRC prior to engaging in any underwriting activities.

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

Corporate Bonds Underwriting

According to the Administrative Measures for the Issuance and Trading of Corporate Bonds (《公司債券發行與交易管理辦法》) effective from January 15, 2015, the issuance of corporate bonds shall be underwritten by securities companies qualified to engage in securities underwriting business. When underwriting corporate bonds, underwriters shall be in compliance with the Administrative Measures for the Issuance and Trading of Corporate Bonds and applicable regulations on due diligence, risk control and internal control issued by the CSRC and the SAC to formulate strict risk management and internal control systems and enhance pricing and placing management.

According to the Administrative Regulations on Corporate Bonds (《企業債券管理條例》) amended on January 8, 2011 with immediate effect, the offer of corporate bonds shall be underwritten by securities institutions, which shall verify the truthfulness, accuracy and completeness of the prospectus and other documents of the issuer.

NEEQ Market-making Business

On February 8, 2013, the National Equities Exchange and Quotations Co., Ltd., or the NEEQ Company, promulgated the Provisional Business Rules for the National Equities Exchange and Quotations System (《全國中小企業股份轉讓系統業務規則（試行）》) (which was further amended on December 30, 2013) and the Provisional Rules on the Administration of Chief Agency Broker on the National Equities Exchange and Quotations System (《全國中小企業股份轉讓系統主辦券商管理細則（試行）》). On December 30, 2013, the NEEQ Company promulgated the Provisional Rules on Equity Transfer on the National Equities Exchange and Quotations System (《全國中小企業股份轉讓系統股票轉讓細則（試行）》) with immediate effect. On June 5, 2014, the NEEQ Company promulgated the Provisional Administrative Rules on the Market-making Business on the National Equities Exchange and Quotations System by Market Makers (《全國中小企業股份轉讓系統做市商做市業務管理規定（試行）》) with immediate effect.

Pursuant to such rules, a market maker refers to a securities company or other institution which establishes bid and ask prices for shares of a NEEQ-listed company after obtaining the consent from the NEEQ Company, and is obligated to complete transactions with investors at the quoted price and within quoted range. To engage in market-making business on the NEEQ, a securities company shall apply to the NEEQ Company, meet certain conditions regarding conducting business, and obtain qualification for NEEQ market-marking. Shares of a NEEQ-listed company may be transferred by means of market-making, agreement, or bidding process. Where the shares are transferred through market-making, a NEEQ-listed company shall engage at least two market-makers to provide market-making and quotation services. As an intermediary between buyers and sellers for the shares of NEEQ-listed companies, a market maker is obligated to buy and sell once it establishes bid and ask prices for such shares on the NEEQ market. To meet such selling obligations, a market-maker may purchase shares of such NEEQ-listed company as its “treasury shares” in four ways: (i) transfer from existing shareholders before the company getting listed on the NEEQ; (ii) share offering; (iii) purchase from other market-makers in the NEEQ system; and (iv) other legitimate ways.

Securities Asset Management

In accordance with the Administrative Measures for the Client Asset Management Business of Securities Companies, the Implementation Rules for the Targeted Asset Management Business of Securities Companies (《證券公司定向資產管理業務實施細則》) effective from October 18, 2012, the Implementation Rules of the Collective Asset Management Business of Securities Companies (《證券公司集合資產管理業務實施細則》) effective from June 26, 2013, and the Notice in relation to Strengthening Supervision on Asset Management Business of Securities Companies

(《關於加強證券公司資產管理業務監管的通知》) effective from March 14, 2013, securities companies engaging in client asset management shall comply with the relevant conditions and shall apply to the CSRC for approval. Securities companies may undertake targeted asset management business for individual clients, collective asset management business for multiple clients and specialized asset management business for selected clients.

The Administrative Measures on Asset Securitization of Securities Companies and Subsidiaries of Fund Management Companies (《證券公司及基金管理公司子公司資產證券化業務管理規定》) (promulgated on November 19, 2014 with immediate effect) allow securities companies and subsidiaries of fund management companies which are qualified for client asset management to conduct asset securitization.

Direct Investment

Pursuant to the Rules for Direct Investment Business of Securities Companies (《證券公司直接投資業務規範》) (as amended in January 2014), securities companies which engage in direct investment business shall establish a direct investment subsidiary in accordance with the requirements of the relevant regulatory authorities. Securities companies shall not develop direct investment business in any other form. A direct investment subsidiary and its affiliates shall establish a sound investment management system which specifies its investment scope, investment strategies, forms of investment, investment restrictions, decision-making procedures, investment process, post-investment management and exit strategies. A direct investment subsidiary and its affiliates may also set up and manage direct investment funds including equity investment funds, debt investment funds, venture capital funds, buyout funds, mezzanine funds, as well as other direct investment funds targeted at the aforesaid funds ("Parent Fund"). A direct investment subsidiary may engage in businesses including:

- investing in equity or debt, or other investment funds related to equity or debt, of an enterprise with its own capital or through establishing a direct investment fund;
- providing financial consultancy service in respect of equity investment funds or debt investment funds to clients; and
- other businesses approved by the CSRC. It is prohibited from acquiring investment opportunities by illegal means (such as commercial bribery) or entering into illegal transactions.

Proprietary Securities Trading

The Regulations on Supervision and Administration of Securities Companies and the Guidelines on Proprietary Business of Securities Companies (《證券公司證券自營業務指引》) effective from November 11, 2005, stipulate that securities companies engaging in proprietary securities trading shall be limited to the trading of publicly offered stocks, debentures, warrants, securities investment funds or other securities approved by the securities regulatory authorities of the State Council. A securities company that engages in proprietary securities trading business shall be registered under the name of the proprietary securities account. Risk control indicators, such as the proportion of total value of proprietary securities to Net Capital, the proportion of the value of a single security to Net Capital, and the proportion of a single security to the total number of the issued securities, shall comply with the requirements of the CSRC.

Securities companies that engage in proprietary securities trading business are allowed to trade securities on the List of Securities Investment Products for the Proprietary Trading of Securities Companies (《證券公司證券自營投資品種清單》), the annex of the Regulations on Investment Scopes of Proprietary Trading Business of Securities Companies and Relevant Matters (《關於證券公司證券自營業務投資範圍及有關事項的規定》) (effective from June 1, 2011 and amended on November 16, 2012), which include:

- securities which have been or may be legally listed, traded and transferred on a domestic stock exchange;
- securities which have been listed and transferred on the national SME share-transfer system;
- private placement bonds which have been or may be legally listed and transferred on qualified regional equity trading markets, and shares which have been listed and transferred on qualified regional equity trading markets;
- securities which have been or may be legally traded on the domestic interbank market; and
- securities issued with the approval of the financial regulatory department or its authorized bodies or after filing with the financial regulatory department or its authorized bodies and traded over-the-counter at domestic financial institutions.

Securities companies shall maintain investment decision-making and authorization mechanisms with relative centralization and unification of rights and responsibilities. In principle, the decision-making framework of self-operated businesses shall be established on three levels: self-regulated business departments, investment decision-making organ and the board of directors.

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

Stock Index Futures

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

- it shall apply for a trading code according to the requirements of China Financial Futures Exchange ("CFFEX");
- it shall deduct 100% of the trading deposits under stock index futures and treasury bond futures contracts from its Net Capital according to the requirements of the Administrative Measures for the Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》), effective from December 1, 2008;

- it shall set aside 5% of its investment amounts as risk capital reserve for stock index futures and treasury bond futures that have been risk hedged (the aforesaid 5% is a benchmark rate, and different rates are applicable to different companies for risk capital reserve, as in the following cases). It shall set aside 20% of its investment amounts as risk capital reserve for stock index futures and treasury bond futures that have not been risk hedged;
- stock index futures and treasury bond futures that satisfy the requirement of highly hedged level under the Accounting Standards for Enterprises No. 24—Hedging (《企業會計準則第24號–套期保值》) may be considered as having been risk hedged; and
- its proprietary equity securities and security derivatives, including stock index futures and treasury bond futures, must not exceed 100% of its Net Capital. The amount of stock index futures is calculated at 15% of its total contracted value, while treasury bond futures are calculated at 5%.

According to the Guidelines on Securities Companies Participating in Stock Index Futures and Treasury Bonds Futures Trading, securities companies are prohibited from engaging in illegal and improper activities such as insider trading, market manipulation or interest transfer.

Cross-border Business

Qualified Domestic Institutional Investor (QDII) Business

Pursuant to the Trial Measures for the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors (《合格境內機構投資者境外證券投資管理試行辦法》), a QDII means a securities operation institution, including domestic fund management company and securities company, upon approval from the CSRC, raises funds within the territory of the PRC and conduct overseas securities investment management in the form of portfolio by using part or all of the raised funds. Where any overseas securities investment business is conducted by a QDII, the asset custodian business shall be undertaken by a domestic commercial bank, and an overseas securities services agency may be appointed to carry out agency trading of securities. A securities company with QDII qualification may raise funds by establishing collective schemes of asset management or other means, or engage in targeted asset management and special asset management businesses, and invest the funds as raised or managed by it in overseas securities markets.

Pursuant to the Provisions on Foreign Exchange Control in connection with Overseas Securities Investment by Qualified Domestic Institutional Investors (《合格境內機構投資者境外證券投資外匯管理規定》), QDIIs may use their own funds or raised funds from domestic organizations and individuals to invest in overseas markets and products that are permitted by laws and regulations and the relevant authorities (except for overseas use of banks' own funds). QDIIs shall apply to the SAFE for overseas investment quota. The SAFE shall implement balance administration for investment quota for overseas investment, and the net amount of outward remittance (including foreign currency and Renminbi funds) of overseas investment by QDIIs shall not exceed the approved investment quota. QDIIs and their custodians shall perform the obligation of declaration of international balance of payments pursuant to the relevant provisions on declaration of statistics of international balance of payments.

Qualified Foreign Institutional Investors Business

Pursuant to the Measures for the Administration of Securities Investment within the Borders of China by Qualified Foreign Institutional Investors (《合格境外機構投資者境內證券投資管理辦法》), foreign fund management institutions, insurance companies, securities companies and other asset management institutions may invest in China's securities market with the approval from the CSRC and an investment quota granted by the SAFE. Qualified investors shall appoint domestic commercial banks as custodian for assets custody and appoint domestic securities companies to complete onshore trading activities. Investments in domestic securities by qualified investors shall comply with the shareholding ratio restrictions imposed by the CSRC.

The Detailed Implementation Rules of the Shanghai Stock Exchange for the Securities Trading of Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (《上海證券交易所合格境外機構投資者和人民幣合格境外機構投資者證券交易實施細則》) and the Detailed Implementation Rules of the Shenzhen Stock Exchange for the Securities Trading of Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (《深圳證券交易所合格境外機構投資者和人民幣合格境外機構投資者證券交易實施細則》) specify detailed requirements regarding the launch by Qualified Foreign Institutional Investors of securities trading.

Rules relating to the Implementation of the Measures for the Administration of Securities Investment within the Borders of China by Qualified Foreign Institutional Investors (《關於實施〈合格境外機構投資者境內證券投資管理辦法〉有關問題的規定》) further provides that asset management organizations, insurance companies, securities companies, commercial banks and other institutional investors (such as pension funds, charity funds, endowment funds, trust companies, government investment management companies), who apply for QFII qualification, shall satisfy the criteria on scale of assets provided by the CSRC. Investments in domestic securities by foreign investors shall comply with the shareholding ratio restrictions imposed by the CSRC.

Pursuant to the Provisions on Foreign Exchange Control in connection with Securities Investments in China by Qualified Foreign Institutional Investors (《合格境外機構投資者境內證券投資外匯管理規定》), the Chinese government implements investment quota management for domestic securities investments by QFIIs. The SAFE approves the investment quota for qualified individual investors and such quota may be adjusted. A QFII shall not apply for further increase in the investment quota within a year after approval of the last investment quota.

RMB Qualified Foreign Institutional Investor (RQFII) Business

Pursuant to the Pilot Measures on Domestic Securities Investments by RMB Qualified Foreign Institutional Investors (《人民幣合格境外機構投資者境內證券投資試點辦法》), a RQFII means a foreign legal person which has been approved by the CSRC and granted with investment quota by the SAFE to carry out domestic securities investments with RMB funds sourced from overseas. A RQFII engaging in domestic securities investments business shall entrust a commercial bank in China qualified to act as a custodian for RQFIIs to take charge of assets custodian business, and entrust a domestic securities company to act as its securities trading agent. A RQFII may entrust a domestic assets management organization to manage its domestic securities investments.

The Detailed Implementation Rules of the Shanghai Stock Exchange for the Securities Trading of Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (《上海證券交易所合格境外機構投資者和人民幣合格境外機構投資者證券交易實施細則》) and the Detailed

Implementation Rules of the Shenzhen Stock Exchange for the Securities Trading of Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (《深圳證券交易所合格境外機構投資者和人民幣合格境外機構投資者證券交易實施細則》) specify detailed requirements regarding the launch by RMB Qualified Foreign Institutional Investors of securities trading.

Rules relating to the Implementation of the Pilot Measures on Domestic Securities Investments by RMB Qualified Foreign Institutional Investors (《關於實施<人民幣合格境外機構投資者境內證券投資試點辦法>的規定》) further provides that applicants of RMB Qualified Foreign Institutional Investor must be Hong Kong subsidiaries of domestic fund management companies, securities companies, commercial banks, insurance companies, or financial institutions incorporated or with principal place of business in Hong Kong, which have obtained asset management business qualification from the securities regulatory authority of Hong Kong and have commenced asset management business. Investments in domestic securities by foreign investors shall comply with the shareholding ratio restrictions imposed by the CSRC.

The Interconnection Mechanism for Transaction in the mainland and Hong Kong

1. Shanghai-Hong Kong Stock Connect

Pursuant to the Announcement on Launching the Pilot Shanghai-Hong Kong Stock Connect (《關於開展滬港股票市場交易互聯互通機制試點的公告》) jointly issued by the CSRC and the SFC on April 10, 2014, as well as the Memorandum of Understanding between the CSRC and the SFC on Strengthening Regulatory and Enforcement Cooperation under the Shanghai-Hong Kong Stock Connect (《滬港通項目下中國證監會與香港證監會加強監管執法合作備忘錄》) signed on October 17, 2014, Several Provisions on the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets (《滬港股票市場交易互聯互通機制試點若干規定》), the Measures of the Shanghai Stock Exchange on the Pilot Shanghai-Hong Kong Stock Connect (《上海證券交易所滬港通試點辦法》) and others, the Shanghai Stock Exchange and the Hong Kong Stock Exchange enable investors of the two sides to trade shares within specified scope listed on the other's stock exchange through local securities companies (or brokers), and the investment scope may be adjusted by both parties based on the status of the pilot program. The Shanghai-Hong Kong Stock Connect is comprised of the Northbound Trading and the Southbound Trading. Trading under the Shanghai-Hong Kong Stock Connect will initially be subject to a maximum RMB cross-boundary investment quota, together with a daily quota that will be monitored on a real time basis. Quotas may be adjusted by both sides based on the status of the pilot program. Initially, domestic investors participating in the Southbound Trading shall meet the required qualifications.

2. Shenzhen-Hong Kong Stock Connect

On August 16, 2016, the Joint Announcement of the CSRC and the SFC (《中國證券監督管理委員會、香港證券及期貨事務監察委員會聯合公告》) was entered into between Liu Shiyu, the chairman of the CSRC, and Carlson Tong, the chairman of the SFC, to approve, in principle, the establishment of mutual stock market access between Shenzhen and Hong Kong by the Shenzhen Stock Exchange, The Stock Exchange of Hong Kong Limited, China Securities Depository and Clearing Corporation Limited and Hong Kong Securities Clearing Company Limited. It is expected to take approximately four months of preparation for the official implementation of the plan of the Shenzhen-Hong Kong Stock Connect since the date of the aforesaid announcement. Further announcement will be made by the CSRC as to the time of the official implementation.

Corporate Governance and Risk Control

Corporate Governance and Risk Control of Securities Companies

1. Corporate Governance

Securities companies shall comply with the corporate governance requirements regarding the composition, operation, convening and voting procedures of shareholders' meetings, the board of directors and the supervisory committee as set out in the Company Law, the Securities Law, the Regulations on Supervision and Administration of Securities Companies and the Rules for Governance of Securities Companies (as amended on January 1, 2013 with immediate effect).

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

A securities company that engages in two or more businesses in securities brokerage, asset management, margin financing and securities lending, securities underwriting and sponsoring shall have a remuneration and nomination committee, an audit committee and a risk control committee under its board of directors to perform the duties and exercise the rights as specified in the articles of association of the company. The persons in charge of the remuneration and nomination committee and the audit committee shall be independent directors. A securities company shall have a secretary for the board of directors who shall be responsible for the preparation of shareholders' meetings and directors' meetings, filing of documents and management of shareholders' information. A securities company shall set up an organization to perform the duties of operation of the securities company, the name, composition, duties and rules for procedures of the organization shall be set out in the articles of association of the company, and the members of the organization shall be the senior management of the securities company. The above laws and regulations also provide that the directors, supervisors, and senior management of the securities company shall be honest, of good character, be familiar with securities laws and administrative regulations, and with the operating and management capabilities as required for discharging their duties, and they shall obtain the approval of the securities regulatory authorities of the State Council to hold the post before taking office. A person in one of the following circumstances shall not be a director, supervisor or member of senior management of a securities company:

- no civil capacity or with limited civil capacity;
- sentenced to criminal penalty because of corruption, bribery, seizure of property, misappropriation of property or damage to the socialist market economic order, and fewer than five years have lapsed since completion of the sentence, or deprived of political rights for crime and fewer than five years have lapsed since the expiry of the deprivation;
- has been a director, factory director or manager of a liquidated company or enterprise, and was personally liable for the bankruptcy, and it has not been three years since completion of the bankruptcy or liquidation of the company or enterprise;
- has been the legal representative of a company or enterprise of which the business license was revoked for violation of law and which was ordered to be closed, and was personally

liable, and it has not been three years since the revocation of the business license of such company or enterprise;

- has a large amount of outstanding personal debts.

All the above are provisions under the Company Law.

The Regulatory Measures on Qualifications of Directors, Supervisors and Senior Management of Securities Companies (《證券公司董事、監事和高級管理人員任職資格監管辦法》) (amended on October 19, 2012 with immediate effect), specify the requirements on the qualifications of directors, supervisors and senior management. Each of them shall obtain approval from the securities regulatory authorities to hold the post.

2. Risk Control

Pursuant to the Administrative Measures for Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) (amended on June 24, 2008 and effective from December 1, 2008), a securities company shall prepare financial statements of its Net Capital and reserve of risk capital and risk control indicators, along with the calculation of the Net Capital and provisions of risk capital and the statements for risk control index supervision. The Administrative Measures for Risk Control Indicators of Securities Companies stipulate a warning ratio and a minimum regulatory ratio for risk control indicators that securities companies are required to comply with. The CSRC may make appropriate adjustments to the standards for risk control indicators and the calculation for ratio of risk capital reserves of a particular business according to the governance structure, the internal control and risk control. In addition, a securities company shall, within five or seven working days from the end of each month, submit to the CSRC and the dispatch office its monthly calculation sheet for net capital, calculation sheet for risk capital reserves and the statements for risk control index supervision. If the net capital or any other risk control indicator of a securities company fails to meet the specified criteria, the dispatch office shall order the securities company to take appropriate remedial action. If a securities company fails to complete rectification or improvement activities within a specified time, the dispatch office shall, depending on the circumstances, take any of the following measures against the securities company on the date following the expiration of such a specified time: restricting its business activities; ordering it to suspend part of its business; imposing restrictions on the payment of remuneration or the provision of benefits to its directors, supervisors and senior officers; ordering it to replace its directors, supervisors and senior officers or to restrict their rights; ordering its controlling shareholder to transfer its equity interests or restricting the exercise of the rights of the relevant shareholders; or recognizing any of its directors, supervisors or senior officers as an unfit candidate for the relevant position. If a securities company fails to complete rectification and improvement activities within a specified time, or the conditions of its risk control indicators continue to deteriorate, so that the stable and healthy operation of the securities company is seriously affected, the CSRC may revoke its license for the relevant business. If the risk control indicators of a securities company fail to reach the required ratios, thereby seriously harming the order of the securities market and damaging the interests of its investors, the CSRC may, depending on the circumstances, take any of the following measures against the securities company: ordering it to suspend its business for internal rectifications; designating another institution as its custodian or receiver; revoking its securities business license; or removing it from the register of qualifying securities companies.

The Regulations on the Calculation Standard for Risk Capital Reserve of Securities Companies (《關於證券公司風險資本準備計算標準的規定》) (amended on November 16, 2012 with immediate effect) provide that securities firms shall calculate their main risk capital reserve based on the following benchmarks:

- securities firms that engage in securities brokerage business shall calculate the risk capital reserve of brokerage business at 2% of the total transaction settlement funds of the clients;
- securities firms that engage in proprietary trading business shall calculate the risk capital reserve at 20%, 15% and 8% of the investment scale for securities derivatives, equity securities and fixed-income securities without risk hedging, respectively; for securities derivatives, equity securities and fixed-income securities with risk hedging, securities companies shall calculate the risk capital reserve at 5% of the investment scale. The investment scale of stock index futures shall be calculated at 15% of the total value of the futures contract, while the investment scale of interest rate swap shall be calculated at 3% of total nominal principal amount in interest rate swap contracts. Securities firms that engage in proprietary trading business and violate the stipulated proportion shall, before the completion of relevant rectification, calculate the risk capital reserve concerning the part beyond the proportion at 100% of the investment costs;
- securities firms that engage in securities underwriting business shall calculate risk capital reserve of underwriting business on the basis of 30%, 15%, 8% and 4%, respectively, of the underwritten amount of stocks of refinancing projects, stocks of IPO projects, corporate bonds and government bonds;
- securities firms that engage in securities asset management business shall calculate the risk capital reserve of asset management business at 2%, 2%, 1% and 1% respectively of the specialized, collective, limited, and directional asset management business;
- securities firms that engage in securities margin trading shall calculate the risk capital reserve for securities margin trading at 5% and 10%, respectively, of the financing business scale and margin business scale of the clients;
- securities firms that establish branch offices and securities branches shall calculate their risk capital reserves at RMB20 million and RMB3 million, respectively; and
- securities firms shall calculate operational risk capital reserve on the basis of 10% of total operating expenses of the preceding year.

At present, the CSRC adopts different risk capital reserve calculation proportions for different types of securities companies so as to match different risk management abilities of securities companies. Companies rated “(class A) AA” for three consecutive years shall calculate the relevant risk capital reserves at 0.2 of the benchmark calculation standards prescribed in the above items (1) through (5).

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

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

3. Classified Regulation

Pursuant to the Regulations on Classification of Securities Companies (《證券公司分類監管規定》) (effective from May 14, 2010), the CSRC classifies securities companies into five types and eleven categories as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on the risk control capability, market competitiveness and continuous compliance of securities companies for prudent regulation purposes. "Regulatory point" regime is one of the systems adopted by the CSRC to assess the continuous compliance of securities firms: certain incidents leading to the imposition of penalties will result in the CSRC deducting the corresponding amount of "regulatory points", which may ultimately have a negative effect on the securities firms' regulatory rating. However, when determining the regulatory rating of a securities firm, the CSRC will not only consider the deduction in regulatory points but will also take into account its risk management capability (mainly assessed on the basis of the securities firms' capital adequacy, corporate governance and compliance management, dynamic risk control, safety of IT system, protection of clients' interest and information disclosure) and market competitiveness (such as industry-wide ranking of net revenue, net profit, deals of underwriting issuance of shares or bonds, cost management, and innovative business) and assess the condition of the securities firms as a whole.

The evaluation for ratings of securities companies is made annually and the evaluation period is between May 1 of the preceding year and April 30 of the current year (i.e. 12 months ended April 30). The benchmark score of a securities company in normal operation is 100 points. The evaluation score of a securities company is determined by adding points on top of, or deducting points from, the benchmark score based on a number of factors such as the indicators and standards of a securities company's risk control capability, market competitiveness and continuous compliance.

According to the principle of classified regulation, the CSRC sets up different standards on risks-control indicators and calculating proportions for different types of securities companies and treats them differently in respect of regulation resource allocation and the frequency of on-site and off-site inspections.

The ratings of securities companies may be used as: (i) prudential requirements for securities companies to apply for new businesses, establishment of new business outlets, public offering of shares and listing; and (ii) one of the bases for determining the experiment scope and promotion sequence of new businesses and products.

Corporate Governance and Risk Control of Futures Companies

1. Corporate Governance

The Administrative Measures for Futures Companies (《期貨公司監督管理辦法》) provide that the CSRC implements the management qualification system on the directors, supervisors, senior management and other futures practitioners of futures companies. The business, personnel, assets, finance and place of business of a futures company shall be strictly separated from those of its controlling shareholders and have independent operations and accounting; a futures company shall have a board of supervisors or supervisors, as well as a chief risk officer; futures companies shall have independent directors who shall not take posts other than as a director and shall not be related to such future companies in a way which might interfere with an independent and objective judgment.

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》) (effective from July 4, 2007) further strengthens the management of qualifications of the directors, supervisors and senior management of futures companies. The State Council's Decision on the Cancellation and Adjustment of a Series of Items Requiring Administrative Approval (Guo Fa [2015] No. 11) (《國務院關於取消和調整一批行政審批項目等事項的決定》(國發[2015]11號)) has cancelled the approval requirement for appointment qualification of directors, supervisors and senior management officers of futures companies, and the CSRC Announcement [2015] No. 11 has changed such administrative permission to post-event reporting management.

2. Risk Control

According to the Supervision and Administrative Measures for Futures Companies (《期貨公司監督管理辦法》), the Administrative Measures on Futures Trading (《期貨交易管理條例》) and the Administrative Measures for Risk Monitoring Indicators of Futures Companies (《期貨公司風險監管指標管理辦法》) (as amended on February 21, 2013 and which took effect from July 1, 2013), futures companies shall establish effective operation systems and procedures related to risk management, internal control and futures margin depository so as to maintain the financial stability and continuous compliance with the standards for risk monitoring indicators stipulated by the CSRC as well as to ensure the safety of clients' transactions and assets. A futures company engaging in futures brokerage and other futures business shall strictly implement the systems for the separation of business and capital, while mixed operations are prohibited. Futures companies shall maintain a chief risk officer responsible for monitoring and inspecting compliance and risk control in its daily operation and management.

3. Classified Regulation

Pursuant to the Regulations on Classification of Futures Companies (《期貨公司分類監管規定》) effective from April 12, 2011, the CSRC classifies futures companies into five types and eleven categories as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on the risk control capability, competitiveness and continuous compliance of futures companies for prudent regulation purposes. According to the principle of classified regulation, the CSRC set up various standards on margin proportions of futures investors for different types of futures companies and treats them differently in respect of regulation resource allocation and the frequency of on-site and off-site inspections.

Corporate Governance and Risk Control of 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》), securities companies shall strengthen personnel management and avoid morality risk. Employees of securities companies shall not serve as senior members or direct investment practitioners concurrently for a direct investment subsidiary and its affiliates or any direct investment funds, or engage in any direct investment business in other forms that breach the laws.

Personnel of securities companies having conflicts of interest shall not serve as a director, supervisor or member of the investment decision-making committee concurrently for the aforesaid entities. For other personnel assuming the posts above, securities companies shall set up a strict and effective system of internal control to avoid potential conflicts of interest or morality risk. Effective information barriers should be established between securities companies and direct investment subsidiaries and their affiliates and direct investment funds to strengthen the isolation, monitoring and management of sensitive information and prevent dissemination and improper use of sensitive information between securities and direct investment businesses, so as to prevent insider trading and the risk of tunneling.

Risk Control

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 shall establish a sound investment management system which specifies its investment scope, investment strategies, forms of investment, investment restrictions, decision-making procedures, investment process, post-investment management and exit strategies. A direct investment subsidiary and its affiliates shall set up a committee for investment decision-making and investment decision-making procedures as well as a mechanism to identify and analyze risks in order to prevent investment risk effectively. A direct investment subsidiary and its affiliates shall not provide guarantees to enterprises or individuals other than direct investment subsidiaries and their affiliates and direct investment funds or become a contributor that bears joint liability for debts of the invested enterprise. A direct investment subsidiary and its affiliates shall also strengthen the management of enterprises invested and continuously follow up, analyze and assess operations of enterprises invested as well as deal with investment risks in a timely manner when they materialize.

Corporate Governance and Risk Control of Asset Management Company

Corporate Governance

According to the Regulations on Supervision and Administration of Securities Companies, where a securities company engages in two or more of the securities brokerage business, securities asset management business, securities lending and borrowing business, and securities underwriting and sponsorship business, its board of directors shall establish a remuneration and nomination committee, an audit committee and a risk control committee to exercise the functions and powers stipulated by the articles of association of the company. Where the board of directors of a securities company establishes a remuneration and nomination committee and an audit committee, the persons in charge of the committee shall be independent directors.

Risk Control

In accordance with the Administrative Measures for the Client Asset Management Business of Securities Companies, the securities companies shall, upon carrying out client asset management business, fully understand the clients, classify the clients, introduce proper products or services for the clients pursuant to the risk matching principle, and be prohibited from misleading the clients to purchase the products or service not matching their risk-bearing capacity. The securities companies shall conduct their operation and management in a centralized manner, and shall enter into the external asset management contracts uniformly. In addition, to engage in client asset management business, the securities companies shall establish a sound risk control system and compliance management system, and shall take effective measures to separate their client asset management business from other business, control the improper flow and utilization of sensitive information and prevent any insider trading and conflicts of interests.

Corporate Governance and Risk Management of Fund Management Company

Corporate Governance

Pursuant to the Administrative Measures for Securities Investment Fund Management Companies (《證券投資基金管理公司管理辦法》), a fund management company shall establish and organize a governance framework with sound structure, clear delineation of duties and responsibilities, effective check and balance supervision, reasonable incentives and constraints, in accordance with the requirements of laws, such as PRC Company Law, administrative regulations and the CSRC, to maintain regulated operation of the company conforming to the basic principles of conferring priority on the interests of stakeholders of funds and protecting the interest of stakeholders of funds.

A fund management company shall establish a business and client key information segregation system for its shareholders. Shareholders of a fund management company and their de facto controllers shall exercise their rights in accordance with the laws through general meetings and shall not by-pass general meetings and the board of directors to appoint or remove directors, supervisors, senior management officers, or directly interfere in the operational management, investment and operation of fund assets of the fund management company; and shall not request the fund management company to collaborate with them in business activities, such as underwriting of securities and securities investment, causing harm to the legitimate rights of stakeholders and other parties.

A fund management company shall establish sound systems of independent directors and inspector general.

Risk Management

Pursuant to the Administrative Measures for Securities Investment Fund Management Companies (《證券投資基金管理公司管理辦法》), a securities investment fund management company shall adhere to the principles of stable operation, the size of AUM shall be commensurate with its own manpower pool, investment research and client service capabilities, capacity of information technology systems, standards of risk management and internal control, and shall establish a logical, strictly controlled and efficiently operating internal control system, formulate logical and comprehensive internal control rules, maintain legal and compliant operations as well as sound and effective corporate internal controls.

A securities investment fund management company shall establish a comprehensive financial auditing and fund asset valuation system for the funds to timely, accurately and completely reflect the conditions of fund assets. It should maintain sound financial conditions and satisfy the needs for corporate operations, business development and risk avoidance. A contingency plan system should be in place for treatment of emergency events, in the case of the occurrence of any emergency event which would severely affect the interests of stakeholders of the funds, or may cause systemic risk or adversely affect social stability, in which case such event will be handled properly according to the contingency plan, to safeguard the interests of stakeholders of the funds practicably.

Other Regulations

Exchange Control

The lawful currency of the PRC is Renminbi, which is subject to foreign exchange controls and is not freely convertible. SAFE, under the authority of the PBOC, is responsible for the administration of all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

According to the Regulations on the Foreign Exchange System of the People's Republic of China (《中華人民共和國外匯管理條例》), amended on August 5, 2008 with immediate effect, international payments and transfers are classified into current account items and capital account items. In the PRC, current international payments and transfers are not subject to approval from SAFE, while capital account items are.

According to the Regulations on the Foreign Exchange System of the People's Republic of China, current account foreign exchange income may, in accordance with the relevant provisions of the state, be retained or sold to any financial institution engaged in foreign exchange settlement and sales business, and where any foreign exchange income on capital account shall be retained or sold to a financial institution engaged in foreign exchange settlement and sales business, approval shall be obtained from the relevant foreign exchange administrative authority, other than where no approval is required under state provisions. PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, with the provision of valid receipts and proof of transactions. Foreign-invested enterprises which need foreign exchange for the distribution of profits to shareholders, and PRC enterprises, which in accordance with regulations are required to pay dividends to shareholders in foreign exchange, may with the provision of general meeting resolutions of such PRC enterprises or board resolutions on the distribution of profits, and with the submission of other required supporting documents, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks. Convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE or the relevant branch.

On December 26, 2014, SAFE issued the Notice on Relevant Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) with immediate effect. The Notice provides that:

- SAFE and its branches (hereafter "Foreign Exchange Bureaus") supervise, manage and inspect, among other things, the business registration, account opening and use, cross-border payments and capital exchange involved in the overseas listing of domestic companies.
- A domestic company shall conduct overseas listing registration with Foreign Exchange Bureaus at the place of its incorporation with related materials within 15 working days after the completion of the offering of its overseas listing shares.
- A domestic company may repatriate the proceeds from offshore listing to its domestic account or retain such proceeds at its overseas account. The use of such proceeds shall be consistent with the content of the prospectus or other public disclosure documents such as documents for issuance of corporate bonds, circulars to shareholders and resolutions of

board of directors' and shareholders' meetings. Proceeds raised from issuance of convertible bonds by a domestic company and intended to be remitted to its domestic account shall be remitted to its specific domestic account for foreign debts and the company shall complete relevant procedures in accordance with relevant regulations on foreign debts administration; and proceeds raised from issuance of other types of securities by a domestic company and intended to be remitted to its domestic account shall be remitted to its special domestic account for offshore listing (foreign exchange) or payment account (Renminbi).

- A domestic company may use overseas funds as stipulated by relevant provisions or remit funds out of the PRC to repurchase overseas shares. Where the domestic company chooses to remit funds out of the PRC to repurchase overseas shares, it should, by presenting the certificate of overseas listing registration obtained following the registration of the repurchase related information (including change procedures) at the local Foreign Exchange Bureaus (if it fails to register the repurchase related information, it is required to conduct the registration within 20 working days before the proposed repurchase and obtain the relevant registration certificate) and statements or supporting materials of the repurchase, complete the remittance with a deposit bank through a domestic account for offshore listing (foreign exchange) or a payment account (Renminbi). Upon completion of the repurchase, any surplus in the funds remitted overseas for such repurchase shall be transferred back to the domestic company's domestic account for offshore listing (foreign exchange) or payment account (Renminbi).

- A domestic shareholder may, in accordance with applicable regulations, use overseas funds as stipulated by relevant provisions or remit funds out of the PRC to increase his/her overseas shares of a domestic company. Where the domestic shareholder chooses to remit funds out of the PRC to increase his/her shareholding, he/she should, by presenting his/her overseas shareholding registration certificate and statements or supporting materials of the shareholding increase, complete the transfer with a deposit bank through the domestic shareholder's domestic account for offshore holding. Upon completion of the shareholding increase, any surplus in the funds remitted overseas for such increase shall be transferred back to the said account. The domestic shareholder may, by presenting the overseas shareholding registration certificate, complete such funds transfer or settlement procedures with the bank.

- A domestic shareholder's income raised from a reduction or transaction of overseas shares of a domestic company or raised from the shares delisted from an overseas stock exchange on the capital account may be deposited at the shareholder's overseas account or remitted to the domestic account for offshore shareholding. Where the domestic shareholder chooses to remit the income to its domestic account, the domestic shareholder may, by presenting the overseas shareholding registration certificate, complete the transfer or settlement procedures with the bank.

According to the Decisions on Matters including Canceling and Adjusting a Batch of Administrative Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) issued by the State Council on October 23, 2014 with immediate effect, SAFE and its branches lifted the approval requirement for the remittance and settlement of proceeds raised from overseas listing of foreign shares of domestic companies.

The Provisions on Foreign Exchange Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors (《合格境外機構投資者境內證券投資外匯管理規定》), amended on and effective from February 3, 2016, provide that the Chinese government shall adopt a quota system for investments in domestic securities by qualified investors. The investment quota of the individual qualified investors shall be filed with and approved by SAFE.

Information Disclosure

The Notice on the Relevant Issues Regarding Information Disclosure of Securities Companies (《關於證券公司信息公示有關事項的通知》) effective from July 25, 2006, sets forth the specific requirements on information disclosure by securities companies, including methods, requirements and contents of information disclosure.

Provisions on Strengthening the Supervision and Administration of Listed Securities Companies (《關於加強上市證券公司監管的規定》) amended on June 30, 2010 with immediate effect, require timely information disclosure of regular reports and ad hoc reports by listed securities companies within the prescribed period and provide that listed companies shall establish a sound information management system in accordance with the characteristics of the securities industry in the PRC, their practices and general regulations regarding information disclosure by listed companies.

Anti-money Laundering

Securities companies shall comply with the requirements related to anti-money laundering stipulated in the Anti-money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》) effective from January 1, 2007, the Provisions on Anti-money Laundering of Financial Institutions (《金融機構反洗錢規定》) effective from January 1, 2007, and the Measures on Administration of Identification of Clients and Preservation of Client Identities Information and Trading Records of Financial Institutions (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》), which became effective from August 1, 2007.

The Measures on Anti-money Laundering by the Securities and Futures Industry (《證券期貨業反洗錢工作實施辦法》), enacted by the CSRC and effective from October 1, 2010, further regulate the anti-money laundering regulations for the securities and futures industry, as well as the anti-money laundering responsibilities of the institutions engaging in sales of funds in their business operation. Securities and futures entities shall also establish and enhance internal control systems for anti-money laundering.

The FATF is an inter-governmental body established in 1989 with the objective of setting standards and promoting effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF monitors the progress of its members in implementing necessary measures, reviewing money laundering and terrorist financing techniques and counter-measures, and promoting the adoption and implementation of appropriate measures globally. The PRC became a member of the FATF in 2007 and the first mutual evaluation report was adopted in June 2007 with a follow-up report published in March 2012.

International Convention for the Suppression of the Financing of Terrorism (《制止向恐怖主義提供資助的國際公約》)

According to the International Convention for the Suppression of the Financing of Terrorism, financial institutions and some particular non-financial institutions established in the PRC should freeze the assets of the terrorist organizations and terrorists strictly pursuant to the list of terrorist organizations and terrorists published by the Ministry of Public Security of the PRC as well as its decision to freeze the relevant assets.

The International Convention for the Suppression of the Financing of Terrorism was adopted by Resolution 54/109 of December 9, 1999 at the 54th session of the General Assembly of the United Nations. This convention aims to prevent, prosecute and punish the financing of terrorist activities and to promote inter-governmental co-operation to achieve this purpose. As of the Latest Practicable Date, the Convention had been ratified by 187 parties, including the government of the PRC which ratified this convention in 2006 with several reservations.

The United Nations Convention against Corruption (《聯合國反腐敗公約》)

The PRC is a party to the United Nations Convention against Corruption, a multilateral convention adopted by the General Assembly of the United Nations on October 31, 2003. This convention requires parties to implement anti-corruption measures affecting their laws, institutions and practices, and the measures aim to promote the prevention, detection and sanctioning of corruption, as well as the cooperation between ratifying parties on these matters. As of the Latest Practicable Date, the United Nations Convention against Corruption had been ratified by 178 parties. The government of the PRC ratified this convention in 2005, with reservation on paragraph 2 of Article 66.

Regulatory Reforms and Innovations

On November 12, 2013, the third session of the 18th Central Committee of the Communist Party of China (the "CCCPC") passed the Decision of the CCCPC on Some Major Issues Concerning Comprehensively Deepening the Reform (《中共中央關於全面深化改革若干重大問題的決定》) to make strategic planning for the PRC government to comprehensively deepen reforms, which includes further simplifying the political system and delegating authority, expanding the domestic and overseas opening of the financial service sector, establishing a sound multiple-tier capital market system, implementing share offer system reform for transition into the registration system, facilitating equity financings through diversified channels, developing and regulating the bond market, increasing the proportion of direct financing, encouraging financial innovations, and enriching the level and products of the financial market.

On May 8, 2014, the State Council issued the Opinions of the State Council on Further Promoting the Healthy Development of Capital Markets (《國務院關於進一步促進資本市場健康發展的若干意見》), pursuant to which the State Council will promote the coordinated development of direct and indirect financings and increase the proportion of direct financings. It will actively and steadily promote the share offer system reform for transition into the registration system, speed up the establishment of a multiple-tier equity market, encourage market-driven M&As and restructurings, actively develop the bond market, expand the interconnection of various bond markets, establish a sound private equity offering system, and develop private equity funds. It will implement an open and transparent securities and futures business licensing system with proper entry and exit procedures, study the feasibility of cross-licenses for securities companies, fund management companies, futures companies and securities investment advisory companies, support securities and futures operation institutions and other financial institutions in exploring comprehensive operations through mutual controlling or holding. It will support qualified Internet companies in participating in the capital market, promote the healthy development of Internet financial services, and expand the coverage of capital market services. It will encourage domestic securities and futures operation institutions to implement "going out" strategies. It will facilitate the connection of domestic and overseas stock exchanges and study and promote the mutual recognition of domestic and overseas funds and stock exchange products, and steadily explore the reform of the B share market. It will strengthen the building of a unified national securities and futures regulation system, regulate the operation of regulatory power in accordance with the law, reduce the scope of matters requiring approval, authorization or filings, reinforce regulation during and after the transaction, improve the capability and transparency of regulation, support self-regulatory organizations in performing duties and deepening cooperation with the regulators of Hong Kong, the Macau Special Administrative Region and Taiwan. It will enhance cooperation with international securities and futures regulatory bodies and actively participate in the formulation of international securities and futures rules.

On May 13, 2014, the CSRC issued the Opinions on Further Promoting the Innovative Development of Securities Operation Institutions (《關於進一步推進證券經營機構創新發展的意見》), pursuant to which the CSRC will improve its regulatory mechanism, deepen approval system reform, relax the industry access system, and implement business license administration. It will support securities operation institutions in self-operating business and product innovation in accordance with the law. It will support securities operation institutions in further deepening and improving business. It will support securities operation institutions in participating in the trading in domestic futures markets and trading of derivatives such as credit risk mitigation instruments, interest rate swaps and options, and further improve master agreements and related ancillary documents for derivative trading. It will support securities operation institutions in equity and debt financings, and encourage them to explore new financing channels and new financing tools. It will facilitate the building of modern investment banks with international competitiveness, brand influence and systemic importance.

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 conducting any regulated activities. 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 leveraged foreign exchange market in Hong Kong.

The SFC also has the power to authorize prospectuses for offering of shares and debentures pursuant to the SFO and the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance (including its subsidiary legislation).

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/registered. The regulated activities defined in the SFO are as follows[(1)]:

License	Regulated activity
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

(1) Two additional regulated activities, dealing in OTC derivative products or advising on OTC derivatives products (Type 11) and providing client clearing services for OTC derivative transactions (Type 12), will be introduced into the regulatory regime. The effective date will be designated by separate notice issued by the Secretary for Financial Services and the Treasury and published in the Government Gazette.

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

Company	Type of license
CMSHK	Type 1 Dealing in Securities Type 2 Dealing in Futures Contracts Type 4 Advising on Securities Type 6 Advising on Corporate Finance Type 9 Asset Management
China Merchants Futures (HK)	Type 2 Dealing in Futures Contracts Type 5 Advising on Futures Contracts
CMS Capital (HK) Co., Limited	Type 4 Advising on Securities Type 9 Asset Management
CMS Asset Management (HK)	Type 4 Advising on Securities Type 9 Asset Management

In addition to the licenses above granted to the members of our Group by the SFC, CMSHK also holds 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.

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 and Authorized Financial Institutions 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.

The above matters will also be considered in respect of any officer of the applicant where the applicant is a corporation.

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 regulatory 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 applicant carries on or proposes to carry on.

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;
- implementation of appropriate policies and procedures relating to client acceptance, customer 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 April 2015 (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 and internal control 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.

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 published by the SFC in April 2015 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 introduced and ensure that appropriate additional measures and controls are implemented to mitigate and manage the risks associated with money laundering and terrorist financing;
- identify the customer and verify the customer's identity by reference to 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 customers 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 complex, 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 customer 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 specific financial institutions are required to take all reasonable measures 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.

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 offences. The OSCO extends the money laundering offense to cover the proceeds from all indictable offences 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.

U.S. FOREIGN ACCOUNT TAX COMPLIANCE ACT ("FATCA")

The United States has enacted rules commonly referred to as FATCA that target tax evasion by U.S. taxpayers using foreign accounts. FATCA seeks to obtain information on accounts held by U.S. taxpayers in other countries by requiring foreign financial institutions ("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 intergovernmental agreements ("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 in Hong Kong to register with the U.S. Internal Revenue Service (the "IRS") and report the information required by FATCA about consenting U.S. accounts directly to the IRS. This requirement is supplemented by a government-to-government exchange of information agreement.

The governments of the United States and the PRC have agreed in substance 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. IGAs in other jurisdictions may also be applicable to our subsidiaries.

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 U.S. source interest and dividends, as well as, beginning in 2019, the gross proceeds of the disposal of assets that can produce United States source interest or dividends, unless we and our subsidiaries that are treated as FFIs comply with FATCA, the terms of any applicable IGA and any relevant legislation that is implemented pursuant an IGA. We and each of our subsidiaries intend to comply with FATCA and any IGA, as applicable. Such compliance may affect how we structure our operations and conduct our business.

HISTORY AND DEVELOPMENT

Establishment and Development of our Company

The history of our Company can be traced back to August 3, 1991 when the Securities Department of China Merchants Bank (招商銀行證券業務部) was established. On August 1, 1993, we were registered as an enterprise legal person with the approval of Shenzhen Administration for Industry & Commerce. Subsequently, we were renamed as China Merchants Securities Co., Ltd. (招商證券股份有限公司) on June 28, 2002.

Since November 17, 2009, our A Shares have been listed on the Shanghai Stock Exchange. In addition, we were selected as one of the constituent stocks of the CSI 300 Index on July 1, 2010 and one of the constituent stocks of the SSE 50 Index on July 1, 2013. Through over 25 years of operating history, we have become a leading investment bank in the PRC. As of June 30, 2016, we operated 200 securities branches and four futures branches in the PRC.

Major Increase in Share Capital

Upon our establishment on August 1, 1993, our registered capital was RMB25,000,000.

In August 1994, we increased our registered capital to RMB150,000,000.

In November 1998, we increased our registered capital to RMB800,000,000.

In August 2000, we increased our registered capital to RMB2,200,000,000.

In December 2001, we increased our registered capital to RMB2,400,280,638.

In September 2006, we increased our registered capital to RMB3,226,915,266.

In December 2009, we increased our registered capital to RMB3,585,461,407 following the completion of the A Share Offering in November 2009.

In August 2011, we increased our registered capital to RMB4,661,099,829 following the capitalization of our capital reserves in July 2011.

In October 2014, we increased our registered capital to RMB5,808,135,529 following completion of the private placement of 1,147,035,700 A Shares in May 2014.

Listing on the Shanghai Stock Exchange in 2009

As approved by the CSRC, we completed the initial public offering and listing of our A Shares (stock code: 600999) on the Shanghai Stock Exchange in November 2009. Following completion of the A Shares Offering, our registered capital increased to RMB3,585,461,407, comprising 3,585,461,407 A Shares of RMB1.00 each. We raised net proceeds of approximately RMB10.88 billion from the A Share Offering after deducting underwriting commission and offering-related expenses.

The shareholding structure of our Company immediately after the A Shares Offering was as follows:

	Number of A Shares Held	Approximate % of Shareholding
Shenzhen Jisheng Investment Development Co., Ltd.[1] (深圳市集盛投資發展有限公司)	1,031,829,231	28.78%
China Merchants Finance Investment Holdings Co., Ltd.[1] (深圳市招融投資控股有限公司)	476,770,787	13.30%
China Ocean Shipping (Group) Company (中國遠洋運輸（集團）總公司)[2]	389,193,732	10.85%
Other Shareholders	1,687,667,657	47.07%
Total	**3,585,461,407**	**100.00%**

(1) Each of Shenzhen Jisheng Investment Development Co., Ltd. and China Merchants Finance Investment Holdings Co., Ltd. is a member of China Merchants Group, our Controlling Shareholder.
(2) China Ocean Shipping (Group) Company was an Independent Third Party as of the Latest Practicable Date.

As of the Latest Practicable Date, we had not received any notice from the Shanghai Stock Exchange alleging any non-compliance incidents on the part of our Company, and our Directors believe that from the date our A Shares were listed on the Shanghai Stock Exchange, we had been operating in compliance with applicable SSE Listing Rules in all material respects.

Reasons for the Listing

We are seeking a listing on the Hong Kong Stock Exchange in order to fulfill our demand for capital for business development, advance international strategies and further enhance corporate governance, as described in more detail in the sections headed "Business—Business Strategies" and "Future Plans and Use of Proceeds" in this prospectus.

Business Development Milestones

Since the incorporation of our Company, we have evolved from a local securities firm in Shenzhen to a leading investment bank in China. The following are the major milestones in our development history:

1996
- We acquired six securities branches in Shenzhen. As a result, the total number of our branches increased to 16.

1999
- In September, we obtained approval from the PBOC as the first batch of securities firms to enter the interbank market.

2002
- In January, we were entrusted by China Merchants Group to manage CMSHK (formerly U.B. Securities Limited or CM-CCS Securities Limited), which we subsequently acquired in 2005.
- In May and August, we were one of the first securities firms to be granted the qualification for entrusted asset management business and open-ended funds distribution rights, respectively.

2006
- In March, we were selected as primary dealers of SSE 108 Index Exchange Traded Fund.
- In September, we acquired the brokerage business assets of Beijing Securities Co., Ltd.
- In October, we were entrusted with 16 securities branches of Jutian Securities Co., Ltd., which we subsequently acquired in June 2007.

2007
- In August, we obtained the QDII qualification, being the second securities firm that obtained such qualification.

2008
- In July, we received "(Class A) AA" regulatory rating from the CSRC. We maintained such rating in every subsequent year.

2009
- In August, we received a no objection letter from the CSRC for the pilot operation for direct investment business.

2010
- In June, we were approved to carry out pilot operation for margin financing and securities lending business.
- In November, we became the first securities firm to commence "regular period with regular amount investment" asset management services.

2012
- In March, we were awarded the "Best Sponsor" by the Shenzhen Stock Exchange for the second consecutive year.
- In May, we received a no objection letter from the CSRC for stock repurchase trading.
- In June, we obtained the qualification for underwriting private placement bonds of small and medium enterprises.
- In October, we were the first securities firm to receive no objection letter from the CSRC on comprehensive custodian services for private investment funds.
- In November, we obtained the qualification for underwriting debt financing instruments of non-financial enterprises by National Association of Financial Market Institutional Investors.
- In December, we obtained qualification for financial products sale.

2013
- In January, we received a no objection letter from the CSRC for equity total return swap business.
- In March, we obtained the NEEQ qualifications as lead manager (sponsor business and broker business).
- In May, we received a no objection letter from the CSRC for interest rate swap business by the Shenzhen bureau of the CSRC.
- In June, we were approved to carry out the asset-backed stock lending business by Shanghai Stock Exchange and Shenzhen Stock Exchange.
- In September, Ganzhou CMS Zhiyuan No.1 Equity Fund, our first direct investment fund, was launched with a total investment of RMB3,508 million.
- In October, China Merchants Futures (HK), our wholly-owned subsidiary, became a clearing member of the Chicago Mercantile Exchange, the Chicago Board of Trade, the New York Mercantile Exchange and Commodity Exchange, Inc., the four exchanges under CME Group, Inc. ("CME Group"), and was the first Chinese securities firm to be a member of all these exchanges.
- In October, CMSUK was incorporated. In June 2014, CMSUK was licensed by the Financial Conduct Authority ("FCA") to engage in commodity derivatives transactions business on behalf of clients.
- In December, we commenced our international precious metals market-making business, and were the only PRC securities firm at that time to simultaneously possess gold, silver, platinum and palladium market-making capabilities overseas.

2014

- In January, we were among the first batch of securities firms to obtain the qualification for securities investment fund custodian business.
- In March, we commenced our international precious metals physical trading on behalf of clients, and were the only PRC securities firm at that time to possess comprehensive capabilities in trading physical products of gold, silver, platinum and palladium overseas.
- In March, we won the diamond award in "The Best Global Commodity Investment Bank in China of 2013" by *Institutional Investor*.
- In March, we assisted Shanghai Chongyang Investment Management Co., Ltd., an Independent Third Party, to establish the first contractual private investment fund under the new PRC regulatory regime and registration system effective in March 2014, namely the "Chongyang A shares Alpha Hedge Fund" (重陽A股阿爾法對沖基金).
- In June, we obtained the NEEQ market-making qualification.
- In August, China Merchants Securities Investment Management (HK) Co., Limited, our wholly-owned subsidiary, became a founding member of the international board of Shanghai Gold Exchange and was the first Chinese securities firm to obtain such membership.
- In October, we were authorized by the Shanghai Stock Exchange to trade under Shanghai-Hong Kong Stock Connect.

2015

- In January and April, CMSUK was qualified as a clearing member of London Metal Exchange and ICE Futures Europe, respectively.
- In January, we were one of the first batch of participants approved by the Shanghai Stock Exchange to conduct proprietary trading of stock options and one of the market makers for SSE 50 ETF options trading.
- In March, we obtained a no objection letter from the CSRC for our spot gold proprietary trading business.
- In April, we were awarded "The Best Global Commodity Investment Team in Greater China of 2014" by the *US Institutional Investor* magazine.

2016

- In July, we were awarded "The Best Wealth Management Brand in China of 2016 (2016中國最佳財富管理品牌)", "The Best Institutional Service Provider in China of 2016 (2016中國最佳機構服務商)", "The Best Asset Management Securities Firm in China of 2016—China Merchants Securities Asset Management Co., Ltd. (2016中國最佳資產管理券商——招商證券資產管理有限公司)" and "The Top 10 Innovative Asset Management / Fund Products in 2016—China Merchants Zhiyuan Qunyinghui MOM Series of Products (2016十大創新資管/基金產品——招商智遠群英薈MOM系列產品)" by *Securities Times* in China.
- In August, we were awarded "The Best Private Investment Fund Custody Securities Firm in China of 2016 (2016中國最佳私募基金託管券商)" by *www.chinafund.cn (中國基金網)*.

Major Acquisitions and Disposals

Acquisition of equity interest in CMSHK, China Merchants Futures (HK) and China Merchants Nominees (HK) Co., Limited

We were entrusted by China Merchants Group to manage CM-CCS Securities Limited (formerly U.B. Securities Limited and was renamed as CMSHK in June 2004), CM-CCS Futures Limited (renamed as China Merchants Futures (HK) in June 2004) and CM-CCS Nominees Limited (renamed as China Merchants Nominees (HK) Co., Limited in June 2004) from January 2002. In September 2005, we acquired 100% equity interest in UB Holdings Limited (renamed as China Merchants Securities Holdings (HK) Company Limited in May 2006 and CMS International in May 2010) from China Merchants Finance Holdings Co., Ltd., a subsidiary of China Merchants Group, our Controlling Shareholder, at a consideration of HK$153,627,390 determined by reference to the net assets at the end of 2001. Following the acquisition, we indirectly held 100% equity interest in CMSHK, China Merchants Futures (HK) and China Merchants Nominees (HK) Co., Limited through CMS International.

Acquisition of brokerage business assets of Beijing Securities Co., Ltd.

In January 2006, we entered into an agreement with Beijing Securities Co., Ltd., an Independent Third Party, to acquire the securities assets of part of its brokerage business, its 35 trading seats and the securities assets of its 21 securities branches and a service supporting department at a consideration of RMB60 million determined by reference to a valuation report by an independent valuer.

Acquisition of equity interest in Shenzhen Xinjiye Futures Brokerage Co., Ltd.

In November 2006, we entered into an agreement to acquire 92% equity interest in Shenzhen Xinjiye Futures Brokerage Co., Ltd. ("Xinjiye Futures") from China North Industries Corporation, an Independent Third Party, at a consideration of RMB29,329,324, and an agreement to acquire the remaining 8% equity interest in Xinjiye Futures from China Wanbao Engineering Corporation, an Independent Third Party, at a consideration of RMB2,550,376, determined by reference to the valuation of net assets of the transferred entity plus a premium. Following the acquisitions, we held 100% equity interest in Xinjiye Futures.

Acquisition of securities branches of Jutian Securities Co., Ltd.

In May 2007, we entered into an agreement with the Administrative Clearance Working Group of Jutian Securities Co., Ltd., an Independent Third Party, to acquire the brokerage business and the underlying securities branches of Jutian Securities Co., Ltd., which had been entrusted to us in October 2006, at a consideration of RMB54,200,000 determined through arm's-length negotiation having taken into account the appraised total assets value.

Acquisition and disposal of equity interest in Bosera Funds

In December 2007, we acquired 48% equity interest in Bosera Funds through auction at a consideration of RMB6.32 billion. Following the acquisition, we held an aggregate of 73% equity interest in Bosera Funds. In September 2009, pursuant to the requirement of the CSRC regarding the shareholding limit of shareholders of fund management companies, we disposed of an aggregate of 24% equity interest in Bosera Funds (6% to each of Tianjin Port (Group) Co., Ltd.

(天津港（集團）有限公司), Shanghai Shengye Asset Management Co., Ltd. (上海盛業資產管理有限公司), Jingan Industrial Co., Ltd. (璟安實業有限公司) and Fengyi Industrial Development Co., Ltd. (豐益實業發展有限公司), all Independent Third Parties), with each 6% portion at a consideration of RMB657 million with reference to its appraised value and resulted in us holding 49% equity interest following the disposal.

Acquisition of equity interest in China Merchants Fund

In October 2012, 33.3% of the equity interest of China Merchants Fund was transferred by ING Asset Management B.V., an Independent Third Party, to China Merchants Bank and us at a consideration of aggregate EUR98,000,000, of which 24,570,000 shares were transferred to us at a consideration of EUR34,432,432.43, representing 11.7% of the equity interest of China Merchants Fund. The consideration is determined by the valuation of the equity. After the completion of the acquisition, our shareholding in China Merchants Fund increased to 45%.

Our PRC legal advisor, King & Wood Mallesons, confirms that (i) the necessary approvals from the relevant authorities for all of the aforementioned acquisitions and disposals had been obtained as of the Latest Practicable Date, and (ii) all of the aforementioned acquisitions and disposals in the PRC had been properly and legally completed and settled.

Major Acquisitions, Disposals or Mergers during the Track Record Period

During the Track Record Period, our Company did not have any major acquisitions, disposals or mergers.

OUR PRINCIPAL SUBSIDIARIES

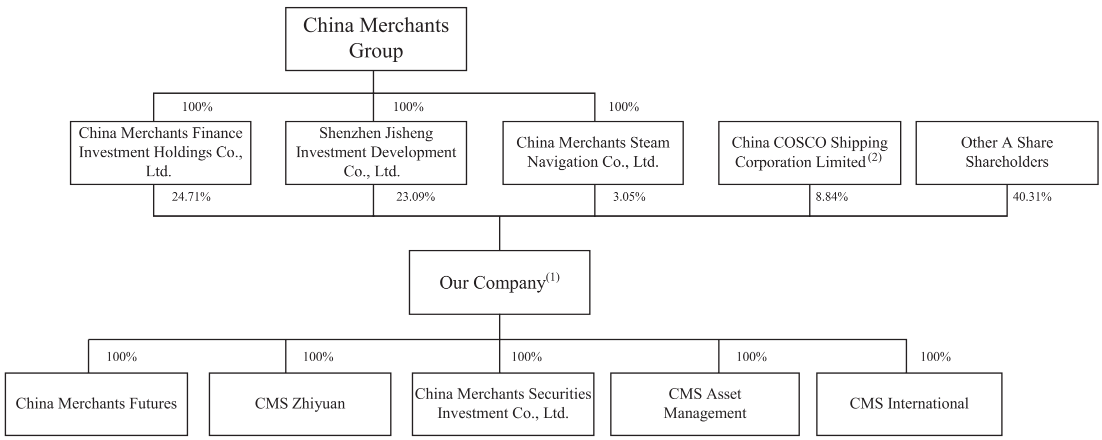
As of the Latest Practicable Date, we directly held five first-tier subsidiaries established in the PRC and Hong Kong which are our principal subsidiaries. The following chart sets out the details of our five first-tier subsidiaries as of the Latest Practicable Date. See "Appendix I—Accountants' Report—Notes to the Financial Information—22. Investments in Subsidiaries" in this prospectus for details of the subsidiaries which principally affected the results, assets or liabilities of our Group.

No.	Name of Subsidiaries directly held by our Company	Place of Incorporation	Date of Incorporation	Registered Capital (for PRC subsidiaries) / Paid-up Capital (for Hong Kong subsidiary)	Shareholding of our Company	Main Scope of Business
1.	China Merchants Futures (招商期貨)	PRC	January 4, 1993	RMB630,000,000	100%	Commodities futures brokerage, financial futures brokerage, futures investment consulting, asset management
2.	CMS Zhiyuan (招商致遠)	PRC	August 28, 2009	RMB1,700,000,000	100%	Direct investment
3.	China Merchants Securities Investment Co., Ltd. (招商證券投資有限公司)	PRC	December 2, 2013	RMB300,000,000	100%	Investment
4.	CMS Asset Management (招商證券資產管理)	PRC	April 3, 2015	RMB1,000,000,000	100%	Securities asset management
5.	CMS International (招證國際)	Hong Kong	July 14, 1999	HK$1,803,627,390	100%	Investment holding company of the Hong Kong and other overseas operating subsidiaries

OUR CORPORATE STRUCTURE

Shareholding structure immediately prior to the Global Offering

The following chart sets forth our simplified shareholding structure and key first-tier subsidiaries as of the Latest Practicable Date.

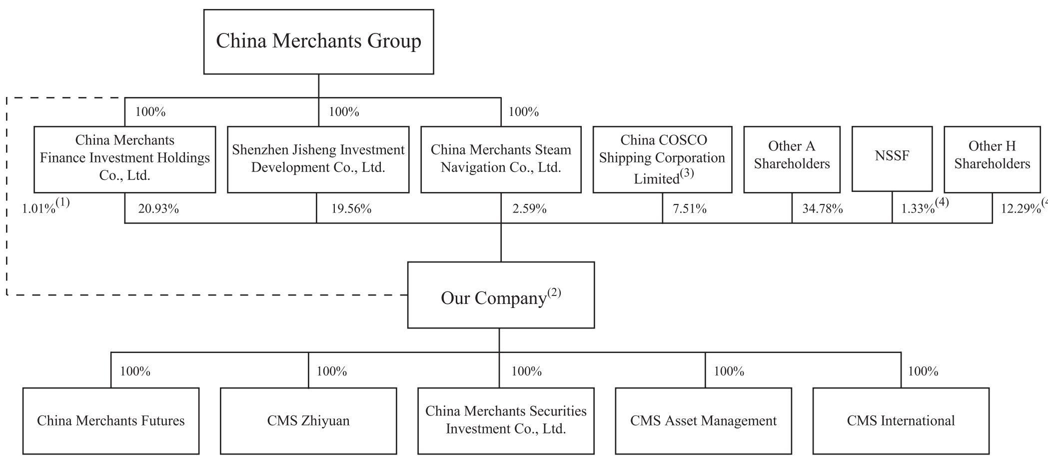


(1) The top ten Shareholders of our Company are China Merchants Finance Investment Holdings Co., Ltd., Shenzhen Jisheng Investment Development Co., Ltd., China Ocean Shipping (Group) Company (中國遠洋運輸（集團）總公司), Hebei Port Group Co., Ltd. (河北港口集團有限公司), China Communications Construction Company Ltd. (中國交通建設股份有限公司), China Merchants Steam Navigation Co., Ltd. (招商局輪船股份有限公司), China Securities Finance Corporation Limited (中國證券金融股份有限公司), Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司), Shenzhen Huaqiang New City Development Co., Ltd. (深圳華強新城市發展有限公司), and COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運（廣州）有限公司). As of the Latest Practicable Date, to the Directors' best knowledge, three of our ten largest Shareholders were controlled by China Merchants Group, namely, China Merchants Finance Investment Holdings Co., Ltd., Shenzhen Jisheng Investment Development Co., Ltd. and China Merchants Steam Navigation Co., Ltd., and are our connected persons, and such Shareholders held an aggregate of approximately 50.86% (due to rounding) shareholding in our Company, and two of our ten largest Shareholders, namely China Ocean Shipping (Group) Company and COSCO Shipping (Guangzhou) Co., Ltd., are both controlled by China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司) and they held an aggregate of approximately 8.84% shareholding in our Company.

(2) China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司) through China Ocean Shipping (Group) Company (中國遠洋運輸（集團）總公司) and COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運（廣州）有限公司), a wholly-owned subsidiary of China Shipping (Group) Company (中國海運（集團）總公司), indirectly held 513,203,300 A Shares, representing approximately 8.84% of the total share capital of our Company.

Shareholding structure immediately following completion of the Global Offering

The following chart sets forth our simplified shareholding structure immediately following completion of the Global Offering, on the assumption that the Over-allotment Option is not exercised and there has been no change in shareholding held by each of our existing Shareholders subsequent to the Latest Practicable Date other than the mandatory transfer of the state-owned A Shares to NSSF and the proposed subscription of H Shares by China Merchants Group in the Global Offering (see "Waivers and Consent from Strict Compliance with the Hong Kong Listing Rules" for further details).



(1) Assuming China Merchants Group or its nominees subscribe for 67,706,400 H Shares at the Global Offering, subject to the appropriate waiver/consent being granted by the Stock Exchange. See "Waivers and Consent from Strict Compliance with the Hong Kong Listing Rules."

(2) The top ten Shareholders of our Company will be China Merchants Finance Investment Holdings Co., Ltd., Shenzhen Jisheng Investment Development Co., Ltd., China Ocean Shipping (Group) Company (中國遠洋運輸（集團）總公司), Hebei Port Group Co., Ltd. (河北港口集團有限公司), China Communications Construction Company Ltd. (中國交通建設股份有限公司), China Merchants Steam Navigation Co., Ltd. (招商局輪船股份有限公司), China Securities Finance Corporation Limited (中國證券金融股份有限公司), Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司), Shenzhen Huaqiang New City Development Co., Ltd. (深圳華強新城市發展有限公司), and COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運（廣州）有限公司). As of the Latest Practicable Date, to the Directors' best knowledge, three of our ten largest Shareholders were controlled by China Merchants Group Limited, namely, China Merchants Finance Investment Holdings Co., Ltd., Shenzhen Jisheng Investment Development Co., Ltd. and China Merchants Steam Navigation Co., Ltd., and are our connected persons, and such Shareholders will hold an aggregate of approximately 44.09% shareholding in our Company immediately following completion of the Global Offering; and two of our ten largest Shareholders, namely China Ocean Shipping (Group) Company and COSCO Shipping (Guangzhou) Co., Ltd., are both controlled by China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司) and they will hold an aggregate of approximately 7.51% shareholding in our Company immediately following completion of the Global Offering; all on the assumption that the Over-allotment Option is not exercised and there has been no change in shareholding held by each of our existing Shareholders subsequent to the Latest Practicable Date other than the mandatory transfer of the state-owned A Shares to NSSF and the proposed subscription of H Shares by China Merchants Group in the Global Offering (see "Waivers and Consent from Strict Compliance with the Hong Kong Listing Rules" for further details).

(3) China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司) through China Ocean Shipping (Group) Company (中國遠洋運輸（集團）總公司) and COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運（廣州）有限公司), a wholly-owned subsidiary of China Shipping (Group) Company (中國海運（集團）總公司), indirectly holds 502,947,936 A Shares, representing approximately 7.51% of the total share capital of the Company following the completion of the Global Offering.

(4) Upon completion of the Global Offering, the total H Share public float is expected to be approximately 13.62%. We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from the minimum public float requirement under Rule 8.08(1) of the Hong Kong Listing Rules. See "Waivers and Consent from Strict Compliance with the Hong Kong Listing Rules – Public Float Requirements" for details.

OVERVIEW

As a leading investment bank in China, we are committed to creating value for our clients through providing premier and comprehensive financial products and services. We have a collaborative, full-service business and strong innovation capabilities, which differentiate us from our competitors.

We offer comprehensive financial products and services to individual, institutional and corporate clients. Our principal business lines comprise the following:

Brokerage and Wealth Management	Investment Banking	Investment Management	Investment and Trading
• Securities brokerage • Futures brokerage • Capital-based intermediary services • Wealth management • Institutional client services (institutional sales and research, prime brokerage, and fund custody and outsourcing)	• Equity underwriting and sponsorship • Debt underwriting • Financial advisory • OTC investment banking	• Asset management • Direct investment • Fund management	• Equity trading • FICC • OTC sales and trading

We believe that one of the key factors in achieving market leadership and rapid growth is having a high-quality and loyal client base. As of June 30, 2016, we had approximately 6.5 million brokerage and wealth management customers, including approximately 196,500 affluent customers and approximately 9,900 high-net-worth customers. As of the same date, we had over 15,000 institutional clients and over 1,100 corporate clients in China. Adopting a client-oriented approach, we have established a collaborative business model that continuously promotes cross-selling to further enhance synergies across business lines.

In recognition of our outstanding performance, we have received a number of awards across our business lines, including, among others:

Year	Award/Recognition	Organization/Media
2016	Best Private Investment Fund Custody Securities Firm in China (中國最佳私募基金託管券商)	www.chinafund.cn (中國基金網)
	Best Wealth Management Brand in China (中國最佳財富管理品牌)	Securities Times (證券時報)
	Best Asset Management Securities Firm in China (中國最佳資產管理券商)	Securities Times (證券時報)
	Best Institutional Service Provider in China (中國最佳機構服務商)	Securities Times (證券時報)
	Best Full-service Investment Bank in China (中國區最佳全能證券投行)	Securities Times (證券時報)
	Best Debt Securities Investment Bank in China (中國區最佳債券投行)	Securities Times (證券時報)
2015	Best Securities Firm in China (中國最佳證券公司)	21st Century Business Herald (21世紀經濟報道)
	Best Margin Financing and Securities Lending Broker in China (中國最佳融資融券券商)	Securities Times (證券時報)
	Best Securities Broker in China (中國最佳證券經紀商)	Securities Times (證券時報)
	Best Domestic Investment Bank (本土最佳投行)	New Fortune (新財富)
	Best Investment Bank for Overseas Markets (海外市場能力最佳投行)	New Fortune (新財富)
	Top Shanghai Connect Participation Award (最高參與滬港通交易大獎)	Hong Kong Exchanges and Clearing Limited (香港交易及結算所有限公司)
2014	Outstanding Member for Business Innovation (業務創新優秀會員)	Shanghai Stock Exchange
	Best Securities Broker in China (中國最佳證券經紀商)	Securities Times (證券時報)
	Best Margin Financing and Securities Lending Broker in China (中國最佳融資融券券商)	Securities Times (證券時報)
	Best Full-Service Investment Bank in China (中國區最佳全能投行)	Securities Times (證券時報)
	Most Innovative Investment Bank in China (中國區最具創新能力投行)	Securities Times (證券時報)
	Best Global Commodities Investment Team in Greater China (大中華區最佳環球商品投資團隊)	Institutional Investor
2013	Best Securities Broker in China (中國最佳證券經紀商)	Securities Times (證券時報)
	Diamond Award Best Global Commodities House in China ("中國最佳環球商品投資銀行"鑽石獎)	Institutional Investor
	Best Domestic Investment Bank in China (中國本土最佳投行)	New Fortune (新財富)
	Best Investment Bank in Small and Medium-sized Deals (中小項目能力最佳投行)	New Fortune (新財富)
	Best Investment Advisory Brand Name in China (中國最佳投顧服務品牌)	Securities Times (證券時報)

COMPETITIVE STRENGTHS

We are a leading investment bank in China. We are committed to creating value for our clients through providing premier and comprehensive financial products and services. We have a collaborative, full-service business and strong innovation capabilities. We believe that we will continue to expand our business, strengthen our market position and enhance our core competitiveness as a result of our competitive strengths in the following areas:

A leading investment bank in China with robust growth and innovation capabilities

During the past 25 years, we have become a leading investment bank in China. In particular, we have experienced rapid growth during the period of reform and transformation in the PRC securities industry since 2012. Benefiting from our clear development philosophy and visionary strategy, we believe that we have successfully capitalized on strategic opportunities that have enabled us to transform from a traditional securities firm into a leading investment bank. We enjoy leading positions in investment banking, institutional client services and brokerage and wealth management:

- ***Key financial indicators:*** According to Wind Info: (i) we ranked eighth and ninth, respectively, among PRC securities firms in terms of total assets and total equity as of December 31, 2015; (ii) we ranked seventh among PRC securities firms in terms of net profit in 2015; (iii) we ranked fourth among the Top Ten Securities Firms in terms of weighted average return on equity in 2015; and (iv) our profit for the year increased from RMB2,237.5 million in 2013 to RMB10,928.3 million in 2015, representing a CAGR of 121.0%, ranking fourth among the Top Ten Securities Firms.

- ***Investment banking:*** Our ranking among PRC securities firms in terms of the amount of equity securities underwritten as a lead underwriter was ninth in 2014 and fifth in 2015, respectively, and our ranking in terms of the amount of debt securities underwritten as a lead underwriter (including the debt securities issued by us) was eighth in 2014 and third in 2015, while our ranking in terms of the amount of ABS underwritten advanced from fourth in 2014 to first in 2015. Our M&A financial advisory capability for listed companies was awarded "A Class" by the Securities Association of China in 2015. In terms of the amount of Hong Kong IPOs underwritten, we ranked fifth in 2014 and fourth in 2015 in Hong Kong, and we ranked second among PRC-based securities firms in Hong Kong for both 2014 and 2015.

- ***Institutional client services:*** We ranked first in the PRC securities industry in terms of the number of registered private investment funds under our custody as of June 30, 2016. Our ranking advanced from fifth in 2013 to second in 2015 in terms of trading seat leasing income earned from mutual funds. According to Wind Info, we ranked fourth, third and fifth among PRC securities firms in terms of balance of securities lent as of December 31, 2013, 2014 and 2015, respectively.

- ***Brokerage and wealth management:*** Our income from affluent customers and high-net-worth customers (including fee and commission income and interest income) increased from RMB1,995.4 million in 2013 to RMB12,586.2 million in 2015. The average brokerage commission rate that we charged our wealth management customers for our "Zhiyuan Wealth Management Plans" was approximately two times our overall average brokerage commission rate during the Track Record Period.

We are headquartered in Shenzhen, which is at the forefront of market reform and innovation in China and also in close proximity to Hong Kong, an international financial center. We believe that innovation has been deeply rooted in our business model and strategies, which has helped us achieve sustainable growth and develop differentiated competitive advantages. We focus on market-oriented operation and have strategically introduced new products and services in the PRC securities industry:

- ***Prime brokerage:*** We were the first to provide one-stop prime brokerage services in 2013 and have become a leading prime brokerage service provider in the PRC securities industry. We were the first PRC securities firm qualified to offer comprehensive custody services for private investment funds and among the first PRC securities firms qualified to offer securities investment fund custody services in China. As of June 30, 2016, the aggregate financial assets of 3,959 funds under our fund custody amounted to RMB449.3 billion.

- ***ABS:*** In 2014, we underwrote the first credit card ABS in China, a new type of underlying asset for ABS transactions in China. In addition, in 2015, we successfully underwrote the first ABS of long-term vehicle leasing receivables in China. The aggregate amount of ABS underwritten by us increased from RMB21.5 billion in 2014 to RMB77.9 billion in 2015. According to Wind Info, our ranking among the PRC securities firms in terms of the amount of ABS underwritten improved from fourth in 2014 to first in 2015.

- ***Asset management:*** In 2013, we launched "Daily Profit" (天添利), which was one of the first money-market products with "T+0" settlement offered by a PRC securities firm. In 2014, 2015 and the six months ended June 30, 2015 and 2016, the daily average balance of "Daily Profit" amounted to RMB8,468.5 million, RMB34,023.1 million, RMB25,623.8 million and RMB31,408.0 million, respectively. The balance of "Daily Profit" as of December 31, 2015 ranked second among money-market products in the PRC securities industry according to Wind Info. In addition, the investment performance of our "Quantitative Hedging Series" (量化對沖系列) asset management products ranked first among similar products offered by PRC securities firms in 2014.

- ***Global commodities:*** In October 2013, we were the first PRC securities firm to obtain clearing membership at the four exchanges under the CME Group in the United States. In December 2013, we commenced our international precious metals market-making business, and became the only PRC securities firm then to have gold, silver, platinum and palladium market-making capabilities in the overseas markets. We obtained clearing membership at the London Metal Exchange in January 2015 and clearing membership at the Intercontinental Exchange Futures Europe in April 2015.

- ***NEEQ business:*** We have actively expanded our NEEQ business since March 2013. We were among the first PRC securities firms to obtain the NEEQ market-making license in 2014. In 2015, we recommended the listing of the first PRC commercial bank on the NEEQ.

- ***Derivatives trading***: We conduct derivatives trading, such as stock index futures hedging, OTC derivatives transaction, funds and stock options market-making. In February 2015, we were among the first PRC securities firms to offer market-making services for SSE 50 ETF options. We were awarded "Outstanding Commodities Clearing Firm" (大宗商品清算優秀獎) by the Shanghai Clearing House in 2015.

The prime broker of choice for institutional investors with strong institutional client service capabilities

In light of the rapid development and ongoing reform of the PRC capital markets, we predicted the increase in the number of institutional investors in China and their increasingly important roles in the PRC financial industry, hence we were the first PRC securities firm to establish a one-stop institutional client service platform in China, offering prime brokerage, institutional sales and trading and investment research for mutual funds, private investment funds, insurance companies and other institutional investors. As of the Latest Practicable Date, our institutional clients covered substantially all of the PRC mutual funds and most of the PRC private investment funds with an AUM of over RMB2.0 billion. Our income in China from institutional clients (consisting of fee and commission income from securities and futures brokerage, interest income, investment research income, trading seat leasing income, income from sales of financial products and income from fund custody and outsourcing) increased from RMB700.4 million in 2013 to RMB3,171.6 million in 2015, representing a CAGR of 112.8%.

We devoted significant resources and became the first prime broker in the PRC securities industry in 2013 to provide one-stop services, offering customized prime brokerage trading systems, fund custody and outsourcing, settlement, margin financing and securities lending, as well as seed-money and research services. We were the first PRC securities firm to obtain the approval for providing comprehensive custody services for private investment funds, and were one of the first PRC securities firms to establish a trading system for prime brokerage. We are also a leading provider of securities lending services and OTC products to institutional investors in the PRC. We have a strong research team, which was established in 1994 as one of the first securities research teams in the PRC securities industry. As of the Latest Practicable Date, we had over 100 research analysts, covering over 35 industries and over 840 listed companies in China. Our research team has been recognized as one of the best research teams in China by New Fortune for the last 13 consecutive years since 2003. For three consecutive years from 2011 to 2013, we were among the top five PRC securities firms to receive the "Golden Bull Analyst Award" (中國證券業金牛分析師獎) from the China Securities Journal (中國證券報) in recognition of our overall research capabilities.

Leveraging our first-mover advantage and outstanding institutional client service capabilities, we are the prime broker of choice for many renowned institutional investors in China. We serve as the prime broker for over 900 private investment funds, 55 of which have an AUM of over RMB2.0 billion. As of June 30, 2016, we ranked first in the PRC securities industry in terms of the number of registered private investment funds under our custody, with a market share of approximately 29.3%, according to the Asset Management Association of China. As of June 30, 2016, the aggregate financial assets of 3,959 funds under our fund custody amounted to RMB449.3 billion and the aggregate financial assets of 3,631 funds using our outsourcing services amounted to RMB396.1 billion.

We provide comprehensive investment research, sales, trading and market-making services for mutual funds and insurance companies, among others. In 2015, we ranked first among PRC securities firms in terms of the stock trading volume using our trading seats, and our income from leasing trading seats to mutual funds ranked second among PRC securities firms. Our trading seat leasing income (mainly from mutual funds) increased from RMB297.8 million in 2013 to RMB854.5 million in 2015, representing a CAGR of 69.4%.

A fast-growing wealth management business supported by a strategically positioned network and differentiated and diversified service capabilities

As market competition continues to intensify, we have devoted substantial resources to upgrading our brokerage business model from a traditional brokerage trading business to a wealth management business. See "—Our Business—Brokerage and Wealth Management—Wealth Management." We provide differentiated and diversified services based on customers' asset size and investment needs, and we charge different commission rates for these services. We have increased the penetration of our margin financing and securities lending business among our affluent and high-net-worth customers. To satisfy the growth needs of our wealth management business, we have expanded the geographic breadth and functions of our securities branches.

Our brokerage and wealth management business achieved rapid growth from 2013 to 2015. Our segment revenue and other income from our brokerage and wealth management business increased significantly from RMB5,316.0 million in 2013 to RMB24,404.4 million in 2015, representing a CAGR of 114.3%. Our brokerage and wealth management customer base increased significantly from approximately 4.0 million customers as of December 31, 2013 to approximately 6.5 million customers as of June 30, 2016. The rapid growth in our brokerage and wealth management business is mainly attributable to the following factors:

- ***Comprehensive wealth management services:*** We focus on enhancing our ability to provide comprehensive wealth management services to different customer groups in order to capture increasing demand for customized services. For example, we developed and offered "Zhiyuan Wealth Management Plans" ("智遠理財"財富管理計劃), which provide diverse value-added services based on the customers' asset size and investment needs. We have built a wealth management advisory team of over 800 experienced advisors to offer customized investment advisory and wealth management products and services to customers with an account balance of over RMB100,000. We have established three regional wealth management centers in Shenzhen, Beijing and Shanghai to provide wealth management services for high-net-worth customers. We charge varying brokerage commission rates under "Zhiyuan Wealth Management Plans" ("智遠理財"財富管理計劃). During the Track Record Period, the average brokerage commission rate for customers using our "Zhiyuan Wealth Management Plans" ("智遠理財"財富管理計劃) was approximately two times our overall average brokerage commission rate. For certain customers who only need basic brokerage services, we charge a relatively lower commission rate in order to increase our market share in light of the intensifying market competition. We offer over 2,540 third-party financial products through our securities branches and online platform to further satisfy the diverse customer demands. Benefiting from such approach, our brokerage and wealth management business has become more competitive and has maintained a relatively stable average brokerage commission rate despite the significant decline in brokerage commission rates throughout the PRC securities industry.

- ***Capital-based intermediary services:*** To meet client needs for margin financing and securities lending and to further diversify our revenue mix, we actively promote our margin financing and securities lending business among affluent and high-net-worth customers. As of December 31, 2013, 55.7% of our affluent and high-net-worth customers had opened margin accounts with us. As of June 30, 2016, the proportion had increased significantly to 91.6%. Benefiting from such approach, the total balance of our margin loans and securities lent in China increased rapidly from RMB19.8 billion as of December 31, 2013 to RMB57.9 billion as of December 31, 2014 and further to RMB62.9 billion as of December 31, 2015.

- ***Strategically-positioned branch network with high efficiency:*** As of June 30, 2016, we had 200 securities branches, 63.0% of which were located in well-developed and affluent regions covering the Pearl River Delta, the Yangtze River Delta and the Bohai Rim, including 29.5% in Beijing, Shanghai and Shenzhen in aggregate. These securities branches operate at a high level of efficiency. In 2013 and 2014, our average net revenue from securities brokerage trading per securities branch ranked first and third, respectively, among listed PRC securities firms. In order to optimize our branch network and expand our customer base, we doubled the number of our securities branches from 100 as of December 31, 2013 to 200 as of June 30, 2016, among which 96 were established as "light branches". Because the start-up and operating costs of these branches are relatively low, we can optimize the coverage of our branch network in a cost-effective manner. In addition to increasing the number of our securities branches, we have redefined the functions of our securities branches and transformed them from traditional brokerage service counters to full-service outlets which enable us to provide customized wealth management services for our affluent and high-net-worth customers and to cross-sell other products and services. In order to efficiently expand our customer base and enhance customer loyalty, we have optimized our online platform by providing integrated "online and offline" brokerage and wealth management services. In the first half of 2016, 97.0% of our brokerage trading volume of stocks and funds was executed online, including 33.2% through mobile devices. During the same period, approximately 99.0% of our new brokerage accounts were opened online.

- ***Improvement in customer mix:*** Our affluent and high-net-worth customers as a percentage of our total brokerage and wealth management customer base increased from 2.7% as of December 31, 2013 to 3.2% as of June 30, 2016. Our income from these customers (including fee and commission income and interest income) as a percentage of the segment revenue and other income from our brokerage and wealth management business increased from 37.5% in 2013 to 51.6% in both 2015 and the first half of 2016.

By implementing the foregoing measures, the number of our brokerage and wealth management customers increased significantly from approximately 4.0 million as of December 31, 2013 to approximately 6.5 million as of June 30, 2016; and our segment revenue and other income from brokerage and wealth management business increased significantly from RMB5,316.0 million in 2013 to RMB24,404.4 million in 2015, representing a CAGR of 114.3%.

A comprehensive investment banking platform with premier integrated service capabilities for corporate clients

We are committed to providing comprehensive and cross-border investment banking services to satisfy the various needs of our corporate clients throughout their life-cycles, including pre-IPO financing, equity underwriting and sponsoring, debt underwriting, OTC investment banking and financial advisory services. For example, we assisted Fuyao Glass Industry Group Co., Ltd. (福耀玻璃工業集團股份有限公司) in a series of capital market transactions, including an A-share follow-on offering, Hong Kong IPO, share disposal by its controlling shareholders and stock buy-backs.

Meanwhile, we have strategically built up our expertise and competitiveness in six industries, including TMT, healthcare and medical, financial services, infrastructure and real estate, agriculture, food and beverage, and energy and transportation.

In recent years, we have built up our competitive advantage in IPO underwriting and sponsorship and ABS underwriting. We have also experienced rapid growth in our Hong Kong IPO, debt underwriting and NEEQ listing businesses.

- ***Equity underwriting in China:*** According to Wind Info, we ranked fifth in terms of the amount of equity securities underwritten as a lead underwriter in the PRC securities industry in 2015. We are an industry leader in serving SME clients, and we have enhanced our capabilities to serve mid-to-large blue-chip enterprises. From 2009 to June 30, 2016, we underwrote 75 A-share IPOs, ranking fourth among the PRC securities firms. According to the CSRC, as of June 30, 2016, we sponsored 44 A-share IPO applications pending the CSRC approval, ranking sixth among PRC securities firms. According to Wind Info, from the establishment of the SME Board on May 17, 2004 to June 30, 2016, we sponsored and acted as the lead underwriter for the listing of 52 companies, ranking fourth among PRC securities firms. According to Wind Info, since the establishment of the ChiNext Board on October 23, 2009 to June 30, 2016, we sponsored and acted as the lead underwriter for the listing of 25 companies, ranking fourth among PRC securities firms. At the same time, to further enhance our business capabilities and market competitiveness, we endeavor to serve blue-chip enterprises and actively develop follow-on offering business. For example, we underwrote the follow-on offerings of GD Power Development Co., Ltd. (國電電力發展股份有限公司), GREE Electric Appliances, Inc. of Zhuhai (珠海格力電器股份有限公司), China Molybdenum Co., Ltd. (洛陽欒川鉬業集團股份有限公司) and Suning Commerce Group Co., Ltd. (蘇寧雲商集團股份有限公司). The total amount of follow-on offerings underwritten by us including convertible bonds increased significantly from RMB5,634.3 million in 2013 to RMB42,820.8 million in 2015.

- ***Equity underwriting in Hong Kong:*** Our equity underwriting business in Hong Kong has been growing rapidly. Based on the amount underwritten for Hong Kong IPOs, our ranking in Hong Kong was 20th, fifth and fourth in 2013, 2014 and 2015, respectively. As of the Latest Practicable Date, we were the only PRC-based securities firm to have acted as the sole sponsor for a Hong Kong IPO with an offering size of over HK$10.0 billion.

- ***Debt underwriting:*** Our debt underwriting business grew rapidly during the Track Record Period. According to Wind Info, in 2013, 2014 and 2015, we ranked seventh, eighth and third, respectively, in terms of the amount of debt securities underwritten by us as a lead underwriter (including the debt securities issued by us) in the PRC securities industry. The amount of debt securities underwritten by us as a lead underwriter increased significantly from RMB28.2 billion in 2013 to RMB59.0 billion in 2014 and increased further to RMB225.8 billion in 2015. In particular, we have a unique advantage in underwriting ABS. In 2014, we underwrote the first credit card ABS in China, a new type of underlying asset for ABS transactions in China. The aggregate amount of ABS underwritten by us increased from RMB21.5 billion in 2014 to RMB77.9 billion in 2015. According to Wind Info, our ranking among the PRC securities firms in terms of the amount of ABS underwritten advanced from fourth in 2014 to first in 2015. In 2016, we underwrote the first commercial mortgage-backed securities listed on a PRC stock exchange and the first non-performing credit card receivables ABS in China.

- ***OTC investment banking:*** In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, the number of companies recommended by us for share quotation and transfer on the NEEQ were two, 38, 114, 35 and 70, respectively. We ranked 20th, eighth and seventh in terms of the number of newly listed companies on the NEEQ in 2013, 2014 and 2015, respectively. In particular, in 2015, we recommended the listing of Qilu Bank Co., Ltd., which was the first PRC commercial bank listed on the NEEQ and had the largest total assets (as of December 31, 2014) among all the companies listed on the NEEQ at the time of listing.
- ***Financial advisory:*** We have also been actively developing our M&A advisory business. In particular, our M&A financial advisory capability for listed companies was awarded "Class A" by the Securities Association of China in 2015.

We believe that our comprehensive investment banking platform has enabled us to rapidly respond to the changing market conditions and regulatory policies, and to maintain a highly collaborated business and optimized revenue mix. We do not rely on a single type of investment banking transaction so that we are able to sustain our growth under different market conditions. In particular, the CSRC imposed two temporary moratoriums on IPO review during the Track Record Period.

A highly collaborative business model with strong cross-selling capabilities

We provide comprehensive financial services to our clients through our full-service business offering. We believe that we have established effective internal collaboration mechanisms and service systems, including our operating model of committee governance, our project team approach and our recognition, assessment and compensation of employee-led collaboration efforts, which facilitate collaboration across our business lines and cross-selling in China and overseas. For example:

- **Collaboration of investment banking teams in China and overseas:** Our investment banking teams in China and overseas collaborate closely to offer integrated cross-border services. For example, after CMSHK completed the Hong Kong IPO of Shengjing Bank Co., Ltd. (盛京銀行股份有限公司), raising HK$10.6 billion in 2014, we acted as the lead underwriter for the same bank's two bond issuances in China in 2015, and the sponsor for its proposed A-share offering in China. In addition, our investment banking teams in China and overseas conduct joint marketing, refer projects and clients, and prepare onshore and offshore financing proposals on a regular basis.
- **Business opportunities for other business lines provided by investment banking:** Our investment banking business refers its clients' shareholders, directors and senior management to our brokerage and wealth management business. These referrals allow us to provide them with our various capital-based intermediary services and customized wealth management services. For instance, by introducing the shareholders of corporate clients to our brokerage and wealth management business, we can offer stock custody, wealth management, disposal of restricted shares and securities-backed lending services.
- **Business opportunities for other business lines provided by brokerage and wealth management:** Our brokerage and wealth management business refers customers and cross-sells products and services to other business lines, such as investment banking services (including IPO, NEEQ listing and M&A), investment management services (including sale of asset management products and direct investment projects) and investment and trading (including equity return swaps).

Prudent, proactive and comprehensive risk management and internal controls

We believe that a prudent risk management culture, an effective risk management framework, pioneering quantitative risk measurements and comprehensive risk management instruments are essential components of a leading investment bank and fundamental to our sustainable growth. For nine consecutive years from 2008 to 2016, we had received a "(Class A) AA" regulatory rating from the CSRC, the highest rating issued to a PRC securities firm to date, being one of only two securities firms among the Top Ten Securities Firms to receive such regulatory rating for nine consecutive years since 2008, which is crucial for us to apply for new business and establish new securities branches. Our competitive advantages in risk management and internal controls include the following:

- ***Prudent risk management culture:*** We maintain a dynamic balance between innovation and risk management to sustain healthy growth. We have constantly improved our abilities to identify, avoid and mitigate risks and to ensure that expected returns match risk profiles. We control risk exposure, impose risk limits, and prioritize business lines with higher risk-adjusted returns for resource allocation. We aim to maximize profitability under the premise of identifiable, predictable, manageable and bearable risks. In addition, we believe that effective risk management depends on employee behavior, and we have increased employee awareness and improved accountability mechanisms for risk management.

- ***Effective risk management framework:*** As early as 2002, we set up an independent Risk Management Department. We established a five-tier risk management structure, consisting of: (i) the Board and the Board's Risk Management Committee; (ii) the Board of Supervisors; (iii) the senior management and its Risk Management Committee; (iv) the relevant departments in charge of risk management (such as the Risk Management Department, the Finance Department, the Legal and Compliance Department, and the Audit and Supervision Department); and (v) other departments, branches and subsidiaries. Our Risk Management Committee under senior management has several specialized committees, including the Underwriting Commitments Committee, the Credit Committee, the Valuation Committee and the Securities Investment Decision-Making Committee. One of the important functions these committees perform is the approval of new businesses and businesses with higher risks.

- ***Pioneering quantitative risk measurements:*** We took the initiative to establish an economic capital model in 2007 that measures risks quantitatively in accordance with the Basel Accords. During the same year, we also established a risk tolerance system and a set of risk limits covering all types of risks and business lines. In 2009, we were among the first securities firms to establish a comprehensive stress testing system. In 2015, we established an internal credit risk evaluation system by collecting relevant information with regard to all companies with bond issuance in the PRC since 2011 using big data technology, which enhanced our credit risk management capabilities.

- ***Comprehensive risk management instruments:*** We have established a leading global market risk management system across different markets and business lines, which performs VaR testing, stress testing and sensitivity analysis. In addition, we have developed a credit risk management system, which allows us to centralize our management of credit risk data on various businesses and customers, as well as a collateral conversion rate model. We also apply advanced operational risk management instruments, such as Risk Control Self-Assessment and Loss Data Collection, to collect and analyze internal risk data and information on risk events so that we can predict, monitor and review such events.

- ***Deep understanding of the industry regulations:*** Both our Chief Risk Officer and the general manager of our Risk Management Department are core members of the Finance, Accounting and Risk Control Committee of the Securities Association of China. Accordingly, we have participated in the promulgation of industry-wide risk management standards, such as Net Capital-based management, stress testing, comprehensive risk management and liquidity risk management.

As a result of our prudent, proactive and comprehensive risk management, our business has achieved sustainable growth. From 2004 to 2015, we had been profit-making for 12 consecutive years despite market fluctuations. In particular, we made monthly profit in July, August and September of 2015 despite the significant fluctuations in the A-share stock market during those months. In addition, because we have imposed stringent risk management measures and effective counter-cycle measures, our margin financing and securities lending business and our investment and trading business have maintained sound financial condition.

A core financial service platform of China Merchants Group, benefiting from the century-old "China Merchants" brand and its unique business resources

China Merchants Group, our Controlling Shareholder, whose origin can be traced back to 1872, has been a pioneer of industrial and commercial reforms in China for over 140 years. It is well known for its innovation capabilities, market-oriented and internationalized operations, as well as sustainable track record, which we have embedded in our own corporate culture. In addition, the century-old "China Merchants" brand helps enhance client confidence and has assisted us in expanding our client base.

As a large-scale state-owned enterprise directly managed by the SASAC under the State Council, China Merchants Group's principal businesses include transportation and related infrastructure, finance and property. The securities business is one of the four principal businesses under the financial segment of China Merchants Group. Benefiting from our critical positioning within China Merchants Group, we are able to obtain client and business resources that are unattainable by our competitors. In particular, we enjoy competitive advantages in capturing the emerging business opportunities arising from the various business initiatives within China Merchants Group, such as "Collaboration between Industrial Companies and Financial Companies" (產融結合) and "Collaboration between Financial Companies" (融融結合). As a result, we have successfully enhanced our brand recognition and market position. For example:

- Benefiting from multiple corporate financing and restructuring opportunities in China Merchants Group and its subsidiaries, we acted as the sponsor and lead underwriter for the equity private placement of China Merchants Energy Shipping Co., Ltd. (招商局能源運輸股份有限公司) in 2012 and 2015, which raised RMB2.9 billion and RMB2.0 billion, respectively. In 2013, we acted as the financial advisor to China Merchants Holdings (International) Co., Ltd. (招商局國際有限公司) on its RMB1,787.3 million acquisition of the 25% equity interests of Shenzhen Chiwan Wharf Holdings Limited. In 2015, we acted as the financial advisor for China Merchants Shekou Industrial Zone Holdings Co., Ltd. (招商局蛇口工業區控股股份有限公司) on its merger-by-absorption of China Merchants Property Development Co., Ltd. (招商局地產控股股份有限公司) through the issuance of new A shares, and as joint lead underwriter for the concurrent private placement of A shares for financing.

- We cooperate closely with China Merchants Bank, which was our largest custodian bank for customers' deposits as of June 30, 2016. China Merchants Bank has referred a substantial number of its customers to open brokerage accounts with us, and we were the largest partner securities firm with China Merchants Bank in terms of customers' deposits as of June 30, 2016. In addition, we have assisted China Merchants Bank in issuing the first credit card ABS in China. We had underwritten an aggregate of RMB44.3 billion of ABS issued by China Merchants Bank as of June 30, 2016.

A visionary management with an international perspective supported by talented professionals

Our senior management has, on average, over 15 years of management experience in the securities and financial industries, and has a visionary strategy and international outlook. Mr. Gong Shaolin has been serving as our Chairman since 2001. Mr. Gong previously held positions in the PBOC, the SAFE and China Merchants Bank, and gained in-depth understanding of the PRC macro-economy and financial industry. Mr. Wang Yan, our president and CEO, joined us in September 2011. Mr. Wang previously held senior management positions in various departments and subsidiaries of Industrial and Commercial Bank of China Ltd. (including its New York representative office, Hong Kong branch and Industrial and Commercial Bank of China (Asia) Limited) and BOC International Holdings Limited. Mr. Wang has extensive experience in the development of the PRC and international financial markets. Our middle-level management team has, on average, 12 years of experience in the PRC securities industry with outstanding executive capabilities. As of the Latest Practicable Date, approximately 13.7% of our PRC employees (excluding brokerage agents) had studied or worked abroad, and 95.9% of our total employees (excluding brokerage agents) held bachelor's degrees or above.

We believe that our ability to attract, develop, motivate and retain professional talent is critical to our success. We established a "Four-in-One" strategic management system, combining the four core elements of strategic planning, performance-based management, bonus evaluation and promotion. We benefit from this system through our ability to align employee interests with our business strategies. We have implemented a competitive and market-based remuneration structure and career development paths to motivate and attract talent. We arrange specialized in-house training to improve our employees' work ethics and management skills. Meanwhile, in order to reinforce our market position, we seek to recruit high-caliber, international talents for positions such as senior management officers, senior marketing personnel, senior wealth management advisors and professional investment managers. Since 2013, we have recruited over 187 middle- and senior-level employees from the market. We believe that our market-oriented human resource management and our growth potential will enable us to attract and retain a team of highly proficient professionals.

BUSINESS STRATEGIES

Our strategic objective is to become a premier investment bank in China. We intend to enhance our full-service capabilities covering the entire value chain through transformation, innovation and cross-border development. Operating with a client-oriented approach that focuses on individual, institutional and corporate clients, we strive to develop a profit model with a diversified business mix, a well-developed business structure and synergies, in order to achieve quality growth under varied market conditions. In particular, our business strategies include the following:

Upgrading our business model and service network, and developing a comprehensive wealth management service platform

We will continue our transition from a traditional brokerage-based business into a wealth management business, expand our brokerage business and increase our market share. We believe that our brokerage and wealth management business will enable us to provide comprehensive services for our affluent and high-net-worth customers. Our strategies are as follows:

- ***Enhancing wealth management services:*** We plan to enhance our customer classification system to accurately understand and capture the financial needs of our affluent and high-net-worth customers. By doing so, we will be able to develop and offer more customized wealth management products and services. In addition, we plan to open more regional wealth management centers in selected cities, expand our wealth management team and enhance their professional capabilities to improve the service coverage and loyalty of affluent and high-net-worth customers.
- ***Strengthening capital-based intermediary services:*** We plan to further increase the penetration of our capital-based intermediary services among affluent and high-net-worth customers through our securities branches and online platform. Meanwhile, we plan to introduce more types of capital-based intermediary services based on customers' needs, such as financing solutions for exercising stock options and restricted share financing.
- ***Expanding branch network:*** We will continue to expand our branch network strategically. In addition to opening additional securities branches in Beijing, Shanghai and Shenzhen, we will focus on expanding into second and third-tier cities in China with economic growth potential but less competition.
- ***Enhancing business collaboration:*** We will further strengthen the role of our securities branches across China as our full-service outlets. We also aim to strengthen the resource sharing and business collaboration between our local branches and business lines. In particular, we plan to increase the number of our full-service specialists and fully explore cross-selling opportunities at our securities branches for other business lines, such as NEEQ listings, equity return swaps, fund custody and outsourcing and direct investment.

With the foregoing strategies, we aim to become a wealth management service provider in the PRC securities industry with a diverse array of products and outstanding services.

Expanding our investment banking workforce and optimizing our service mix to further enhance our full-service investment banking service capabilities

We believe that our investment banking business is the key driver for our other business lines. Our objective is to offer one-stop full-service investment banking solutions for corporate clients. We aim to enhance our investment banking service capabilities through the following practices:

- we aim to actively expand our investment banking workforce by recruiting high-caliber talents and building a high-quality professional team;
- we intend to establish more sector-focused investment banking teams dedicated to machinery equipment manufacture, consumer goods and chemicals industries. We also intend to build business relationships with more large- and medium-sized corporate clients and provide them with full-service investment banking services and assist them in industry consolidation;
- we plan to operate with a client-oriented approach, continuously improving our client manager system and client relationship management. We will continue to enhance client marketing and capture clients' needs for follow-on capital-raising activities;
- we aim to further expand our follow-on equity offering, debt underwriting and financial advisory businesses to strengthen our full-range service capabilities, achieve a more balanced service mix and diversify our revenue sources, and expand our OTC investment banking business to serve SME clients with comprehensive OTC investment banking services;
- we intend to further explore clients' financing needs and strategically develop capital-based intermediary investment banking services, for example, by collaborating with CMS Zhiyuan and CMS Asset Management to form M&A funds to enhance clients' loyalty and our profitability; and
- we plan to improve our pricing capabilities, which we believe is one of the keys to the success of our investment banking business.

Building the leading institutional client service platform and reinforcing our position as the prime broker of choice in China

We will further enhance our strengths in institutional sales and trading and prime brokerage services through the following strategies:

- we offer institutional clients, such as private investment funds, a more integrated service platform. In particular, we plan to develop the most advanced prime brokerage trading and investment management systems in the PRC securities industry. In addition, we will increase our offering of seed money for private investment funds and promote our "Private Investment Fund Institute" (私募學院) for nurturing emerging private investment funds;
- we plan to expand our product offering in fund custody and outsourcing business and enhance our operation capacity to handle a greater business scale. In addition to maintaining our leading market position in fund custody and outsourcing services for private investment funds, we intend to offer such services to more mutual funds in China and increase our market share;
- we plan to improve our institutional client services by increasing our exposure to, and knowledge of, a broader range of financial products and markets. While effectively

hedging our risks, we will increase our product offerings to institutional clients and provide liquidity to the market. In particular, we plan to increase our offerings of market-making services, and focus on exchange-traded options and OTC options trading, in order to satisfy the diverse investment and risk management needs of institutional investors; and

- we will further enhance the professional capabilities of our institutional sales team. By providing various institutional client services, such as sales of financial products, investment research and cooperative product development, we seek to attract more institutional investors.

Building a diverse investment management platform to expand our investment management business and enhance innovation capabilities

We aim to build one of the largest and most innovative asset management businesses in the PRC securities industry through expanding product offerings to meet customers' investment needs. We intend to increase our AUM by enhancing product development and active management capabilities and expanding sales and distribution channels. In particular:

- we will continue to improve our product design capabilities based on changing market demands and introduce competitive asset management products in a timely manner. We plan on developing innovative and actively managed products, aiming to cover the full spectrum of asset management products and provide tailored asset management solutions for clients;
- we aim to improve our investment management and research capabilities by recruiting experienced investment managers and research analysts;
- we aim to increase the collaboration between our securities branches and wealth management centers, and expand our distribution channels through third-party financial institutions. In addition, we intend to leverage our online platform for sales and distribution of our wealth management products in order to effectively expand client coverage; and
- by following up with PRC regulatory policies, we plan to actively apply for a qualification for mutual fund management.

For our direct investment business, we will continue to focus on product innovation and private equity fund management to expand our market share and increase profitability. We plan to establish a number of large private equity funds, M&A funds, NEEQ funds and industrial investment funds. In addition, we intend to work more closely with investors' groups, such as local financing vehicles, large institutional investors and large corporate clients with close business relationships with China Merchants Group, in order to form solid and diversified fund-raising sources.

Accelerating the development of our diversified cross-border business to achieve overseas expansion

Leveraging the opportunities arising from the globalization of the PRC economy, we aim to build highly integrated PRC and overseas operations by actively developing a diversified cross-border business that covers multiple regions. In particular:

- we intend to reinforce our competitive advantage in the corporate finance and underwriting business in the Hong Kong market, which will support the growth of our securities brokerage, fixed-income and other institutional businesses in Hong Kong. In addition, we plan to enhance our M&A advisory services by participating in the investment and financing of our M&A projects.

- we intend to enhance collaboration between our overseas and PRC operations, including the cooperation between CMS International and our headquarters and also other members of China Merchants Group. In addition, we plan to enhance the cross-border operation of our wealth management business by capturing cross-border sales opportunities provided by the Shanghai-Hong Kong Stock Connect, the mutual recognition of funds between Hong Kong and China, and other forthcoming cross-border investment opportunities. These new initiatives will help us explore the cross-border wealth management demands of affluent and high-net-worth clients. We also plan to provide financial services to overseas investors who wish to enter into the PRC and Hong Kong markets.
- we plan to gradually develop a commodities business, which will cover markets in China, Hong Kong, the United Kingdom, Singapore and the United States, by leveraging the resources advantage of China Merchants Group in logistics, warehousing and shipping industries, among others. We also intend to actively apply for a foreign exchange business qualification and recruit experienced employees to actively develop our gold leasing, foreign exchange and market-making businesses.
- we plan to set up an office in the China (Shanghai) Pilot Free-Trade Zone and provide cross-border investment and investment advisory services. We also plan to begin providing cross-border alternative investment, wealth management and ABS underwriting services in the Qianhai Cooperation Zone.
- we plan to selectively acquire international financial institutions which complement our existing business lines. This would facilitate the rapid development of our overseas businesses. As of the Latest Practicable Date, we had not identified any acquisition targets.

Improving our risk management system and IT infrastructure to support our strategic transformations

We believe an effective risk management system, internal controls and strong IT capabilities are essential to the development of a sustainable business and maintaining our market competitiveness. We intend to further enhance our risk management and internal controls by implementing the following strategies:

- we plan to improve our risk appetite and risk tolerance systems based on our business strategies, and enhance our internal indicators for allocating capital and determining risk exposures;
- we plan to continue to enhance our industry-leading risk management systems for market, credit, operational and liquidity risks, particularly in relation to the risks inherent in new businesses, capital-based intermediary services and investment and trading businesses; and
- we plan to continue to develop industry-leading risk management systems, particularly credit risk internal ratings systems, quantitative market risk management systems and operational risk management tools.

We intend to fully embrace Internet technology and build up the Internet eco-system for providing comprehensive financial services by implementing the following strategies:

- we plan to revamp our existing IT infrastructure and further build the new core business system;
- we intend to establish our new Internet-based business platform to provide more convenient and diverse financial products and services to our customers;
- we plan to conduct "big data" analysis of customers' historical data and trading behaviors, which would enable us to provide customized client services and targeted sales and marketing; and
- we aim to further develop our online platform through a combination of in-house development and cooperation with third-party service providers. We will also improve the functions of our mobile and PC-based portals with a focus on improving customer experience.

Improving our human resource management to attract, train and incentivize high-quality talents

We believe that high-quality professionals are valuable assets to a leading investment bank and fundamental to maintaining our competitiveness and sustainable growth. We will continue to implement and improve our "Four-in-One" strategic management system. We aim to provide market competitive compensation and performance-based remuneration. In addition, we embody the pursuit of excellence as one of our main corporate values and intend to apply that emphasis to our human resource management in driving employee loyalty and competitiveness.

OUR BUSINESS

We provide comprehensive financial products and services to individual, institutional and corporate clients through our leading full-service business platform. Our principal business lines comprise brokerage and wealth management (including institutional client services), investment banking and investment management, as well as investment and trading businesses. The following table sets forth a breakdown of our revenue and other income by business segment for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(unaudited) (RMB in millions)	%	(RMB in millions)	%
Brokerage and wealth management	**5,316.0**	**68.7**	**8,751.9**	**63.6**	**24,404.4**	**69.7**	**13,970.9**	**68.2**	**6,405.4**	**73.4**
Securities brokerage	3,893.7	50.3	5,622.3	40.8	16,128.9	46.1	9,300.1	45.4	3,465.7	39.7
Futures brokerage	205.5	2.7	225.3	1.6	446.5	1.3	234.0	1.1	257.8	3.0
Capital-based intermediary services(1)	1,169.3	15.1	2,795.7	20.3	7,364.5	21.0	4,240.8	20.7	2,435.0	27.9
Sales of financial products and investment advisory(2)	46.3	0.6	92.8	0.7	217.6	0.6	114.3	0.6	82.8	0.9
Others(3)	1.2	0.0	15.8	0.2	246.9	0.7	81.7	0.4	164.1	1.9
Investment banking	**541.0**	**7.0**	**1,613.4**	**11.7**	**2,843.8**	**8.1**	**991.4**	**4.8**	**1,124.4**	**12.9**
Underwriting and sponsorship	420.1	5.4	1,431.6	10.4	2,423.4	6.9	889.1	4.3	961.8	11.0
Financial advisory	112.3	1.5	128.8	0.9	264.5	0.8	62.5	0.3	54.5	0.6
OTC investment banking	8.6	0.1	53.0	0.4	155.9	0.4	39.8	0.2	108.1	1.3
Investment management	**437.0**	**5.6**	**918.6**	**6.7**	**1,313.3**	**3.8**	**723.5**	**3.5**	**413.3**	**4.7**
Asset management	229.5	3.0	469.6	3.4	1,239.7	3.5	525.9	2.5	538.7	6.2
Direct investment	207.5	2.6	449.0	3.3	73.6	0.3	197.6	1.0	(125.4)	(1.5)
Investment and trading	**1,277.7**	**16.5**	**2,273.6**	**16.5**	**5,732.2**	**16.4**	**4,604.9**	**22.5**	**546.8**	**6.3**
Proprietary trading	1,277.7	16.5	2,265.4	16.5	5,524.2	15.8	4,491.3	21.9	503.5	5.8
NEEQ market-making	—	—	8.2	0	208.0	0.6	113.6	0.6	43.3	0.5
Others(4)	**168.4**	**2.2**	**234.0**	**1.7**	**694.9**	**2.0**	**205.5**	**1.0**	**238.9**	**2.7**
Intersegment eliminations	—	—	(25.3)	(0.2)	—	—	—	—	—	—
Total	**7,740.1**	**100.0**	**13,766.2**	**100.0**	**34,988.6**	**100.0**	**20,496.2**	**100.0**	**8,728.8**	**100.0**

(1) Our revenue and other income from capital-based intermediary services consists of interest income from margin accounts, interest income from securities-backed lending and stock repurchase and interest income from margin financing and securities lending in Hong Kong.

(2) Our revenue and other income from sales of financial products is disclosed below under "—Brokerage and Wealth Management—Wealth Management—Sales of Financial Products," and our revenue and other income from investment advisory is discussed below under "—Brokerage and Wealth Management—Institutional client services—Investment Advisory."

(3) Our revenue and other income from others mainly includes income from fund custody and outsourcing, and is discussed below under "—Brokerage and Wealth Management—Institutional client services" as our fund custody and outsourcing business serves institutional clients.

(4) Mainly includes interest income from our own cash, government grants, commission from tax withholding and remittance.

Brokerage and Wealth Management

Our brokerage and wealth management business covers the following products and services:

- ***Securities and Futures Brokerage:*** We trade stocks, funds, bonds, futures and other derivatives on behalf of our clients;
- ***Capital-based Intermediary Services:*** We provide margin financing and securities lending as well as securities-backed lending and stock repurchases to our customers; and

- ***Wealth Management:*** We provide diverse wealth management services to customers based on the customers' asset size and investment needs, focusing mainly on investment advisory services, investment research and sales of financial products. We believe that our wealth management business is crucial to growing our securities brokerage and capital-based intermediary businesses and to improving the service coverage and loyalty of our customers, particularly affluent and high-net-worth customers.

We offer these products and services through our brokerage and wealth management business to our individual and institutional clients. For institutional clients, we also provide them with our institutional sales and trading, investment research and prime brokerage services. For details, see "—Brokerage and Wealth Management—Institutional Client Services." We also provide overseas securities and futures brokerage services through our Hong Kong subsidiary, CMS International and its subsidiaries. For details, see "—Overseas Business."

Historically, our brokerage and wealth management business accounted for a majority of our total revenue and other income. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, segment revenue and other income from our brokerage and wealth management business amounted to RMB5,316.0 million, RMB8,751.9 million, RMB24,404.4 million, RMB13,970.9 million and RMB6,405.4 million, representing 68.7%, 63.6%, 69.7%, 68.2% and 73.4% of our total revenue and other income, respectively.

We have received a number of awards in recognition of our brokerage and wealth management business:

- since 2010, our "Zhiyuan Wealth Management Plans" ("智遠理財"財富管理計劃) have received various awards from the *Securities Times (「證券時報」)* for seven consecutive years, such as the "Best Wealth Management Brand Name in China" (中國最佳財富管理品牌) in 2013 and 2016, and "Best Innovative Banking Wealth Management Product in China" (中國最佳創新銀行理財產品) in 2015;
- since 2013, we have been recognized as the "Best Securities Broker in China" (中國最佳證券經紀商) by the *Securities Times (「證券時報」)* for three consecutive years;
- in 2014 and 2015, we were recognized as the "Best Margin Financing and Securities Lending Broker in China" (中國最佳融資融券券商) by the *Securities Times (「證券時報」)*; and
- in 2016, we were recognized as the "Best Asset Management Broker in China" (中國最佳資產管理券商) and the "Best Institutional Client Service Broker in China" (中國最佳機構服務券商) by the *Securities Times (「證券時報」)*.

Our brokerage and wealth management business enjoys a leading position in the PRC securities industry. Our brokerage trading volume of stocks and funds totaled RMB22,049.8 billion, ranking eighth among all securities firms with a market share of 4.1% in 2015. We also ranked seventh in terms of the balance of margin loans and securities lent as of June 30, 2016, according to Wind Info.

Our brokerage and wealth management business had approximately 6.5 million customers, including approximately 196,500 affluent customers and approximately 9,900 high-net-worth customers, as of June 30, 2016. We pay great attention to customer services. We have been active in enhancing the marketing and service functions of our securities branches. In particular, we have appointed wealth management advisors at most of our securities branches, and focus on offering customized wealth management services to our affluent and high-net-worth customers. We have upgraded the infrastructure and ancillary services within our existing branch network, and developed "light branches." We have also established an online platform in order to better serve our customers in a timely and efficient manner.

In response to the industry-wide decline in brokerage commission rates, we have adopted several mitigating strategies. For example, we have developed and offered "Zhiyuan Wealth Management Plans," which provide diverse value-added services based on the customers' asset size and investment needs. These value-added services include investment advisory services, account analysis, investment portfolio advisory services, market research, asset allocation and sales of financial products. We charge varied brokerage commission rates under "Zhiyuan Wealth Management Plans," which are higher than our overall average brokerage commission rate, for providing different value-added services. We have also redefined the functions of our securities branches and transformed them from traditional brokerage service counters to full-service outlets focusing on providing wealth management services to affluent and high-net-worth customers. We sustain this approach by aggregating our business resources to satisfy clients' needs, by attracting new clients for all business lines and by leveraging local resources. Meanwhile, we charge certain customers who only need basic brokerage services a relatively lower rate, in order to increase our market share in light of the intensifying competition.

Our average brokerage commission rate was 7.7bps, 7.1bps, 6.4bps, 6.6bps and 5.3bps in 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, respectively. These rates were relatively stable as compared with the industry trend. Our average brokerage commission rate for the eight months ended December 31, 2015 was 6.2bps, after investors were allowed to open A-share accounts at multiple securities firms in April 2015.

Securities Brokerage

We trade various securities on behalf of our customers, including the following:

- ***Stocks:*** stocks of companies listed on the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange;
- ***Funds:*** listed funds, including open-ended funds, close-ended funds and ETFs; and
- ***Bonds:*** bonds that are listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, including treasury bonds, enterprise bonds, corporate bonds, financial bonds and convertible bonds.

The following table sets forth a breakdown of the trading volume and market share of our securities brokerage business by product type in China for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2013		2014		2015		2015		2016	
	Trading volume	Market share	Trading volume	Market share	Trading volume	Market share	Trading volume	Market share	Trading volume	Market share
	(RMB in billions)	(%)	(RMB in billions)	(%)	(RMB in billions)	(%)	(RMB in billions)	(%)	(RMB in billions)	(%)
Stocks	4,037.2	4.3	6,447.3	4.3	21,449.0	4.2	12,116.1	4.3	4,882.0	3.8
Funds	93.5	3.2	167.4	1.8	600.8	2.5	364.0	2.3	97.1	3.4
Subtotal	**4,130.7**	**4.3**	**6,614.7**	**4.2**	**22,049.8**	**4.1**	**12,480.1**	**4.2**	**4,979.1**	**3.8**
Bonds	5,241.4	4.1	6,974.1	3.8	10,777.8	4.2	4,649.0	4.1	7,301.0	3.7
Total	**9,372.1**	**4.1**	**13,588.8**	**4.0**	**32,827.6**	**4.1**	**17,129.1**	**4.2**	**12,280.1**	**3.7**

Sources: The Shanghai Stock Exchange and the Shenzhen Stock Exchange

In 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, income from our securities brokerage business amounted to RMB3,893.7 million, RMB5,622.3 million, RMB16,128.9 million, RMB9,300.1 million and RMB3,465.7 million, respectively, representing 73.2%, 64.2%, 66.1%, 66.6% and 54.1% of the segment revenue and other income from our brokerage and wealth management business, respectively.

The following table sets forth a breakdown of our income from the securities brokerage business by type for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions)			(RMB in millions)	
Fee and commission income from securities brokerage business[(1)]	3,076.8	4,623.8	13,633.6	8,157.4	2,621.3
Interest income from customer deposits	519.1	639.5	1,640.8	702.5	579.2
Trading seat leasing income	297.8	359.0	854.5	440.2	265.2
Total	**3,893.7**	**5,622.3**	**16,128.9**	**9,300.1**	**3,465.7**

(1) Including fee and commission income from margin accounts

In 2015, our brokerage trading volume accounted for approximately 7.9% of the total trading volume on the Shanghai-Hong Kong Stock Connect, ranking the second among all PRC securities firms. As of June 30, 2016, we had 187,978 accounts that were eligible for trading on the Shanghai-Hong Kong Stock Connect, among which 109,644 customers had set up accounts to trade on the Shanghai-Hong Kong Stock Connect and 23,154 customers had executed trades. We received the award of “Top Shanghai Connect Participation Award” from Hong Kong Exchanges and Clearing Limited in November 2015.

Futures brokerage

We provide futures brokerage services in PRC through our wholly-owned subsidiary, China Merchants Futures. China Merchants Futures is a member of the Shanghai Futures Exchange, the Dalian Commodity Exchange, the Zhengzhou Commodity Exchange and the China Financial Futures Exchange, and it is a qualified trading agent for all types of futures in the futures market of China.

The following table sets forth a breakdown of the trading volume of our futures brokerage business by product type in China for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	(RMB in billions)			(RMB in billions)	
Commodity futures	**1,744.3**	**2,084.9**	**1,682.2**	**706.8**	**2,044.3**
Financial futures	**5,181.8**	**9,213.8**	**25,378.2**	**20,556.1**	**343.0**
– Index futures	5,171.7	9,165.4	24,915.4	20,258.0	241.8
– Treasury bond futures	10.1	48.4	462.8	298.1	101.2
Total	**6,926.1**	**11,298.7**	**27,060.4**	**21,262.9**	**2,387.3**

In five consecutive years from 2010 to 2014, China Merchants Futures won “Excellent Member Gold Award of China Financial Futures Exchange” (中國金融期貨交易所優秀會員金獎) and received the title of “Best Futures Firm with Outstanding Growth Potential in China” (中國最具成長性期貨公司) jointly awarded by the *Securities Times (「證券時報」)* and the *Futures Daily (「期貨日報」)*.

As of June 30, 2016, China Merchants Futures had four futures branches, located in Beijing, Guangzhou, Shanghai and Hangzhou, serving 50,280 customers. We are also qualified to introduce customers to participate in futures trading with China Merchants Futures while providing other relevant services. As of June 30, 2016, 122 of our securities branches were authorized to introduce such business. In addition, we also provide futures brokerage services in Hong Kong through China Merchants Futures (HK).

In 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, income from our futures brokerage business amounted to RMB205.5 million, RMB225.3 million, RMB446.5 million, RMB234.0 million and RMB257.8 million, respectively, representing 3.9%, 2.6%, 1.8%, 1.7% and 4.0% of the segment revenue and other income from our brokerage and wealth management business, respectively.

Capital-based intermediary services

Our capital-based intermediary services mainly comprise margin financing and securities lending, securities-backed lending and stock repurchases businesses. In 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, income from our capital-based intermediary services amounted to RMB1,169.3 million, RMB2,795.7 million, RMB7,364.5 million, RMB4,240.8 million and RMB2,435.0 million, respectively, representing 22.0%, 31.9%, 30.2%, 30.4% and 38.0% of the segment revenue and other income from our brokerage and wealth management business, respectively.

Our income from the capital-based intermediary services consists only of the interest income generated from such services and does not include interest income from customer deposits or fee and commission income from our customers' margin accounts. If we include the fee and commission income from our customers' margin accounts in China into the income from our capital-based intermediary services, the sums amounted to RMB1,689.4 million, RMB4,049.6 million, RMB12,018.5 million, RMB7,093.1 million and RMB3,191.4 million in 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, respectively.

Margin financing and securities lending

Our margin financing and securities lending business refers to offering loans or lending securities with collateral held to qualified brokerage customers for financing their securities purchases or short-selling.

Margin financing and securities lending business is the core component of our capital-based intermediary services, which are capital-intensive and involve credit risk. See "Risk Factors—Risks Relating to Our Business and Industry—We may suffer significant losses from our credit exposures in our capital-based intermediary services, futures brokerage business and OTC transactions."

During the Track Record Period, our margin financing and securities lending business experienced rapid growth and became an important source of revenue and profit. Total income from our margin financing and securities lending business primarily comprises the following:

- interest income from margin loans and securities lent to our customers; and
- fee and commission income from our customers' margin accounts.

In 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, total income from our margin financing and securities lending business in China amounted to RMB1,565.7 million, RMB3,769.0 million, RMB11,239.2 million, RMB6,698.2 million and RMB2,715.7 million, respectively.

The following table sets forth a summary of key operating and financial information of our margin financing and securities lending business in China as of the dates or for the periods indicated:

	As of or for the year ended December 31,			As of or for the six months ended June 30,	
	2013	2014	2015	2015	2016
Number of margin accounts	60,468	132,267	184,200	177,246	188,951
Balance of margin loans and securities lent *(RMB in millions)*	19,760.5	57,851.1	62,868.2	112,837.0	45,777.5
—balance of margin loans *(RMB in millions)*	19,459.1	56,850.7	62,750.3	112,177.5	45,526.1
—balance of securities lent *(RMB in millions)*	301.4	1,000.4	117.9	659.5	251.4
Market share of the balance of margin loans and securities lent *(%)*	5.7%	5.6%	5.4%	5.5%	5.4%
Maintenance margin ratio *(%)*	260.9%	259.0%	314.0%	279.5%	313.2%
Trading volume of margin accounts *(RMB in millions)*	717,422.0	1,872,446.7	6,932,045.9	4,182,916.7	1,248,438.6
Interest income from margin accounts *(RMB in millions)*	1,045.6	2,515.1	6,585.2	3,845.9	1,959.3
Fee and commission income from margin accounts *(RMB in millions)*	520.1	1,253.9	4,654.0	2,852.3	756.4
Total income from margin financing and securities lending *(RMB in millions)*	1,565.7	3,769.0	11,239.2	6,698.2	2,715.7

As of June 30, 2016, we offered margin financing and securities lending business at 185 of our 200 securities branches in China for 897 stocks and 25 ETFs that were eligible for margin financing and securities lending in China. We enter into service agreements with margin financing or securities lending customers, which contain certain important terms such as maturity date, interest rate, rights and obligations of contractual parties, and details about the risk management matters in the course of trading activities. Our margin loan and securities lending interest rates are higher than the benchmark interest rate of PBOC for the same period, and subject to ad hoc adjustment according to market conditions. During the Track Record Period, we charged a margin loan interest rate ranging from 8.35% to 8.60% per year, and a securities lending interest rate ranging from 10.35% to 10.60% per year.

As of December 31, 2013, 2014 and 2015 and June 30, 2016, our balance of margin loans and securities lent in China amounted to RMB19,760.5 million, RMB57,851.1 million, RMB62,868.2 million and RMB45,777.5 million, respectively. According to Wind Info, we ranked seventh among all PRC securities firms as of June 30, 2016 in terms of balance of margin loans and securities lent. Meanwhile, the number of our customers' margin accounts in China grew from 60,468 as of December 31, 2013 to 184,200 as of December 31, 2015, and further increased to 188,951 as of June 30, 2016.

We require our margin financing and securities lending customers to provide collaterals in the form of securities listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange. Different conversion rates apply in calculating the value of the collaterals. In addition, we monitor the conversion rates applied to each collateral on a real-time basis and make adjustments based on various factors, such as market trends and fluctuations, collateral concentration and liquidity, in order to manage our credit risk. The following table sets forth the maximum collateral conversion rates by type of securities applicable in our margin financing and securities lending business as of June 30, 2016:

Type of securities	Maximum collateral conversion rate
Treasury bonds	95%
ETFs	90%
Non-ETF listed securities investment funds and non-MOF bonds	80%
SSE 180 Index and SZSE 100 Index constituent stocks	70%
Non-ST stocks (excluding SSE 180 Index and SZSE 100 Index constituent stocks)	65%
ST stocks	0%

We determine the credit limit of our customers based on various factors, including but not limited to the total value of assets in their accounts with us and their creditworthiness. We have also established a risk-management warning mechanism for our margin financing and securities lending business. We monitor the value of our customers' collaterals and the maintenance margin ratio on a real-time basis. If the maintenance margin ratio is below 150% and above 130%, we will send alerts to customers and stop providing additional margin loans or securities to them. If the maintenance margin ratio is below 130%, we will issue a warning to such customers requiring them to increase their maintenance margin ratio to 140% or higher within one trading day. We will carry out forced liquidation of pledged securities of their margin accounts or demand full repayment if they fail to increase their maintenance margin ratio on time. See "—Risk Management and Internal Control Measures in our Major Business Lines—Brokerage and Wealth Management Business—Margin Financing and Securities Lending Business." As of December 31, 2013, 2014 and 2015 and June 30, 2016, the maintenance margin ratio for our margin financing and securities lending business in China was 260.9%, 259.0%, 314.0% and 313.2%, respectively.

As of December 31, 2013, 2014 and 2015 and June 30, 2016, our Company's accounts receivable from margin clients amounted to RMB2.3 million, RMB2.2 million, RMB5.6 million and RMB4.8 million, which represented the unpaid balance of our margin loans or securities lent after liquidating our customers' margin accounts in China. As of June 30, 2016, we provisioned for impairment losses of RMB103.7 million for our margin loans receivable as the margin account of a customer had been frozen by court decision. On July 1, 2015, the CSRC announced the "Management Measures on Margin Financing and Securities Lending of Securities Companies (《證券公司融資融券業務管理辦法》)," which allow securities firms to enter into agreements with their customers with customized terms and proportion of supplementary collaterals. In addition, forced liquidation is no longer the only practice available to securities firms to dispose of defaulting customers' collaterals, which increased the flexibility of risk control.

We also provide margin financing and securities lending business in Hong Kong. Our interest income from margin financing and securities lending business in Hong Kong was RMB46.4 million, RMB51.9 million, RMB119.1 million, RMB63.2 million and RMB35.4 million in 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, respectively. See "—Overseas Business."

Securities-backed lending and stock repurchases

In our securities-backed lending services, eligible customers pledge their securities to us and we provide financing to and charge interest from our clients. With reference to the market prevailing interest rates and taking into account of our cost of funding and the risk profiles of customers, we charge different interest rates for different customers. Since its commencement in 2013, our securities-backed lending business has been growing rapidly. As of December 31, 2013, 2014 and 2015 and June 30, 2016, the balance of our securities-backed lending business were RMB2,392.0 million, RMB6,799.6 million, RMB10,163.9 million and RMB10,942.1 million, respectively.

The following table sets forth a summary of key operating and financial information of our securities-backed lending and stock repurchases business in China as of the dates or for the periods indicated:

	As of or for the year ended December 31,			As of or for the six months ended June 30,	
	2013	2014	2015	2015	2016
Income from securities-backed lending and stock repurchase *(RMB in millions)*	77.3	228.8	660.2	331.8	430.3
Balance of securities-backed lending and stock repurchase *(RMB in millions)*	2,700.5	6,801.8	10,163.9	8,968.9	10,942.1
—balance of securities-backed lending *(RMB in millions)*	2,392.0	6,799.6	10,163.9	8,968.9	10,942.1
—balance of stock repurchase *(RMB in millions)*	308.5	2.2	—	—	—
Collaterals for securities-backed lending and stock repurchase *(RMB in millions)*	8,049.1	19,209.6	38,870.0	40,080.2	34,909.0
Collateral coverage ratio of securities-backed lending and stock repurchase *(%)*	298.1%	282.4%	382.4%	446.9%	319.0%

In our stock repurchase services, we purchase securities from a customer pursuant to a repurchase agreement under which the customer should buy back the securities at predetermined prices within a specified period of time. We retain ownership of the securities purchased before the customer's repurchase occurs. As of December 31, 2013, 2014 and 2015 and June 30, 2016, the balance of our stock repurchase business were RMB308.5 million, RMB2.2 million, RMB0 and RMB0, respectively. All of the securities we held under stock repurchase agreements had been purchased back by our customers as of December 31, 2015.

Our securities-backed lending and stock repurchase services help our customers obtain liquidity without selling their securities and create opportunities to mobilize their idle assets. We generally set our interest rates based on the market conditions.

In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, our income from securities-backed lending and stock repurchase services amounted to RMB77.3 million, RMB228.8 million, RMB660.2 million, RMB331.8 million and RMB430.3 million, respectively, representing 6.6%, 8.2%, 9.0%, 7.8% and 17.7% of the income from our capital-based intermediary services, respectively.

We require our securities-backed lending and stock repurchase customers to provide collaterals of sufficient value. If the collateral coverage ratio is lower than the warning level but no less than the minimum threshold, we will issue a warning to customers. The warning level and the minimum threshold are individually determined based on the risk profiles of the customers and their respective collaterals. If the collateral coverage ratio is lower than the minimum threshold, we will issue a notice to customers with a request to increase the collateral coverage ratio, provide additional collateral or third-party guarantees, or buy back the pledged securities within a specified time period. If the customers fail to meet the required collateral coverage ratio on time, we will carry out disposal measures including forced liquidation of the pledged securities. See "—Risk Management and Internal Control Measures in Our Major Business Lines—Brokerage and Wealth Management Business—Securities-backed Lending Business." We make provision for impairment losses based on the individual risk profiles of customers even if sufficient value of collaterals is maintained. As of June 30, 2016, we identified three customers presenting increased credit risk due to default, declining business performance or industry downturn and we made a provision for impairment losses of RMB55.5 million for our financial assets held under resale agreements, mainly representing our securities-backed lending business. As of June 30, 2016, the collateral coverage ratio of our securities-backed lending was 319.0%.

As of December 31, 2013, 2014 and 2015 and June 30, 2016, collaterals for our securities-backed lending and stock repurchases comprised stocks, bonds and funds traded on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, which totaled RMB8,049.1 million, RMB19,209.6 million, RMB38,870.0 million and RMB34,909.0 million, respectively.

Sources of Funding and Securities

The sources of funding and securities for our capital-based intermediary services mainly include:

- our operating cash and equity securities. Our operating cash is mainly allocated by our headquarters directly, while equity securities are mainly from the securities we hold for our investment and trading business;
- proceeds from the issuance of corporate bonds, subordinated bonds and structured notes. See "Financial Information—Indebtedness;"
- proceeds from the issuance of asset management schemes, such as "Zhi Ya Bao" (質押寶). See "—Investment Management—Asset Management;"
- margin loans receivable-backed financing. We enter into contracts to sell our margin loans receivable to a counterparty for financing and agree to repurchase such receivable assets at an agreed future date; and
- margin and securities refinancing. We were one of the first PRC securities firms to qualify for the pilot margin refinancing and securities refinancing businesses in August 2012. We can borrow funds or securities from China Securities Finance and then lend to our margin financing and securities lending customers.

Wealth Management

We provide diversified wealth management services to customers based on their asset size and investment needs. Our services mainly include sales of financial products, investment advisory, account analysis, investment portfolio advisory, market research and asset allocation.

We have been enhancing our ability to provide comprehensive wealth management services for different groups of customers in order to capture their increasing demand for customized wealth management services. We believe that our wealth management business is crucial to growing our securities brokerage and the capital-based intermediary services and to improving the service coverage and the loyalty of our customers, particularly affluent and high-net-worth customers.

Customer Classification

We classify our brokerage and wealth management customers into the following three groups by account balance:

- *Retail customers:* customers with an account balance of less than RMB500,000;
- *Affluent customers:* customers with an account balance of at least RMB500,000, but less than RMB8.0 million; and
- *High-net-worth customers:* customers with an account balance of RMB8.0 million or more.

The table below sets forth the number of our brokerage and wealth management customers in China and their account balance with us (excluding the balance of restricted shares held by our customers) as of the indicated dates:

	As of December 31,												As of June 30,			
	2013				2014				2015				2016			
	Number of customers (thousand)	% of total number of customers	Assets of customers (RMB million)	% of total assets of customers	Number of customers (thousand)	% of total number of customers	Assets of customers (RMB million)	% of total assets of customers	Number of customers (thousand)	% of total number of customers	Assets of customers (RMB million)	% of total assets of customers	Number of customers (thousand)	% of total number of customers	Assets of customers (RMB million)	% of total assets of customers
Retail customers	3,887.1	97.3%	84,854.4	11.1%	4,102.4	96.0%	104,870.2	8.8%	5,403.7	95.9%	143,828.6	8.8%	6,247.7	96.8%	138,023.2	9.8%
Affluent customers	104.2	2.6%	150,077.0	19.6%	163.9	3.8%	249,360.2	20.9%	222.6	3.9%	339,706.2	20.7%	196.5	3.0%	292,438.7	20.8%
High-net-worth customers	4.4	0.1%	530,509.9	69.3%	8.1	0.2%	837,543.4	70.3%	11.5	0.2%	1,154,196.2	70.5%	9.9	0.2%	978,862.7	69.4%
Total	**3,995.7**	**100.0%**	**765,441.3**	**100.0%**	**4,274.4**	**100.0%**	**1,191,773.8**	**100.0%**	**5,637.8**	**100.0%**	**1,637,731.0**	**100.0%**	**6,454.1**	**100%**	**1,409,324.6**	**100%**

As of June 30, 2016, our brokerage and wealth management business in China had approximately 6.5 million customers, among which approximately 2.0 million customers were active customers whose securities account balance or related margin account balance is no less than the required amount or who are active investors with trading activities in the last 12 months. We provide varying value-added services to the three groups of customers:

- For retail customers, we offer basic trading, market information and basic wealth management plans.
- For affluent customers, we designate wealth management advisors and offer a wider range of wealth management plans.
- For high-net-worth customers, in addition to the foregoing, we provide a full range of wealth management plans and customized services through designated wealth management advisors at our regional wealth management centers and securities branches.

In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, income from our affluent and high-net-worth customers (including fee and commission income and interest income) amounted to RMB1,995.4 million, RMB4,577.1 million, RMB12,586.2 million, RMB7,724.5 million and RMB3,308.2 million, respectively, representing 37.5%, 52.3%, 51.6%, 55.3% and 51.6% of the segment revenue and other income from our brokerage and wealth management business, respectively.

Our wealth management advisory team is responsible for providing comprehensive wealth management services for customers with an account balance of RMB100,000 or more. As of June 30, 2016, the total assets of customers served by our wealth management advisory team accounted for approximately 78.3% of the total assets of all our brokerage and wealth management customers. Our wealth management advisors provide customized wealth management services to customers based on their background, account status, risk tolerance level, investment experience, personal needs and other characteristics.

In 2014, we began establishing regional wealth management centers in certain areas based on the economic condition, market competition and strategic location of our existing branches. As of June 30, 2016, we established three regional wealth management centers in Shenzhen, Beijing and Shanghai to provide wealth management services for high-net-worth customers.

We launched the “Zhiyuan Wealth Management Plans” for brokerage customers in 2010, which includes five wealth management plans with five different commission rate brackets. As of June 30, 2016, our “Zhiyuan Wealth Management Plans” served approximately 2.1 million customers, with a total amount of customers’ assets of RMB260.1 billion. In 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, the fee and commission income (excluding fee and commission income from margin accounts) we received from the “Zhiyuan Wealth Management Plans” amounted to RMB494.3 million, RMB639.1 million, RMB2,352.2 million, RMB951.5 million and RMB807.6 million, respectively. During the same periods, the brokerage trading volume of customers using our “Zhiyuan Wealth Management Plans” (excluding trading volume of margin accounts) amounted to RMB359.2 billion, RMB489.5 billion, RMB1,910.7 billion, RMB708.1 billion and RMB702.8 billion, respectively; the average brokerage commission rate for our “Zhiyuan Wealth Management Plans” customers was approximately 13.8bps, 13.1bps, 12.3bps, 13.4bps and 11.5bps, respectively, being approximately two times our overall average brokerage commission rate of 7.7bps, 7.1bps, 6.4bps, 6.6bps and 5.3bps, respectively.

Sales of Financial Products

We distribute financial products developed by third parties, including mutual funds, private investment funds, trust schemes, wealth management products of commercial banks and insurance policies. In December 2012, we were one of the first PRC securities firms to qualify for distribution of third-party financial products, including private investment funds. We offer over 2,540 third-party financial products. We also sell financial products developed by us, primarily collective asset management schemes. Our customers can purchase financial products through our securities branches and our online platform.

In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, income from our sales of financial products was RMB21.5 million, RMB46.1 million, RMB164.1 million, RMB95.2 million and RMB43.0 million, respectively.

The following table sets forth a breakdown of our sales of financial products by type for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	(RMB in millions)			(RMB in millions)	
Products developed by third parties					
Mutual funds	24,356.4	38,977.9	77,631.1	33,278.6	15,549.7
Private investment funds	662.3	1,245.7	5,134.8	4,631.5	1,150.0
Others[(1)]	818.3	566.2	0.5	0.3	—
Subtotal	**25,837.0**	**40,789.8**	**82,766.4**	**37,910.4**	**16,699.7**
Asset management products developed by us[(2)]	9,756.4	9,333.9	19,599.8	9,361.2	14,666.8
Total	**35,593.4**	**50,123.7**	**102,366.2**	**47,271.6**	**31,366.5**

(1) Mainly includes wealth management products of commercial banks, insurance policies and trust schemes. We have discontinued the distribution of wealth management products of commercial banks since 2015.

(2) Excluding the amount of "Daily Profit" (天添利), our money-market product which is under the assets management segment.

For details on asset management products developed by us, see "—Investment Management—Asset Management."

We have set up a product committee to manage and monitor our product portfolio and evaluate the risk exposure associated with the products distributed by us. We conduct detailed analysis of third-party financial products, particularly risk evaluation, and categorize them in five risk levels. We also categorize the risk tolerance of our customers in five levels, and recommend and sell products to customers with risks that are equivalent to, or below, the customer's risk tolerance level. We strictly follow relevant PRC laws and regulations as well as our internal policies in relation to the sale of third-party financial products. See "—Risk Management and Internal Control Measures in our Major Business Lines—Brokerage and Wealth Management Business."

Business Network, Marketing and Services

We serve customers through our nationwide branch network, online platform and customer service personnel.

Branch Network

During the Track Record Period, we rapidly expanded the geographic reach of our branch network pursuant to our business needs. The number of our securities branches in China increased from 100 as of December 31, 2013 to 162 as of December 31, 2014 and further increased to 200 as of June 30, 2016. Our securities branches were located in 99 cities situated in 28 provinces of China as of June 30, 2016. Our securities branches are mainly located in well-developed and affluent regions covering the Pearl River Delta, the Yangtze River Delta and the Bohai Rim. As of June 30, 2016, our securities branches in such regions represented approximately 63.0% of our total securities branches.

We will continue our strategic expansion of our branch network. Apart from opening more securities branches in Beijing, Shanghai and Shenzhen, we will focus on entering those second and third-tier cities in China that have economic growth potential but less competition. In 2015, we established 38 securities branches. Most of these securities branches were 'light branches,' which generally occupy less space, require fewer employees, have no trading counters and facilities, and function as outlets for customer services and cross-selling. The establishment and operating costs of our light branches are relatively low and averaged RMB2.1 million per year from 2013 to 2015, compared to the costs of other branches, which averaged RMB4.4 million per year during the same period, thereby allowing us to optimize our branch network cost-effectively.

The map below illustrates the distribution of our securities branches in China as of June 30, 2016:

Since 2014, we have been active in enhancing the functionality of our securities branches in marketing and services. We have redefined the functions of our securities branches and transformed them from traditional brokerage service counters to full-service outlets, with a focus on serving affluent and high-net-worth customers. We sustain this approach by aggregating our business resources to satisfy local customers' needs, by attracting new customers for all business lines and by leveraging local resources. We believe that the establishment of comprehensive full-service outlets will enable us to attract more local customers and cross-sell other products and services.

Online platform

We have established an online platform through mobile apps and PC programs as well as through our websites. Our online platform offers a variety of services, such as account opening, transaction execution, portfolio overview, sales of financial products, account management and product and market information. We were one of the first PRC securities firms to launch a mobile app, in 2006. As of June 30, 2016, the accumulated number of downloads of our mobile apps was over 10.5 million.

In March 2013, we became one of the first PRC securities firms to offer an online account opening service. Currently, our potential customers can open accounts online 24/7. This service has reduced our operating costs and improved customer experience. Additionally, the CSRC approved our pilot account opening service through WeChat in April 2015.

Our online platform has become an important channel for account opening and transaction execution for our brokerage and wealth management business. During the Track Record Period, over 2.6 million, or 85.0%, of our new brokerage accounts were opened through the online platform, including over 1.9 million accounts opened through mobile devices. In 2013, 2014 and 2015 and the six months ended June 30, 2016, 83.7%, 82.7%, 68.6% and 63.8%, respectively, of our brokerage orders were placed through personal computers and 13.7%, 15.2%, 29.6% and 33.2%, respectively, of our brokerage orders were placed through mobile devices.

Marketing and customer services

The table below sets forth the number of wealth management advisors, relationship managers, brokerage agents and full-service specialists of our securities branches in China as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
Wealth management advisor	662	697	767	805
Relationship manager	1,668	1,664	2,156	2,079
Brokerage agents[1]	2,218	1,958	3,402	3,413
Full-service specialist	49	109	174	185
Total	**4,597**	**4,428**	**6,499**	**6,482**

(1) The responsibilities of brokerage agents are restricted to customer development and they cannot conduct other activities, such as handling trade orders.

We have a strong wealth management advisory team. As of June 30, 2016, we had 805 wealth management advisors. On average, our advisors have six years of relevant working experience; 99.0% of them have obtained a bachelor's degree or above; and 69.9% of them are registered securities investment advisors.

Our relationship managers and brokerage agents are responsible for attracting new customers through marketing. In the six months ended June 30, 2016, our relationship managers and brokerage agents brought in 90.8% of our new customers. We enter into agency sales agreements with brokerage agents, and we consider them as our employees. Our brokerage agents possess relevant professional qualifications and experience.

In 2013, we established a full-service specialist team at our key securities branches to conduct localized marketing and promote client coverage. These specialists seek to develop customers with various financial needs and cross-sell other products and services, such as NEEQ listings, equity return swaps and direct investment.

Institutional client services

Our institutional client services include institutional sales and research, prime brokerage, securities trading, capital-based intermediary services, fund custody and outsourcing, as well as valued-added services.

We provide one-stop sales and trading, investment research and prime brokerage services for our institutional clients through our specialized institutional client business platform. We have a broad client base, consisting of mutual funds, private investment funds, insurance companies and other institutional clients. As of June 30, 2016, we had over 15,000 institutional clients, including 984 private investment funds (including hedge funds) and 101 mutual funds.

In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, income from institutional clients (consisting of fee and commission income from securities and futures brokerage, interest income, investment research income, trading seat leasing income, sales of financial products, income from fund custody and outsourcing) for our businesses in the PRC was RMB700.4 million, RMB1,070.6 million, RMB3,171.6 million, RMB1,476.5 million and RMB1,310.1 million respectively.

Institutional Sales and Research

We lease our trading seats to mutual funds and insurance companies for securities trading on stock exchanges and earn trading commissions. Our commission rate is typically between 5.0 bps and 10.0 bps of the trading volume.

As of December 31, 2013, 2014 and 2015 and June 30, 2016, we had 80, 97, 101 and 101 mutual fund clients, respectively. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, their stock trading volume conducted through our trading seats amounted to RMB263.4 billion, RMB324.9 billion, RMB798.1 billion, RMB358.7 billion and RMB226.4 billion, respectively, and their aggregate trading volume accounted for a market share of 4.6%, 4.9%, 5.4%, 4.7% and 4.9% during the same periods, respectively. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, our trading seat leasing income (mainly from mutual funds) was RMB297.8 million, RMB359.0 million, RMB854.5 million, RMB440.2 million and RMB265.2 million, respectively. According to Wind Info, in 2015 we ranked second in the PRC securities industry in terms of the trading seat leasing income from mutual funds.

As of June 30, 2016, we had 111 research analysts based in China, approximately 97% of whom held a master's degree or above. Our research team provides research reports and updates to our institutional clients regularly in order to assist them in identifying and evaluating investment opportunities. Our research team covers a wide range of research areas, including macro-economic analysis, investment strategies, research on industries and companies, fixed-income products and policy studies. As of June 30, 2016, our equity research team covered over 35 industries and over 840 listed companies in China. Meanwhile, as of June 30, 2016, listed companies covered by our research team accounted for 81.8% of the total market capitalization of CSI 300 Index constituent stocks, 71.2% of the total market capitalization of the companies listed on the SME Board, and 70.5% of the total market capitalization of the companies listed on the ChiNext Board.

Our research capabilities are well-recognized in the PRC securities industry. From 2003 to 2015, we were selected by *New Fortune (「新財富」)* as one of the best research teams in China for 13 consecutive years, ranking seventh, fifth and sixth in 2013, 2014 and 2015, respectively. For three consecutive years from 2011 to 2013, we were among the top five PRC securities firms in terms of our overall research capability to receive the "Golden Bull Analyst Award" (中國證券業金牛分析師獎) from the *China Securities Journal (「中國證券報」)*. We believe that our strong analysis and research capabilities and overall service capabilities have enabled us to attract a large number of institutional clients.

Prime Brokerage

We devoted substantial resources and became the first prime broker in the PRC securities industry in 2013 to provide one-stop financial services for institutional investors, including customized prime brokerage trading systems, fund custody and outsourcing, settlement, margin financing and securities lending as well as seed-money and research.

Our prime brokerage customers are mainly private investment funds, such as Shanghai Chongyang Investment Management Co., Ltd. (上海重陽投資管理股份有限公司), Springs Capital Ltd. (淡水泉投資有限公司) and Shenzhen Minsen Investment Co., Ltd. (深圳民森投資有限公司), which are Independent Third Parties. With the development of our prime brokerage trading platform in 2013, we have co-located IT facilities with the two stock exchanges and four futures exchanges in China. Our customized prime brokerage trading systems are among the fastest systems in the PRC securities industry, with the ability to process transactions at a millisecond level.

We are also the first PRC securities firm to provide integrated issuance solutions for private investment funds. For example, we assisted Shanghai Chongyang Investment Management Co., Ltd. (上海重陽投資管理股份有限公司) in establishing the first contractual private investment fund under the new PRC fund regulatory regime and registration system effective in March 2014, namely the "Chongyang A-share Alpha Hedge Fund (重陽A股阿爾法對沖基金)."

In recent years, the number and size of private investment funds in China have increased significantly. With our leading prime brokerage trading system, strong research capabilities and overall service capabilities, our prime brokerage business has maintained a leading position in the market.

Investment Advisory

We offer investment advisory services to our institutional clients, primarily including commercial banks, private investment funds, mutual funds, trust schemes and asset management schemes, as well as certain QFII clients. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, income from our investment advisory business was RMB24.8 million, RMB46.7 million, RMB53.5 million, RMB19.1 million and RMB39.8 million, respectively.

Securities Trading

In addition to providing trading seat leasing services to mutual funds and insurance companies, we also provide securities trading services to other institutional clients. The stocks and funds trading volume of such clients was RMB268.9 billion, RMB355.8 billion, RMB1,481.6 billion, RMB701.4 billion and RMB445.9 billion in 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, respectively.

Capital-based Intermediary Services

Capital-based intermediary services are an important source of revenue and profit for our institutional client services. As of December 31, 2013, 2014 and 2015 and June 30, 2016, the number of our institutional clients with margin accounts was 151, 244, 476 and 635, respectively, and the balance of margin loans and securities lent to our institutional clients was RMB1,534.6 million, RMB4,760.4 million, RMB4,971.3 million and RMB3,103.0 million, respectively. We also provide securities-backed lending and stock repurchase services to our institutional clients. See "—Brokerage and Wealth Management—Capital-based intermediary services."

Fund custody and outsourcing

We became the first PRC securities firm to obtain a private investment fund custody qualification in October 2012, and one of the first securities firms to obtain a securities investment fund custody qualification in China in January 2014. We provide asset custody, clearing and settlement, and fund compliance monitoring in our fund custody services. Our fund outsourcing services mainly include drafting of fund contracts, registration of fund units, settlement and asset valuation services. As of June 30, 2016, according to the Asset Management Association of China, we ranked first in the PRC securities industry in terms of the number of registered private investment funds under custody, with a market share of approximately 29.3%. As of December 31, 2013, 2014 and 2015 and June 30, 2016, the aggregate financial assets under our fund custody amounted to RMB3.4 billion, RMB54.9 billion, RMB332.7 billion and RMB449.3 billion, from 23 funds, 469 funds, 2,760 funds and 3,959 funds, respectively; the aggregate financial assets using our outsourcing services amounted to RMB1.3 billion, RMB38.2 billion, RMB292.1 billion and RMB396.1 billion from eight funds, 390 funds, 2,474 funds and 3,631 funds, respectively. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, our income from fund custody and outsourcing was RMB1.1 million, RMB15.7 million, RMB246.8 million, RMB81.7 million and RMB163.9 million, respectively.

Value-added Services

We offer seed money, capital introduction and other value-added services to our institutional clients. We provide seed-money service to start-up private investment funds, and assist them in product development and sales and marketing. Meanwhile, we introduce sources of funding to our clients in order to support the growth of their funds.

Investment Banking

Our investment banking business serves as a gateway to our corporate clients and a key driver of growth for our full-service business platform. We provide one-stop investment banking solutions to our corporate clients, including equity underwriting and sponsorship, debt underwriting, financial advisory and OTC investment banking, in China and overseas. We are committed to providing investment banking services for corporate clients and to satisfy their various needs for financing, investment and M&As throughout their entire life cycles.

In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, segment revenue and other income from our investment banking business amounted to RMB541.0 million, RMB1,613.4 million, RMB2,843.8 million, RMB991.4 million and RMB1,124.4 million, respectively, representing 7.0%, 11.7%, 8.1%, 4.8% and 12.9% of our total revenue and other income, respectively. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, income from underwriting and sponsorship contributed 77.7%, 88.7%, 85.2%, 89.7% and 85.5% of the segment revenue and other income of our investment banking businesses, respectively; income from financial advisory contributed 20.8%, 8.0%, 9.3%, 6.3% and 4.8% of the segment revenue and other income, respectively; and income from OTC investment banking contributed 1.6%, 3.3%, 5.5%, 4.0% and 9.6% of the segment revenue and other income, respectively.

In recent years, we have received the following major awards in recognition of our investment banking business:

Year	Award/Recognition	Organization/Media
2016	Best Domestic Investment Bank (本土最佳投行)	New Fortune (新財富)
	Best Domestic Equity Underwriting Investment Bank (本土最佳股權承銷投行)	New Fortune (新財富)
	Best Domestic Debt Underwriting Investment Bank (本土最佳債券承銷投行)	New Fortune (新財富)
	Best Asset Securitization Investment Bank (資產證券化最佳投行)	New Fortune (新財富)
	Best Domestic M&A Investment Bank (本土最佳併購投行)	New Fortune (新財富)
	Best Full-Service Investment Bank in China (中國區最佳全能投行)	Securities Times (證券時報)
2015	Best Domestic Investment Bank (本土最佳投行)	New Fortune (新財富)
	Best Investment Bank for Overseas Markets (海外市場能力最佳投行)	New Fortune (新財富)
2014	Best Full-Service Investment Bank in China (中國區最佳全能投行)	Securities Times (證券時報)
	Most Innovative Investment Bank in China (中國區最具創新能力投行)	Securities Times (證券時報)
2013	Best Domestic Investment Bank in China (中國本土最佳投行)	New Fortune (新財富)
	Best Investment Bank in Small and Medium-sized Deals (中小項目能力最佳投行)	New Fortune (新財富)

With our competitive cross-border business platform and effective internal coordination mechanisms and systems, our PRC and overseas operations refer customers to each other, enhancing the growth of both our PRC and overseas investment banking business. For example, CMSHK sponsored Shengjing Bank for its H-share listing on the Hong Kong Stock Exchange in December 2014. In August 2015, we acted as the lead underwriter for Shengjing Bank's RMB5.9 billion of ABS issuance. In November 2015, we submitted the application for Shengjing Bank's A-share IPO to the CSRC as the sole sponsor and lead underwriter. We also assisted Shengjing Bank in issuing up to RMB7.0 billion of bonds in the PRC.

Underwriting and Sponsorship

Our underwriting and sponsorship businesses include equity underwriting and sponsorship as well as debt underwriting.

Equity Underwriting and Sponsorship

We provide equity underwriting and sponsorship services, including IPOs and follow-on offerings (including convertible bonds) for corporate clients. Our total amount of equity securities underwritten as a lead underwriter in 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016 was RMB5.6 billion, RMB19.2 billion, RMB47.8 billion, RMB18.2 billion and RMB16.1 billion, respectively. According to Wind Info, in 2015 we ranked fifth among all PRC securities firms in terms of the amount of equity securities underwritten as a lead underwriter.

The following table sets forth a breakdown by type of equity underwriting transactions in which we acted as a lead underwriter for the periods indicated:

		Year ended December 31,			Six months ended June 30,	
		2013	2014	2015	2015	2016
IPOs	Number of issuances	—	12	13	9	4
	Amount underwritten *(RMB in millions)*	—	8,224.2	4,968.0	4,151.0	2,183.8
	Underwriting and sponsorship fees *(RMB in millions)*	—	456.4	376.7	299.2	107.1
	Average fee rate	—	5.55%	7.58%	7.21%	4.93%
Follow-on offerings (including convertible bonds)	Number of issuances	9	8	29	12	3
	Amount underwritten *(RMB in millions)*	5,634.3	11,018.2	42,820.8	14,053.5	13,954.5
	Underwriting and sponsorship fees *(RMB in millions)*	116.9	166.6	398.6	175.6	62.1
	Average fee rate	2.07%	1.51%	0.93%	1.25%	0.45%

We have outstanding capabilities in IPO underwriting and sponsoring. According to Wind Info, from 2009 to June 30, 2016, we ranked fourth among all PRC securities firms in terms of the aggregate number of A-share IPOs underwritten. According to the CSRC, as of June 30, 2016, we secured 44 A-share IPOs applications pending the CSRC approval, ranking sixth among PRC securities firms. Since the establishment of the SME Board on May 17, 2004 to June 30, 2016, we had sponsored and were the lead underwriter for the listings of 52 companies, ranking fourth among all PRC securities firms. Since the establishment of the ChiNext Board on October 23, 2009 to June 30, 2016, we sponsored and were the lead underwriter for the listings of 25 companies, ranking fourth among all PRC securities firms. As of August 3, 2016, we had 103 sponsor representatives, ranking sixth among all PRC securities firms, and another 42 candidates applying for the sponsor representative qualification.

We are also committed to exploring follow-on offering opportunities to improve the revenue mix of our equity underwriting and sponsorship business. The total amount of follow-on offerings underwritten by us (including convertible bonds) increased from RMB5,634.3 million in 2013 to RMB11,018.2 million in 2014, and further increased to RMB42,820.8 million in 2015. In the six months ended June 30, 2016, the total amount was RMB13,954.5 million, compared to RMB14,053.5 million in the same period in 2015.

We are committed to capturing the valuable opportunities arising from the ongoing economic transformation of China. We serve a wide range of clients in our equity underwriting and sponsorship business. We focus on SMEs because they have higher growth potential with substantially underserved funding needs. At the same time, we endeavor to serve blue-chip enterprises with our well-established market position and plans for strategic expansion. Some of our blue-chip corporate clients include Agricultural Bank of China Limited (中國農業銀行股份有限公司), China Southern Airlines Company Limited (中國南方航空股份有限公司), China Vanke Co., Ltd. (萬科企業股份有限公司), GD Power Development Co., Ltd. (國電電力發展股份有限公司), Datang International Power Generation Co., Ltd.

(大唐國際發電股份有限公司), Fuyao Glass Industry Group Co., Ltd. (福耀玻璃工業集團股份有限公司) and Gree Electric Appliances, Inc. of Zhuhai (珠海格力電器股份有限公司), all of which are Independent Third Parties.

In an effort to serve our clients' needs in targeted industries, we focus on improving our expertise in serving the following six major industries: TMT, healthcare and medical, financial services, infrastructure and real estate, agricultural, food and beverage as well as energy and transportation.

The following table sets out certain landmark equity underwriting transactions in which we acted as a lead underwriter during the Track Record Period:

Year	Type	Issuer	Offering size *(RMB in millions)*	Highlights
2016	Private Placement	Suning Commerce Group Co., Ltd. (蘇寧雲商集團股份有限公司)	29,232.5	The largest private placement in the A-share market in the first half of 2016
2015	Private Placement	Everbright Securities Company Limited (光大證券股份有限公司)	8,000.0	The largest private placement in the A-share market in 2015
2015	Private Placement	Lead Eastern Investment Company Limited (當代東方投資股份有限公司)	1,998.0	Landmark follow-on offering in the film and television industry
2014	IPO	Beijing Tensyn Innovation Internet Marketing Technology Company Limited (北京騰信創新網絡營銷技術股份有限公司)	417.6	First Internet marketing company listed in the A-share market
2014	Convertible Bonds	China Molybdenum Co., Ltd. (洛陽欒川鉬業集團股份有限公司)	4,900.0	First convertible bond offering by a listed company in Henan province
2013	Private Placement	Shenzhen Danbang Technology Holdings Limited Company (深圳丹邦科技股份有限公司)	600.0	Underwritten by us in October 2013 despite unfavorable A-share market conditions, reflecting our strong sales capabilities

Debt Underwriting

We have a fully licensed debt underwriting business which is capable of underwriting enterprise bonds, corporate bonds, financial bonds, debt financing instruments of non-financial enterprises and ABS. We are also a member of the underwriting syndicate for treasury bonds issued by the MOF and financial bonds issued by three policy banks in China.

Our debt underwriting business achieved rapid growth in recent years. From 2013 to June 30, 2016, we acted as the lead underwriter for 450 debt offerings, raising an aggregate of RMB471.0 billion for our clients. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, we acted as the lead underwriter for debt offerings of RMB28.2 billion, RMB59.0 billion, RMB225.8 billion, RMB37.6 billion and RMB157.9 billion, respectively. The number of debt securities underwritten by us as a lead underwriter increased from 17 in 2013 to 236 in 2015 and increased from 59 in the six months ended June 30, 2015 to 123 in the same period in 2016. According to Wind Info, in 2013, 2014 and 2015, we ranked seventh, eighth and third, respectively, in terms of the amount of debt securities underwritten by us as a lead underwriter (including the debt securities issued by us) in the PRC securities industry.

We underwrite a wide variety of debt securities and enjoy competitive advantages in the following product areas:

- we ranked fourth among PRC securities firms in terms of the amount of corporate bonds underwritten as a lead underwriter in 2015;
- we were licensed to underwrite debt financing instruments of non-financial enterprises in the PRC interbank market in 2013, and we ranked third and second in terms of the amount underwritten as a lead underwriter in 2014 and 2015, respectively;
- we ranked fifth, 11th and seventh in terms of the amount of financial bonds underwritten as a lead underwriter in 2013, 2014 and 2015, respectively; and
- we actively develop ABS underwriting business, and in 2013, 2014 and 2015, the total amount of ABS underwritten by us ranked third, fourth and first among PRC securities firms, respectively.

We charge underwriting fees for our debt underwriting transactions based on comparable market rates, offering size and market conditions.

The following table sets out the breakdown of debt underwriting transactions by type in which we acted as a lead underwriter for the periods indicated:

		Year ended December 31,			Six months ended June 30,	
		2013	2014	2015	2015	2016
Enterprise bonds	Number of issuances	6	5	13	1	—
	Amount underwritten *(RMB in billions)*	7.0	3.3	8.8	1.2	—
	Underwriting fees *(RMB in millions)*	25.5	16.4	27.8	—	—
	Average fee rate	0.36%	0.50%	0.32%	—	—
Corporate bonds	Number of issuances	5	3	38	4	55
	Amount underwritten *(RMB in billions)*	14.4	0.8	55.2	3.5	93.2
	Underwriting fees *(RMB in millions)*	36.4	4.9	426.3	26.0	365.0
	Average fee rate	0.25%	0.62%	0.77%	0.74%	0.39%
Debt financing instruments of non-financial enterprises(1)	Number of issuances	1	37	79	19	22
	Amount underwritten *(RMB in billions)*	0.2	24.8	82.6	16.5	17.7
	Underwriting fees *(RMB in millions)*	1.9	277.6	624.6	124.6	260.2
	Average fee rate	0.94%	1.12%	0.76%	0.75%	1.47%
ABS	Number of issuances	2	25	101	31	44
	Amount underwritten *(RMB in billions)*	3.7	21.5	77.9	15.6	39.1
	Underwriting fees *(RMB in millions)*	11.1	45.5	111.4	17.8	28.5
	Average fee rate	0.30%	0.21%	0.14%	0.12%	0.07%
Financial bonds	Number of issuances	1	3	4	3	2
	Amount underwritten *(RMB in billions)*	2.5	8.3	1.2	0.6	7.9
	Underwriting fees *(RMB in millions)*	6.8	7.6	5.0	2.0	8.9
	Average fee rate	0.27%	0.09%	0.42%	0.34%	0.11%
Others(2)	Number of issuances	2	1	1	1	—
	Amount underwritten *(RMB in billions)*	0.4	0.3	0.2	0.2	—
	Underwriting fees *(RMB in millions)*	5.6	2.5	4.5	2.0	2.0
	Average fee rate	1.40%	1.00%	2.25%	1.00%	—

(1) Debt financing instruments of non-financial enterprises include medium-term notes and short-term financing bills, among others.
(2) Others include treasury bonds, private placement bonds of small and medium enterprises, and subordinated bonds.

We believe that our innovation in ABS underwriting could enhance the brand name and market position of our debt underwriting business. In recent years, some landmark asset-backed transactions in which we acted as the underwriter included:

Year	Issuer	Offering size (RMB in millions)	Our role	Highlights
2016	China Jin Mao Group Co., Ltd.	4,001	Lead underwriter	First commercial mortgage-backed securities listed on stock exchange in the PRC
2016	China Merchants Bank	233.0	Lead underwriter	First non-performing credit card receivables ABS in the PRC
2016	China Merchants Bank	470.0	Joint lead underwriter and bookrunner	First non-performing microloan receivables backed securities in the PRC
2016	Ping An Bank Co., Ltd.	981.0	Joint lead underwriter	First mortgage-backed personal consumption loan receivables backed securities
2015	Volkswagen Finance (China) Co. Ltd.	1,890.5	Joint underwriter	Innovative structures such as over-collateralization and partially proportionate repayment
2015	Bank of China	3,928.8	Joint lead underwriter	Our first ABS of large state-owned bank
2015	China Merchants Bank	3,149.9	Joint lead underwriter	Residential mortgage backed securities issued through market-based offering mechanism
2014	China Merchants Bank	8,109.1	Joint lead underwriter	First credit card ABS
2014	Industrial Bank	3,494.2	Joint underwriter	First ABS for enterprises in the environmental protection industry

We have achieved progress in the debt underwriting business by leveraging our broad distribution network, extensive experience in debt underwriting and comprehensive understanding of the financial markets. In recent years, we further expanded our client base from local SOEs to medium- and large-sized central SOEs and many high-quality private enterprises in China.

Financial Advisory

Our financial advisory business includes financial advisory services for M&As and restructuring of corporate clients in China. Our M&A financial advisory capability for listed companies was awarded "Class A" by the Securities Association of China in 2015. During the Track Record Period, we provided financial advisory services for 24 M&As of listed companies. We assisted clients in achieving strategic expansion in industry consolidation through M&A transactions. Our financial advisory business also facilitates our fund management business, creating cross-selling synergies across business lines.

Some landmark M&A transactions in which we participated included:

- In 2015, we acted as the financial advisor for China Merchants Shekou Industrial Zone Holdings Co., Ltd. (招商局蛇口工業區控股股份有限公司) on its merger-by-absorption of China Merchants Property Development Co., Ltd. (招商局地產控股股份有限公司) through the issuance of new A shares, and as joint lead underwriter for the concurrent private placement of A shares for financing. This transaction features (i) the exchange of B shares of China Merchants Property Development Co., Ltd. with A shares of China Merchants Shekou Industrial Zone Holdings Co., Ltd., (ii) merger-by-absorption and concurrent private placement financing, and (iii) an employee stock option plan, which was the first in the PRC capital markets.

- In 2014, we acted as the financial advisor for the reverse takeover on the A-share market of China Security & Fire Co., Ltd. (中安消股份有限公司) with the total transaction value of RMB3.8 billion after its holding company was de-listed from the New York Stock Exchange. For this transaction, we received the "Most Innovative Service Award" of the Mergers and Acquisitions Golden Phoenix Tree Awards (中國併購金梧桐獎「最佳創新服務獎」) from the China Mergers and Acquisitions Cooperation Association in 2015.
- We acted as the financial advisor for major asset restructuring of Hunan TV and Broadcast Intermediary Co., Ltd. (湖南電廣傳媒股份有限公司) in 2012 with the total transaction value of RMB1.5 billion. For this transaction, we received the "Best M&A Advisor Award" (最佳併購顧問獎) from the China Mergers and Acquisitions Association in 2013.

In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, income from our financial advisory business amounted to RMB112.3 million, RMB128.8 million, RMB264.5 million, RMB62.5 million and RMB54.5 million, respectively.

OTC Investment Banking

In March 2013, we obtained approval to conduct NEEQ listing recommendation business and began to recommend qualified companies to be listed on the NEEQ for share quotation and transfer as chief agency broker.

In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, the number of companies recommended by us for share quotation and transfer on the NEEQ were two, 38, 114, 35 and 70, respectively. We ranked 20th, eighth and seventh in terms of the number of newly listed companies on the NEEQ in 2013, 2014 and 2015, respectively. In particular, we have recommended four companies with net profits of over RMB100.0 million during the Track Record Period, including Shenzhen New Industries Biomedical Engineering Co., Ltd. (深圳市新產業生物醫學工程股份有限公司), Beijing Huatu Hongyang Education & Culture Development Co., Ltd. (北京華圖宏陽教育文化發展股份有限公司), Qilu Bank Co., Ltd. (齊魯銀行股份有限公司), and Liaoning Chengda Biotechnology Co., Ltd. (遼寧成大生物股份有限公司).

In addition, we actively provide follow-up financing services for companies listed on the NEEQ. In 2014, 2015 and the six months ended June 30, 2015 and 2016, we completed nine, 78, 22 and 60 private placements on the NEEQ, respectively.

In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, income from our OTC investment banking amounted to RMB8.6 million, RMB53.0 million, RMB155.9 million, RMB39.8 million and RMB108.1 million, respectively.

Overseas Corporate Finance and Underwriting

We conduct our overseas corporate finance and underwriting business through CMSHK with a full-service platform, including IPO underwriting and sponsoring, follow-on offering, debt underwriting and financial advisory services. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, according to Bloomberg, the total amount of equity offerings participated in by CMSHK was US$11,071.4 million, US$39,859.9 million, US$19,892.8 million, US$14,386.4 million and US$1,121.6 million, respectively. In terms of the amount of Hong Kong IPOs underwritten, we ranked fifth in 2014 and fourth in 2015 in Hong Kong, and we ranked second among PRC-based securities firms in Hong Kong in both 2014 and 2015.

In recent years, CMSHK's equity underwriting business in Hong Kong grew rapidly. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, CMSHK's IPO underwriting and sponsorship fees and commissions amounted to HK$46.3 million, HK$321.7 million, HK$282.2 million, HK$180.4 million and HK$10.9 million, respectively. The following table sets forth certain landmark IPOs executed by CMSHK during the Track Record Period and up to the Latest Practicable Date:

Year	Issuer	Offering size	Our role	Features
		(HK$ in millions)		
2016	China Logistics Property Holdings Co., Ltd. (中國物流資產控股有限公司)	3,362	Joint bookrunner	Largest real estate IPO since 2015
2016	Orient Securities Company Limited (東方證券股份有限公司)	6,735	Joint bookrunner	First Hong Kong IPO of a PRC-based securities firm in 2016
2015	Yunnan Water Investment Co., Limited (雲南水務投資股份有限公司)	1,918	Sole sponsor, sole global coordinator, sole bookrunner	Largest sole book IPO deal in the first half of 2015, and the first SOE company in Yunnan Province listed in Hong Kong
2015	Fuyao Glass Industry Group Co., Ltd. (福耀玻璃工業集團股份有限公司)	8,495	Joint sponsor, joint global coordinator, joint bookrunner, joint lead manager	The issuer was the largest automotive glass manufacturer in China and the second largest in the world
2015	Huatai Securities Co., Ltd. (華泰證券股份有限公司)	38,757	Joint global coordinator, joint bookrunner, joint lead manager	Largest Hong Kong IPO in 2015
2014	Canvest Environmental Protection Group Company Limited (粵豐環保電力有限公司)	1,165	Sole sponsor, sole global coordinator, sole bookrunner	Largest IPO by CMSHK as a sole bookrunner in 2014
2014	Shengjing Bank Co., Ltd. (盛京銀行股份有限公司)	10,589	Sole sponsor, joint global coordinator, joint bookrunner, joint lead manager	Largest Hong Kong IPO of a PRC city commercial bank in 2014
2014	Sinomax Group Limited (盛諾集團有限公司)	822	Sole sponsor, sole global coordinator, sole bookrunner, sole lead manager	First IPO solely sponsored by CMSHK with proceeds exceeding US$100 million

CMSHK also underwrites investment-grade bonds, high-yield bonds and equity-linked securities, such as convertible bonds. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, the total amount of debt securities offerings participated in by CMSHK was US$2,161 million, US$15,311 million, US$12,412 million, US$10,029 million and US$5,250 million, respectively. CMSHK's landmark debt underwriting projects include: (i) in 2016, acting as a joint bookrunner in the US$1.5 billion bond offering by Sunshine Life Insurance Corporation Limited (陽光人壽保險股份有限公司), (ii) in 2016, acting as a joint bookrunner in the US$3.0 billion bond offering by China Petrochemical Corporation (中國石油化工集團公司), (iii) in 2015, acting as a joint bookrunner in the US$3.2 billion bond offering by China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司), (iv) in 2015, acting as a joint bookrunner in the US$800.0 million bond offering by Qingdao City Construction Investment Group (青島城市建設投資集團) and (v) in 2014, acting as a joint bookrunner in the US$6.5 billion offshore preference shares issued by Bank of China Limited. CMSHK also underwrites equity-linked securities, such as the US$290.0 million convertible bond offering by China Merchants Land Limited (招商局置地有限公司) in 2015.

CMSHK also provides M&A financial advisory services in Hong Kong. For example, it advised Qingdao City Construction Investment Group for the purchase of a controlling stake in HyComm Wireless Limited (華脈無線通信有限公司) for HK$760.0 million in 2014. CMSHK acted as the financial advisor to China Merchants Land Limited in its acquisition of property interests from its holding company for RMB1.2 billion in 2014.

CMSHK's corporate finance and underwriting business also contributed significant revenue to our other businesses. For example, CMSHK's corporate finance and underwriting department successfully referred an IPO-related financing project to our overseas leveraged and structured financing business. Our Hong Kong corporate finance and underwriting business collaborates closely with our investment banking business in China to share client resources. For example, after CMSHK completed the Hong Kong IPO of Shengjing Bank Co., Ltd. (盛京銀行股份有限公司), we acted as the lead underwriter for the bank's domestic bond issuance in China in 2015, as well as the sponsor for the bank's proposed A-share offering in China. In August 2015, we acted as the lead underwriter for the same bank's RMB5.9 billion ABS issuance. We also assisted Shengjing Bank in issuing up to RMB7.0 billion of bonds in the PRC.

Investment Management

Our investment management business consists of asset management and direct investment businesses. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, segment revenue and other income from our investment management business amounted to RMB437.0 million, RMB918.6 million, RMB1,313.3 million, RMB723.5 million and RMB413.3 million, respectively.

Asset Management

We were among the first PRC securities firms approved by the CSRC in 2002 to carry out asset management business. We provide asset management products and services based on market conditions and customers' needs. In April 2015, we established a wholly-owned subsidiary, CMS Asset Management, to conduct our asset management business in a more focused and specialized manner. We generate revenue from charging management fees based on the AUM and performance-based fees. According to Wind Info, in 2013, 2014 and 2015, the net revenue from our asset management business ranked 11th, eighth and eighth in the PRC securities industry, respectively.

Our asset management services comprise the following:

- ***Collective asset management schemes:*** We manage assets with diverse risk and return profiles for multiple customers through designated accounts pursuant to applicable laws and collective asset management contracts.
- ***Targeted asset management schemes:*** We manage assets for a single customer, through a designated account pursuant to specific methods, conditions, requirements and restrictions of the bilateral contracts between the specific customer and us.
- ***Specialized asset management schemes:*** We manage a client's certain assets for a specific purpose.

The following table sets forth a breakdown of AUM and revenue of our asset management schemes in China by type as of the dates or for the periods indicated:

	As of or for the year ended December 31,						As of or for the six months ended June 30,			
	2013		2014		2015		2015		2016	
	AUM	Revenue	AUM	Revenue	AUM	Revenue	AUM	Revenue	AUM	Revenue
	(RMB in millions)									
Collective asset management schemes	12,026.9	179.4	23,050.8	335.8	54,310.9	1,002.6	50,305.7	442.2	48,655.4	412.3
Targeted asset management schemes	53,783.6	11.2	151,646.8	39.1	350,301.4	112.9	230,103.7	43.2	455,546.3	72.6
Specialized asset management schemes	3,077.5	1.7	2,553.6	1.2	9,793.7	2.4	2,250.0	2.4	13,345.4	31.6
Total	**68,888.0**	**192.3**	**177,251.2**	**376.1**	**414,406.0**	**1,117.9**	**282,659.4**	**487.8**	**517,547.1**	**516.5**

Collective Asset Management

As of June 30, 2016, we had 76 collective asset management schemes outstanding, covering equity market, bond market, money market and hybrid funds with a total AUM of RMB48.7 billion. We generally charge annual management fees according to the size of AUM (generally between 0% and 2.0%), and we also charge performance fees on certain schemes according to investment performance, which are generally 20% of the excess return.

The details of our featured collective asset management schemes are as follows:

- *"Daily Profit" (天添利):* This is a money-market product for customer deposits, which enables our brokerage customers to enjoy a higher-than-prevailing current deposit account interest rate with a T+0 settlement feature. As of June 30, 2016, the AUM of "Daily Profit" (天添利) was RMB28.9 billion.
- *Quantitative hedging products:* We adopt market-neutral strategies to hedge market risks using stock index futures, and mainly earn the spread between the long spot and the short position of futures with limited or no market correlation. The size of our "Quantitative Hedging Series" (量化對沖系列) was RMB867.4 million as of December 31, 2014, RMB3,976.7 million as of December 31, 2015 and RMB3,258.7 million as of June 30, 2016, with our investment performance ranking first among similar asset management products of securities firms in 2014.

- *"Zhi Ya Bao" (質押寶):* a collective asset management scheme primarily investing in securities-backed lending.
- We have also developed and offered a number of innovative products, such as NEEQ funds, long-short funds and manager of managers funds.

We also invest in our collective asset management schemes using our own capital in order to attract customers. As of June 30, 2016, the outstanding balance of our capital contribution to the collective asset management schemes managed by us was RMB617.1 million (including RMB218.3 million in the subordinated tranche of these schemes where we provide credit enhancements to investors of senior tranches). See "Risk Factors—Risks Relating to Our Business and Industry—A significant decline in the size of our AUM, or unsatisfying investment performance, may materially adversely affect our asset management business."

Targeted Asset Management

We enter into a targeted asset management contract with a single customer, provide asset management services and manage customer's assets through a designated account according to the contract. In general, our targeted asset management schemes have a minimum subscription requirement of RMB1.0 million. For targeted asset management schemes, we earn management fees as a certain percentage of AUM (generally between 0 bps and 80 bps). Given the substantial increase in demand for targeted asset management schemes, the AUM of our targeted asset management schemes increased significantly from RMB53.8 billion as of December 31, 2013 to RMB455.5 billion as of June 30, 2016, involving 279 asset management schemes.

Specialized Asset Management

As of June 30, 2016, we had ten specialized asset management schemes outstanding with an aggregate AUM of RMB13.3 billion.

In April 2013, we launched a specialized asset management scheme for the Phase II of Lancang River Hydropower Station secured by the rights to on-grid electricity tariff, with a size of RMB3,300.0 million. The management fee rate we charged for this scheme was 9bps per year. In addition, we launched six specialized asset management schemes in 2015, including most notably:

- the first ABS in China for a listed real estate company secured by management fees receivable with the AUM of RMB1,500.0 million;
- the first ABS in aviation industry in China with the AUM of RMB500.0 million; and
- the first ABS of the long-term vehicle leasing receivables in China with the AUM of RMB288.0 million.

Direct Investment

We have been carrying out our direct investment business through our wholly-owned subsidiary, CMS Zhiyuan, since August 2009. As of June 30, 2016, the registered capital of CMS Zhiyuan amounted to RMB1,700 million. We mainly engage in private equity fund management, mezzanine fund management and direct equity investment. We also provide our customers with financial advisory and investment advisory services in relation to equity and debt investments. In 2014, CMS Zhiyuan was awarded "Top 10 Direct Investment Companies Established by Securities Firms" ("最佳券商直投TOP 10") by China Venture Group (投中集團).

Private equity funds

CMS Zhiyuan establishes, manages and invests in various private equity funds, including venture capital funds, growth funds and M&A funds. CMS Zhiyuan earns fund management fees, performance fees and investment income.

The details of the nine private equity funds managed by CMS Zhiyuan as of June 30, 2016 are set out below:

Fund Name	Time of establishment	Fund management company	Subscribed fund size	Percentage of CMS Zhiyuan's capital subscription to the fund	Industry and investment focus
			(RMB in millions)		
Ganzhou China Merchants Zhiyuan No.1 Equity Investment Partnership (Limited Partnership) (贛州招商致遠壹號股權投資合夥企業（有限合夥）)	June 2013	Ganzhou China Merchants Zhiyuan No.1 Equity Investment Management Co., Ltd. (贛州招商致遠壹號股權投資管理有限公司), in which CMS Zhiyuan held a 70% equity interest	3,508	10.3%	Focus on growth and developed enterprises engaging in energy-saving and environmental protection, high-end equipment manufacturing, new energy, new materials, cultural and media, IT, medical and healthcare, consumer goods and financial services
Anhui GaoXin China Merchants Zhiyuan Equity Investment Fund (Limited Partnership) (安徽高新招商致遠股權投資基金（有限合夥）)	March 2015	Anhui China Merchants Innovative Investment Management Co., Ltd. (安徽招商致遠創新投資管理有限公司), in which CMS Zhiyuan held a 100% equity interest	230	25.0%	Focus on high growth enterprises engaging in innovative businesses in Anhui Province
Anhui GaoXin China Merchants Zhiyuan Phase II Equity Investment Fund (Limited Partnership) (安徽高新招商致遠二期股權投資基金（有限合夥）)	October 2015	Anhui China Merchants Innovative Investment Management Co., Ltd. (安徽招商致遠創新投資管理有限公司), in which CMS Zhiyuan held a 100% equity interest	440	39.0%	Focus on high growth enterprises engaging in innovative businesses in Anhui Province
Qingdao Guoxin China Merchants Venture Capital Investment Fund Partnership (Limited Partnership) (青島國信招商創業投資基金合夥企業（有限合夥）)	March 2015	Qingdao Guoxin China Merchants Venture Capital Investment Management Co., Ltd. (青島國信招商創業投資管理有限公司), in which CMS Zhiyuan held a 35% equity interest	322	6.2%	Focus on companies listed on the NEEQ
Shenzhen Zhaoyuan Qiushi Investment Partnership (Limited Partnership) (深圳市招遠秋實投資合夥企業（有限合夥）)	May 2015	Beijing Zhiyuan Lixin Investment Management Co., Ltd. (北京致遠勵新投資管理有限公司), in which CMS Zhiyuan held a 100% equity interest	224	0.2%	Focus on TMT industries

Fund Name	Time of establishment	Fund management company	Subscribed fund size	Percentage of CMS Zhiyuan's capital subscription to the fund	Industry and investment focus
			(RMB in millions)		
Shenyang China Merchants Zhiyuan Business and Development Investment Centre (Limited Partnership) (瀋陽招商致遠創業發展投資中心（有限合夥）)	October 2015	Shenyang China Merchants Business and Development Investment Management Co., Ltd. (瀋陽招商創業發展投資管理有限公司), in which CMS Zhiyuan held a 70% equity interest	225	9.0%	Mainly invest in, but not limited to, enterprises which are proposed to be listed or have been listed on the NEEQ in Shenyang
Hefei Zhongan China Merchants Equity Investment Partnership (Limited Partnership) (合肥中安招商股權投資合夥企業（有限合夥）)	December 2015	Hefei Zhongan Merchants Equity Investment Management Co., Ltd. (合肥中安招商股權投資管理有限公司), in which CMS Zhiyuan held a 72% equity interest	1,350	27.8%	Mainly invest in high-tech and high-end manufacturing industry, logistics, finance, consumption, health and culture
Shenzhen Zhaowei Investment Partnership (Limited Partnership) (深圳市招為投資合夥企業（有限合夥）)	December 2015	Beijing Zhiyuan Lixin Investment Management Co., Ltd. (北京致遠勵新投資管理有限公司), in which CMS Zhiyuan held a 100% equity interest	2,050	76.0%	Invest in private placement of China Merchants Shekou Holdings
Anhui GaoXin China Merchants Zhiyuan Smart City Industrial Fund (Limited Partnership) (安徽高新致遠智慧城市產業基金（有限合夥）)	March 2016	Anhui Zhiyuan Smart City Fund Management Co., Ltd. (安徽致遠智慧城市基金管理有限公司), in which CMS Zhiyuan held a 100% equity interest	220	36.4%	Mainly invest in private placements of listed companies and M&A transactions

In addition, one of our associated companies, China Merchants Xiangjiang Industrial Investment Management Co. Ltd. (招商湘江產業投資管理有限公司), engages in private equity fund management business and manages one industrial investment fund, which managed assets of RMB1.2 billion as of June 30, 2016.

Mezzanine fund management

Since its establishment in 2009, CMS Zhiyuan had launched 11 mezzanine funds with an aggregate size of RMB4.4 billion. Among those investments, we successfully exited from nine investments and partially exited from another two investments. As of December 31, 2013, 2014 and 2015 and June 30, 2016, the total size of mezzanine funds managed by us was RMB3.1 billion, RMB1.2 billion, RMB0.3 billion and RMB0.3 billion, respectively.

Direct equity investment

As of June 30, 2016, we had direct equity investments outstanding in two PRC companies with a total initial investment cost of RMB63.6 million, namely Shenzhen Sunline Tech Co., Ltd. (深圳市長亮科技股份有限公司) and Chenzhou City Jingui Silver Industry Co., Ltd. (郴州市金貴銀業股份有限公司), which were listed on the A-share market in China in 2012 and 2014, respectively. As of June 30, 2016, realized gains from our investment in these two companies amounted to RMB57.8 million and RMB177.4 million, respectively; unrealized gains from our investment in these two companies amounted to RMB317.6 million and RMB27.4 million, respectively, and the cost of investment in these two companies was RMB16.1 million and RMB3.8 million, respectively.

Fund Management

We share results of two associated companies, namely Bosera Funds and China Merchants Fund. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, our share of results of associates from Bosera Funds amounted to RMB208.3 million, RMB224.3 million, RMB294.5 million, RMB169.9 million and RMB195.9 million, and that from China Merchants Fund amounted to RMB73.2 million, RMB107.9 million, RMB246.4 million, RMB133.5 million and RMB142.2 million, respectively.

Bosera Funds

As of June 30, 2016, we held a 49.0% equity interest in Bosera Funds, which was established in July 1998 and one of the first five mutual fund management companies in China. As of June 30, 2016, the total AUM of Bosera Funds was RMB459.9 billion, including 117 mutual funds with a total AUM of RMB249.8 billion.

China Merchants Fund

As of June 30, 2016, we held a 45.0% equity interest in China Merchants Fund, which was established in December 2002. As of June 30, 2016, the total AUM of China Merchants Fund was RMB328.8 billion, including 76 mutual funds with a total AUM of RMB240.7 billion.

Investment and Trading

We trade equity and fixed-income securities and other financial products for our own accounts. In our investment and trading business, we are subject to a variety of risks, primarily market risk, credit risk and interest rate risk. For details on how we manage these risks, see "—Risk Management." Accordingly, we apply advanced trading strategies and techniques to mitigate investment risks and enhance return. In addition, to meet our customers' investment, financing and risk management needs, we also offer OTC financial products to our customers, and trade with them on the OTC market.

In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, segment revenue and other income from our investment and trading business amounted to RMB1,277.7 million, RMB2,273.6 million, RMB5,732.2 million, RMB4,604.9 million and RMB546.8 million, respectively, representing 16.5%, 16.5%, 16.4%, 22.5% and 6.3% of our total revenue and other income, respectively. During the Track Record Period, substantially all of our segment revenue and other income from our investment and trading business was derived from proprietary trading activities. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, revenue and other income from our proprietary trading amounted to RMB1,277.7 million, RMB2,265.4 million, RMB5,524.2 million, RMB4,491.3 million and RMB503.5 million, respectively, representing 100.0%, 99.6%, 96.4%, 97.5% and 92.1% of our segment revenue and other income from our investment and trading business, respectively.

We invest in and trade stocks, funds, debt securities, derivatives and other financial instruments. The table below sets forth the investment position (total investment assets net of liabilities) by asset type for our investment and trading activities as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB in millions)			
Stocks[(1)]	4,344.8	14,818.8	13,654.0	8,853.1
Funds	3,109.8	4,011.9	25,075.7	14,353.7
Debt securities	7,065.3	13,746.7	33,074.8	24,143.9
Derivative financial instruments	(44.9)	(837.9)	(850.1)	(160.6)
Others[(2)]	450.2	235.5	9,459.4	9,788.4
—Investment in designated accounts at China Securities Finance	—	—	8,829.0	8,125.9
Total	**14,925.2**	**31,975.0**	**80,413.8**	**56,978.5**

(1) As of June 30, 2016, including (i) stocks in relation to our directional trading of RMB6,458.0 million; (ii) stocks in relation to our market-neutral trading of RMB810.2 million most of which were hedged through our derivatives position; and (iii) others of RMB1,584.9 million which mainly in relation to stocks held for equity return swap and NEEQ market making.

(2) Others mainly represent investments in collective wealth management products, trust products and designated accounts at China Securities Finance.

In 2013, 2014 and 2015 and the six months ended June 30, 2016, the average rate of return on our investment and trading activities was 5.6%, 9.5%, 10.3% and 0.8%, respectively. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, the average VaR of our investment and trading (based on daily confidence interval of 95%) was RMB38.1 million, RMB52.1 million, RMB369.3 million, RMB98.5 million and RMB621.7 million, respectively.

Our investment in debt securities increased significantly to RMB24,143.9 million as of June 30, 2016 from RMB7,065.3 million as of December 31, 2013, due primarily to our reduced debt securities investment in 2013 given the unfavorable bond market in China, and our increased cash balance during the second half of 2015 and the first half of 2016 following our decreased balance of margin loans and securities lent as a result of the unfavorable stock market conditions and reduced demand for margin financing and securities lending business in China during the same periods. We primarily leverage our investment in debt securities through bond repurchase transactions. As of December 31, 2013, 2014 and 2015 and June 30, 2016, our leverage ratio (the ratio of our debt securities investment over the difference between such investment amount and the amount of our bond repurchases) was 2.6 times, 1.9 times, 3.1 times and 1.9 times, respectively. We use this indicator to monitor the risk exposure of our investment in debt securities, which should be no more than five times. Our Risk Management Department submits a monthly report to our management and requires business departments to reduce debt securities investment once the indicator comes close to five times.

We invest in various types of funds, including equity funds, hybrid funds, bond funds and money market funds. Our investment in funds increased from RMB3,109.8 million as of December 31, 2013 to RMB4,011.9 million as of December 31, 2014, and further increased to RMB25,075.7 million as of December 31, 2015, primarily due to our increased investment in money market funds in 2015 to achieve more investment gains as part of our liquidity management. We reduced our investment in funds from RMB25,075.7 million as of December 31, 2015 to RMB14,353.7 million as of June 30, 2016 as we redeemed a portion of our funds investment to repay outstanding debt.

Equity Trading

Our equity trading activities involve both directional and market-neutral strategies.

Directional trading

In directional trading, we trade stocks for our own accounts and pursue absolute return. As of December 31, 2013, 2014 and 2015 and June 30, 2016, the investment position for our directional trading was RMB1,231.3 million, RMB2,108.6 million, RMB8,180.4 million and RMB6,458.0 million.

We emphasize value investment in selected sectors and stocks. We select equity securities based on macro-economic research, market cycles analysis and study of the target securities' industry, business models, financial condition and management team. We constantly adjust our trading strategies based on market trends and conditions. In addition, we hedge market fluctuations primarily through Alpha quantitative trading to achieve a more stable return in our directional trading. In a typical Alpha quantitative trading, we conduct hedging activities for equity trading primarily by entering into futures contracts based on the CSI 300 Index. By taking short positions in CSI 300 stock index futures based on our prediction of market movements, we hedge the stock price declines in the spot market. For more details, see "—Risk Management and Internal Control Measures in Our Major Business Lines—Investment and Trading Business—Equity securities investment and trading."

We have 13 professional employees in our directional trading department. The general manager of this department has over 19 years of experience in directional equity trading. Our directional trading department is jointly monitored by the risk management personnel of our investment and trading department and our Risk Management Department.

Since July 2015, the PRC government has launched a series of measures to stabilize the stock market, which greatly affected our equity trading activities and implementation of trading strategies. On July 27, 2015, our shareholders approved a plan to expand the size of our A-share directional equity trading position to up to 50% of our Net Capital as of June 30, 2015, approximately RMB18.7 billion measured at cost, from a previous limit of 15% of our real time Net Capital.

We closely monitor these changes in government policies and carry out stress testing and risk evaluations from time to time to assess the impact of these measures on our business and financial condition. In addition, we have established additional operational and risk management guidelines to handle our significantly expanded directional trading activities. See "—Risk Management and Internal Control Measures in Our Major Business Lines—Investment and Trading Business—Equity securities investment and trading."

Market-neutral trading

We engage in arbitrage and quantitative trading of stocks, funds and derivative instruments in China and overseas, and develop and apply a number of quantitative trading strategies. We adopt various strategies to carry out our market neutral trading, such as utilizing stock-index futures and options to hedge the risk exposure of our equity investment, conducting cross-term arbitrage to hedge our interest risk exposure, and cross-border arbitrage in our commodities future trading. We seek to limit exposure to changes in price caused by shifts in macroeconomic variables or market sentiment. All of our investment position of equity funds for investment and trading activities is included under market-neutral trading. Our market-neutral trading covers a broad range of financial products and multiple markets, which enables us to capture and identify arbitrage opportunities amid changing market conditions while minimizing our risk exposure irrespective of market fluctuations. As of December 31, 2013, 2014 and 2015 and June 30, 2016, the net investment position (total investment assets net of liabilities) of our market-neutral trading was RMB58.1 million, negative RMB134.0 million, RMB99.2 million and RMB51.0 million, respectively. As of June 30, 2016, the net investment position of our market-neutral trading consisted of stocks of RMB810.2 million, funds of RMB65.3 million and derivatives of negative RMB824.5 million. The table below sets forth the investment position by asset type and the net investment position for our market-neutral trading activities as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB in millions)			
Stocks	2,088.6	3,163.2	967.5	810.2
Funds	197.6	443.4	8.6	65.3
Derivative financial instruments	(2,228.1)	(3,740.5)	(876.9)	(824.5)
Total (net position)	**58.1**	**(134.0)**	**99.2**	**51.0**

We hedge different types of risks through a variety of instruments, such as stock-index futures and options. In the first half of 2016, the hedging ratio (the ratio of the short positions over the long positions of our equity trading) of our market-neutral trading ranged from 93.4% to 97.0%. We adjust our market-neutral trading strategies and the scale of each type of hedging and quantitative trading activities from time to time based on market conditions and our judgment. With the introduction of more diverse derivative instruments in China, such as individual stock options and new index futures, and as more investment strategies become available for securities firms, we expect to utilize more derivative instruments to expand our arbitrage and quantitative trading activities.

We also provide market-making services for financial products traded on stock exchanges. In 2012, we were one of the first PRC securities firms to qualify for market-making for ETFs listed on the Shanghai Stock Exchange. In February 2015, we were among the first PRC securities firms to offer market-making services for SSE 50 ETF options.

We have approximately 35 professional employees in our market-neutral trading department. The general manager of this department has over ten years of experience in equity and quantitative trading. Our market-neutral trading is jointly monitored by the risk management personnel of our investment and trading department and our Risk Management Department.

FICC

We trade various types of fixed-income securities for our own accounts on the PRC interbank bond market and stock exchanges, principally including treasury bonds, financial bonds, PBOC notes, corporate bonds, enterprise bonds, ABS, convertible bonds, and exchangeable bonds. We also engage in hedging through interest rate swaps and treasury bond futures to mitigate market risk in our fixed-income trading. We also invest in fixed-income securities overseas, such as US dollar bonds, debenture bonds and dim sum bonds, through subsidiaries of CMS International.

We actively develop our commodities and foreign exchange businesses.

- In 2014, we were one of the first securities firms to qualify for market-making of OTC commodity derivatives at the Shanghai Clearing House. In May 2015, we obtained the qualification of special member of the Shanghai Gold Exchange, and began to conduct domestic gold trading in August 2015. In addition, we have applied to the State Administration of Foreign Exchange for a foreign exchange business qualification and are currently actively developing our foreign exchange business.

- In October 2013, through our subsidiary, China Merchants Futures (HK), we were the first PRC securities firm to obtain clearing membership at the four exchanges under the CME Group in the United States, namely the Chicago Mercantile Exchange, the Chicago Board of Trade, the New York Mercantile Exchange and Commodity Exchange, Inc. In December 2013, we started to offer market-making of precious metals, becoming the only PRC securities firm to provide market-making of gold, silver, platinum, and palladium at that time.
- In 2013, we established our business platform in the UK through CMSUK, which obtained a license from the Financial Conduct Authority in the UK in June 2014 to conduct commodity derivatives business. CMSUK obtained clearing membership at the London Metal Exchange in January 2015 and the ICE Futures Europe in April 2015, respectively.

In 2015, we were awarded "Outstanding Securities Dealer" (證券機構優秀自營商), "Outstanding Non-bank Underwriter" (非銀行類優秀承銷商) and "Outstanding Short-term Financing Bills Issuer among Securities Firms" (證券公司短融優秀發行人) by China Central Depository & Clearing Co., Ltd., being one of the two securities firms achieving the three awards in 2015. We were also awarded "Outstanding Corporate Bond Underwriter in the Shanghai Stock Exchange" (上海證券交易所債券市場優秀公司債券承銷商) by the Shanghai Stock Exchange, "The Best Securities Firm" (最佳證券公司獎) by National Interbank Funding Center and "Outstanding International Member" (優秀國際會員) by the Shanghai Gold Exchange in 2015.

OTC Sales and Trading

We provide OTC products and conduct trading activities through the OTC market, which mainly include:

- *Equity return swap:* An equity return swap is an OTC derivative transaction under which we enter into agreements with qualified customers to swap the return, based on the pre-agreed nominal principal amount and rate of return during a given period in the future. The amount of return to be swapped between both parties should be linked to the performance of the underlying equity securities such as stocks and indexes. Equity return swap is our OTC financial product provided to our customers to meet their investment, financing and risk management needs, not a financial instrument used for our own hedging purposes. During the Track Record Period, we executed 14,640 equity return swaps on the OTC market with a total nominal principal amount of RMB127.7 billion. The CSRC imposed a temporary moratorium on financing-related equity return swaps in the second half of 2015.
- *OTC options:* We enter into OTC derivatives agreements with our clients. The agreement contains provisions on return for both parties, and the rate of return is usually linked to underlying assets such as stocks and indexes. During the Track Record Period, we traded 328 options on the OTC market.
- *NEEQ market-making:* Our NEEQ business in relation to investment and trading only involves NEEQ market-making and we actively provide such market-making services on the NEEQ. We were one of the first securities firms to qualify for market-making services

on the NEEQ in June 2014. We earn bid-ask spread of the listed securities. During the Track Record Period, we provided market-making services to 193 companies listed on the NEEQ.

Overseas Business

We conduct our overseas business through CMS International and its subsidiaries, which primarily engage in brokerage, corporate finance and underwriting, leveraged and structured financing, sales and trading, asset management and private equity investment. To meet PRC institutional clients' growing demands for overseas financial services, we have strategically developed a full-service business platform in Hong Kong. We also capture the opportunities created by overseas investors' investment in Hong Kong and PRC capital markets through our overseas business platform. We believe that CMS International will become the link between China and overseas investors in our international expansion.

The principal businesses of CMS International and its subsidiaries include:

Brokerage: We offer brokerage services for clients to trade stocks, futures and bonds in Hong Kong, and we continue to expand our portfolio of tradable financial products such as options, funds, notes, and warrants in Hong Kong. The brokerage commission rate typically ranges from 3bps to 25bps. We also provide margin financing and securities lending, wealth management, investment advisory, investment portfolio advisory and risk management services for certain clients.

Corporate finance and underwriting: We offer a full range of corporate finance and underwriting services in Hong Kong, including equity underwriting, debt underwriting and financial advisory. For details, see "—Investment Banking—Overseas Corporate Finance and Underwriting."

Leveraged and structured financing: We provide bridge loans and pre-IPO loans to our corporate clients. The annualized interest rate of these loans ranged generally from 10% to 19% during the Track Record Period.

Sales and trading: We provide trading and market-making for equities, fixed-income products, futures contracts, structured products and commodities, as well as other financial products, and we provide clients with customized trading proposals.

Asset management: We provide investment advisory, investment portfolio allocation and fund management services. We also leverage Hong Kong's position as the leading offshore Renminbi center to develop various types of Renminbi asset management products.

Private equity investment: We invest in projects with growth potential or stable yield through direct investment or raising private equity funds.

INFORMATION TECHNOLOGY

We are committed to being at the forefront of technological innovation in the PRC securities industry. The continuous development of information technology and the Internet has changed the way that securities and other financial products are traded, distributed and settled and the way that financial service providers serve their clients, thus creating both opportunities and challenges for our business. Our strategy is to prioritize the development of our IT system and emphasize the importance of IT support to business development.

We have tailored our principal IT systems and platforms for our business operations, risk controls and management purposes:

- *Centralized trading system:* a brokerage trading system for the listed stocks on the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange.
- *Online apps:* an online and mobile platform providing customers with industry updates, trading services and other information.
- *Institutional client system:* a system providing business and technology support to institutional clients, including spot trading, margin financing and securities lending, futures trading and algorithmic trading support.
- *Custody service client platform:* a system providing fund redemption, operation inquiry and fund information services.
- *OTC system:* a core trading system of the OTC sales and trading as well as the OTC investment banking business, with functions that include the launch and issue of OTC market products, processing deals, deal making and trading settlement.

We monitor our various trading activities, such as brokerage, margin financing and securities lending and investment and trading activities, on a real-time basis, and monitor post-settlement transactions, customer accounts and risk control indicators to manage our risks. Our advanced IT infrastructure is critical for us to properly manage all categories of risks based on an enterprise-wide approach. We adopt technologies to implement our risk management procedures across all business lines and management procedures while enhancing risk management efficiency. In addition, our CRM system enables us to categorize our customers based on their creditworthiness, monitor our customers' credit and evaluate the quality of their collaterals, and achieves automated adjustments of our customers' credit limit on an ongoing basis so as to mitigate credit risk in our capital-based intermediary services.

To manage the risks inherent in our online platform and in Internet finance in general, we have utilized various IT safety controls, including firewalls, data encryption and intrusion detection, customer identity verifications, dynamic and mobile number-linked passcodes and SSL certificates as well as IP and MAC address tracking, to safeguard our Company's and our customers' information safety and ensure the smooth operation of our IT systems. In addition, we have recruited dedicated personnel to develop our in-house credit risk management and procedure management systems for our online platform. Our online trading system is able to maintain stability under high trading volumes, due to the load-balancing technology applied in our application server, which helps to distribute workloads across multiple computing resources. We also use components to reconnect our systems within a short period of time following disconnection. To reduce risks from system failures, we have adopted measures to back up data for our key systems and we maintain data recovery centers in Shenzhen and Shanghai. In particular, we established data centers in Shenzhen, Beijing, Shanghai and other areas to back up data for our online and mobile platforms, and we use a licensed product to back up data by conducting real-time data integration and synchronization. We use multiple telecom networks and established multiple data servers at different locations, which enable our customers to automatically connect to our online platform with the most stable and secure connection.

We devote substantial resources each year to optimize our IT systems to provide secure, stable and personalized technology services that support our growing business operations. As of the Latest

Practicable Date, our IT department consisted of 207 technicians who are responsible for technical development as well as operations and maintenance. Our IT-related expenditures in 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016 amounted to RMB202.3 million, RMB221.6 million, RMB342.2 million, RMB105.8 million and RMB217.8 million, respectively. As part of our business strategy, we plan to adopt leading technologies to support our business innovation, such as the development of a customer service platform with the application of "big data."

MAJOR CUSTOMERS AND SUPPLIERS

We serve individual, institutional and corporate customers across a spectrum of sectors. Our customers are primarily located in China. We expect to serve more overseas customers, as we seek to further expand our business internationally in the future.

In 2013, 2014 and 2015 and the six months ended June 30, 2016, the revenue attributable to our five largest customers accounted for less than 30% of our total revenue, respectively.

To the knowledge of our Directors, none of our directors, supervisors and their respective associates or any shareholders holding more than 5% of our issued share capital had any interests in any of our five largest customers as of the Latest Practicable Date.

We have no major suppliers due to the nature of our business.

MARKET AND COMPETITION

As of December 31, 2015, there were 125 registered PRC securities firms. The PRC securities industry is highly regulated and PRC securities firms are subject to extensive regulatory requirements from various perspectives, including business licenses, scope of products and services, business development and risk control. Competition in the PRC securities industry has been and is likely to remain intense. According to Wind Info, the securities firm with the highest revenue among all securities firms only accounted for less than 9% of the industry's aggregate operating revenue in 2015. In addition, according to Wind Info, we ranked eighth and ninth among PRC securities firms in terms of total assets and total equity as of December 31, 2015, respectively.

For the securities brokerage business, we compete primarily with other securities firms with a national presence in China in terms of pricing and the range of products and services offered. For our investment banking business, we compete primarily with domestic and sino-foreign joint venture securities firms as well as PRC commercial banks (principally on debt underwriting business) in terms of brand recognition, product portfolio, marketing and distribution capability, service quality and pricing. For our asset management business, we compete primarily with fund management companies, banks, insurance companies and other securities firms in the PRC in terms of the range of products and services offered, pricing and quality of customer service.

Some of our competitors may enjoy certain competitive advantages, such as greater financial resources, more sophisticated management experience and more advanced information technology systems, wider geographic coverage and the ability to offer more diversified financial products and services than we do. In addition, with the deregulation in the PRC securities industry, more competitors are seeking to enter the market or expand their businesses. We believe that the financial service industry in China is becoming increasingly competitive, which will accelerate the transformation and differentiated development of PRC securities firms. See "Risk Factors—Risks Relating to Our

Business and Industry—The PRC securities industry is highly competitive and gradual deregulation may attract new competitors to the market, which could adversely affect our businesses and prospects."

INTELLECTUAL PROPERTY RIGHTS

As of the Latest Practicable Date, we had 41 registered trademarks and 14 registered domain names and were in the process of applying for the registration of three trademarks in China and two trademarks in Hong Kong, including the vertical and horizontal logos for our "招E融", "招 e 融" and "招商微證券", as well as the registration for the English company names in abbreviation of China Merchants Securities and CMSHK. See "Appendix VI—Statutory and General Information—2. Further Information about Our Business—B. Our Intellectual Property Rights."

As of the Latest Practicable Date, our intellectual property rights had never been violated nor had there been any alleged infringement.

INSURANCE

We maintain all-risk insurance coverage for certain of our assets, including IT equipment and motor vehicles. Consistent with customary industry practice in the PRC, we do not maintain any business interruption insurance.

We believe that we have maintained such insurance coverage as we consider necessary and sufficient for our operations and customary for the industry in which we operate. Moreover, our policies are subject to standard deductibles, exclusions and limitations. Therefore, insurance might not necessarily cover all losses incurred by us and we cannot provide any assurance that we will not incur losses or suffer claims beyond the limits of, or outside the relevant coverage of, our insurance policies.

All of our insurance policies are underwritten with reputable insurance providers and we review our insurance policies annually.

EMPLOYEES

As of June 30, 2016 and the Latest Practicable Date, we had 10,373 employees and 10,553 employees, respectively. The following table sets forth a breakdown of our employees by business function as of the Latest Practicable Date:

	Number of Employees	Percentage
Management and administration	237	2.3%
Securities and futures brokerage(1)	8,335	79.0%
Investment banking	854	8.1%
Investment management	162	1.5%
Investment and trading	89	0.8%
Research	173	1.6%
Legal and compliance, risk management and internal audit	109	1.0%
IT	228	2.2%
Finance and accounting	146	1.4%
Others	220	2.1%
Total	**10,553**	**100.0%**

(1) Inclusive of brokerage agents.

The following table sets forth a breakdown of our employees by geographic region as of the Latest Practicable Date:

	Number of Employees	Percentage
Guangdong Province	4,266	40.4%
Other provinces in the PRC	5,863	55.6%
Hong Kong and overseas	424	4.0%
Total	**10,553**	**100%**

As of the Latest Practicable Date, 8,054 employees had bachelor's degrees or above, accounting for 76.3% of our total employees, and 10,147 employees obtained relevant professional qualifications, accounting for 96.2% of our total employees.

We are committed to establishing a competitive and fair remuneration and benefits system. We adjust remuneration and benefits of our employees based on the market and industry trends every year, so that the remuneration packages of our employees remain competitive in the industry. In order to effectively motivate our business development, we continue to refine our remuneration and incentive policies. We are also continuously refining our long-term incentive plan for employees and optimizing of their remuneration structure in order to associate the interests of employees with our long-term business operation and enhance the loyalty of employees.

We pay great attention to our employee welfare, and continuously improve our welfare system. In addition to national compulsory welfare plans, we offer our employees other benefits such as supplementary medical insurance, annuity, physical examinations and medical insurance for family members.

As of the Latest Practicable Date, we also employed 351 dispatched workers from three employment agencies in China to assume administrative and back-office functions. According to the relevant labor dispatch contracts, our employment agency is required to bear the costs of salaries, social insurance and housing provident funds or other employee benefits of these dispatched workers, while we are mainly responsible for paying service fees to the employment agency.

In order to improve the professional skills of our employees, we have established an independent training department, the Training Center, to organize the planning and implementing of training for employees and to provide our employees with diversified internal and external training programs. Our internal training programs include lectures, video conference and online training. We have established an electronic learning platform, namely the e-learning system, which provides online learning and tests, manages the academic profile and keeps track of the training progress of each employee. Employees are required to complete certain hours of training on various subjects and are encouraged to participate in business-related qualification examinations and examinations required under relevant regulations and laws. In addition, we send core employees to renowned universities in China and overseas, such as Cambridge University, Wharton School of the University of Pennsylvania, Chinese University of Hong Kong and Peking University, to participate in training courses and exchange programs. We also invite professionals from leading financial institutions to host training courses for our employees to promote business development and improve employees' professional knowledge.

During the Track Record Period, there have been no strikes, protests or other material labor conflicts that may materially impair our business and corporate image. We have established a labor union and we believe that we have maintained a good relationship with our employees and value their importance at all times.

PROPERTIES

Our corporate headquarters is located at 38-45/F, Jiangsu Tower A, Yitian Road, Futian District, Shenzhen, Guangdong Province, China. As of the Latest Practicable Date, we owned 81 properties in the PRC with an aggregate gross floor area of approximately 23,087.4 square meters and one parcel of land with a site area of approximately 4,847.9 square meters. In addition, we leased 211 properties with an aggregate gross floor area of approximately 146,433.2 square meters. In Hong Kong and overseas, we leased four properties with an aggregate gross floor area of approximately 4,715.7 square meters.

As of June 30, 2016, our property interests represented approximately 0.6% of our total assets and no single property accounted for 15% or more of our total assets by book value. Accordingly, this prospectus is exempt from the requirement under Chapter 5 of the Hong Kong Listing Rules and section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance to include all interests in land or buildings in a valuation report as described under section 34(2) of the Companies (Winding up and Miscellaneous Provisions) Ordinance.

Owned Properties

As of the Latest Practicable Date, among our 81 owned properties in China, we had obtained building ownership certificates and land use rights certificates for 79 properties with an aggregate gross floor area of approximately 20,498.8 square meters, representing approximately 88.8% of the aggregate gross floor area of the properties that we owned. Our PRC legal advisors confirm that we have the legal ownership of these properties and therefore have the right to occupy, use, transfer, lease, mortgage or otherwise dispose of such properties. Among these 79 owned properties, the building ownership certificate of one property with a gross floor area of approximately 1,324.0 square meters states that the underlying land shall be used for residential purposes, but in fact the building was being used for commercial purposes. We have been advised by our PRC legal advisors that other owners with interests in the property have the right to request for court orders that would require us to remove any impairment, eliminate any danger, restore the property to its original state or compensate for any loss incurred. Our Directors confirmed that since the date of our acquisition of this property and up to the Latest Practicable Date, we had not been subject to any rectification or fine imposed by the relevant government authorities in respect of our uses of this property. If required, we would be able to identify alternatives for relocation of our offices at minimal cost. Our Directors confirm that the foregoing defects would not have any material impact on our business or financial condition or on this Global Offering.

As of the Latest Practicable Date, among the properties we owned, we had not obtained proper building ownership certificates and land use rights certificates for two properties with an aggregate gross floor area of approximately 2,588.7 square meters, representing 11.2% of the aggregate gross floor area of our owned properties.

One property located in Shenzhen, Guangdong Province, with a gross floor area of approximately 581.8 square meters and representing approximately 2.5% of the aggregate gross floor area of the properties we owned, was part of a property owned by China Merchants Bank with a total gross floor area of 1,176.0 square meters, and was transferred to the Securities Department of China Merchants Bank, our predecessor, by China Merchants Bank in August 1993 upon our establishment. However, due to the missing of certain documents with respect to this property, we are unable to partition the property or apply for a separate ownership certificate from that under the name of China Merchants Bank. We are currently leasing this property for cafeteria purposes.

In January 2016, China Merchants Bank confirmed, in writing, that (i) the property is owned by us, and there was no dispute on such ownership between China Merchants Bank and us; (ii) China Merchants Bank would work with us to request relevant PRC authorities to facilitate the formal transfer of such ownership; and (iii) after the transfer of such ownership, China Merchants Bank would indemnify us against any consequential economic losses, if we lose such ownership and/or the right to use such property due to any third-party recourse or claim caused by China Merchants Bank. Our PRC legal advisors confirm that our ownership to this property shall not act against a third party since we haven't obtained proper building ownership certificates. However, the property has been occupied by us for a long period, and China Merchants Bank does not dispute our rights to the property and has also provided such written confirmation, the issue would not have any material impact on this Global Offering.

We have occupied and used one property located in Harbin, Heilongjiang Province, with a total gross floor area of approximately 2,006.8 square meters, which represents approximately 8.7% of the aggregate gross floor area of the properties we owned. Our predecessor, Guotong Securities, purchased this property for use as a securities branch in 1998 and obtained the ownership certificate, and upon the change of corporate name to China Merchants Securities, we were unable to re-register this property under our new corporate name, because relevant PRC authorities suspended title transfer procedures due to a commercial dispute between the committee of property owners and the developer in 2007. Our PRC legal advisors confirm that we are the owner who occupy and use the foregoing property, but since relevant PRC authorities suspended procedures with regard to the property, our right to transfer, pledge or dispose of the property is restricted. We are using commercially reasonable efforts to obtain the relevant title certificates for such property.

Our Directors confirm that the foregoing two title defects would not have any material impact on our business or financial condition or on this Global Offering.

Owned Land and Properties under Construction

As of the Latest Practicable Date, we owned one parcel of land with a site area of approximately 4,847.9 square meters, for constructing our new headquarters building with a planned gross floor area of 59,999.2 square meters. As advised by our PRC legal advisors, we have been granted the relevant land use right certificates and the planning and construction permits required under PRC laws. As of the Latest Practicable Date, construction of this property was still ongoing. We have been advised by our PRC legal advisors that we have already obtained the relevant approval documents from the government as are required for the current phase.

Leased Properties

As of the Latest Practicable Date, we leased 211 properties in the PRC with an aggregate gross floor area of approximately 146,433.2 square meters. These leased properties are primarily used for our business and office purposes.

For 183 leased properties with an aggregate gross floor area of approximately 131,216.9 square meters, representing approximately 89.6% of the aggregate gross floor area of the buildings we leased, our landlords had the relevant building ownership certificates as of the Latest Practicable Date. Our PRC legal advisors are of the view that the landlords of these 183 leased properties are the owners of, or authorized persons to lease or sublease, the respective properties, and the lease agreements are legally effective. Of these 183 leased properties, the building ownership certificates of five properties with an aggregate floor area of approximately 842.4 square meters, representing approximately 0.6% of the aggregate gross floor area of the buildings we leased, state that the respective underlying land and/or building shall be used for residential purposes, but in fact the buildings were being used for commercial purposes. As advised by our PRC legal advisors, we face the risk of relocating due to unpermitted use of these properties. We do not consider these five properties crucial to our core business given their small size, and we believe we will be able to relocate in a timely manner at minimum expense and this would not materially affect our business or financial position.

For the remaining 28 leased properties with an aggregate gross floor area of approximately 15,216.3 square meters, representing approximately 10.4% of the aggregate gross floor area of the buildings we leased, our landlords had not provided the relevant building ownership certificates as of the Latest Practicable Date. However, these landlords or their beneficiaries of such properties had provided relevant certificates, or issued written confirmations with respect to the ownership of the leased properties. In particular, the landlords of 18 such properties promised that they will assume the legal liability or compensate for loss arising from any disputes in connection with the ownership or leasing of such properties. As of the Latest Practicable Date, we were not aware of any incidents that had arisen due to the safety conditions of these properties and we were not aware that the relevant building ownership certificates were not obtained due to the safety conditions of these properties.

Our Directors confirm, and our PRC legal advisors believe in the event that we are unable to enforce the lease agreements and are required to relocate due to the defective titles of the leased properties or the invalidity of the lease agreements, we will be able to find suitable substitutes. Our Directors and PRC legal advisors confirmed that although we may incur additional relocation costs therefrom, there would be no material impact on our business or financial condition or this Global Offering. Our Directors are of the view that the defective titles will not individually or collectively have a material and adverse effect on our business because (i) among the foregoing 28 leased properties, the landlords of 18 such properties promised that they will assume the legal liability or compensate for loss arising from any disputes in connection with the ownership or leasing of such properties; (ii) we do not consider these 28 properties crucial to our core business given their small size; and (iii) we believe we will be able to relocate in a timely manner at minimum expense and this would not materially affect our business or financial position.

In addition, our Directors are of the view that the rental costs for the 28 properties with defective title would not be materially different should the landlords obtain the relevant title certificates.

RISK MANAGEMENT

Overview

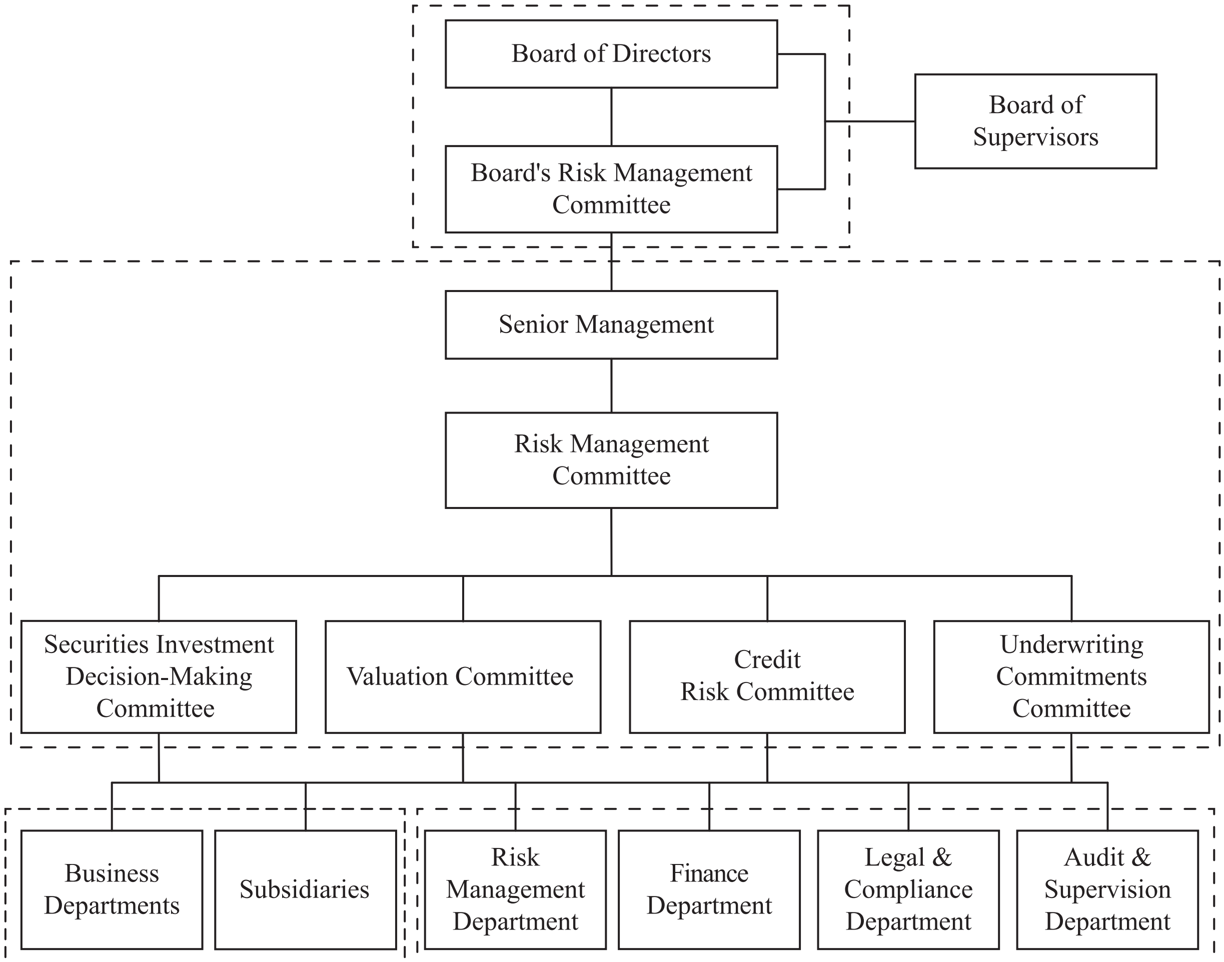
We are committed to an effective risk management approach that strictly abides by legal and compliance requirements to achieve reasonable risk-adjusted returns. As we manage overall risk control and risk limits and prioritize businesses with higher risk-adjusted returns for purposes of resource allocation, we strive to maximize profitability provided that risks are identifiable, predictable, manageable and bearable. Through these means, we seek to ensure our long-term steady growth and business success.

Since our incorporation in 1993, we have established sound corporate governance, as well as effective risk management and internal control systems to manage our risk exposure in the securities market. As a result of such effective systems, our strong capital support and other criteria, we have received the "(Class A) AA" regulatory rating issued by the CSRC, the highest rating issued to a PRC securities firm to date, for nine consecutive years since 2008. For details of the factors taken into account by the CSRC in assigning regulatory ratings, see "Regulatory Environment."

Risk Management Organizational Structure

In accordance with the requirements of the Guidelines for the Internal Control of Securities Companies (證券公司內部控制指引) and the Standards for the Management of Overall Risks of Securities Companies (證券公司全面風險管理規範), and taking into account our operational needs, we have taken the lead in establishing a five-level risk management structure, consisting of: (i) the Board and the Board's Risk Management Committee; (ii) the Board of Supervisors; (iii) the senior management and its Risk Management Committee; (iv) the relevant departments in charge of risk management (e.g., Risk Management Department, Finance Department, Legal and Compliance Department, Audit and Supervision Department); and (v) other departments, branches and subsidiaries.

The chart below sets out our risk management organizational structure:



Board and the Board's Risk Management Committee

The Board and its Risk Management Committee are our highest risk management decision-makers. They are primarily responsible for: (i) reviewing our risk appetite and risk tolerance; (ii) evaluating our allocation plan of economic capital; and (iii) convening quarterly meetings to review quarterly risk reports and thoroughly assessing our risk management performance. As of the Latest Practicable Date, our Board's Risk Management Committee comprised six members who had, on average, over ten years of work experience in financial and securities industries, and most of them had a finance or economic related background. See "Directors, Supervisors and Senior Management" for detail of the Risk Management Committee.

Board of Supervisors

Our Board of Supervisors is comprised of nine supervisors, including three employee supervisors and six shareholder supervisors. The Board of Supervisors is responsible for supervising and examining the operation of our overall risk management system. Our current chairman is Ms. Zhou Linda Lei, who has more than 13 years of experience working in the financial and securities industries.

Senior Management and its Risk Management Committee

Our senior management, comprised of our President and Vice Presidents, is responsible for the overall risk management in our business operations. They regularly debrief the risk assessment reports, formulate risk management measures and establish risk limit indicators. A Risk Management Committee is set up under the senior management as the highest risk management decision-maker at the operational level. We appointed a Chief Risk Officer to take charge of the overall risk management.

- Risk Management Committee: As the highest risk management decision-maker at the operational level, the Risk Management Committee is responsible for reviewing reports on our annual risk appetite, risk tolerance, allocation of economic capital and other risk limits, as well as our quarterly or annual risk assessment reports, and quarterly or annual compliance reports. The Risk Management Committee also reviews and advises on our risk management policies as well as major high-risk and innovative businesses proposed by our business departments.
- We set up a Securities Investment Decision-Making Committee, a Credit Risk Committee, a Valuation Committee and an Underwriting Commitments Committee under the Risk Management Committee, and have established a clearly defined review scope and procedure rules.
- Chief Risk Officer: Our Chief Risk Officer is responsible for promoting the formation of the overall risk management system, monitoring, evaluating and reporting our overall risk level, and providing risk management advice for our business decision-making. Our Chief Risk Officer is nominated by our President and appointed by the Board. Our current Chief Risk Officer is Ms. Deng Xiaoli, who has more than 18 years of experience working in the financial industry.

Relevant Departments in Charge of Risk Management

Our relevant departments in charge of risk management include:

- Risk Management Department: the Risk Management Department is responsible for managing our market risks and credit risks, as well as assisting and guiding our business departments in managing operational risks.
- Finance Department: the Finance Department is responsible for managing liquidity risks and promoting the formation of the corresponding system, rules and policies on liquidity risk management.
- Legal and Compliance Department: Our Legal and Compliance Department is responsible for managing our compliance and legal risks, and its main duties include, among others, assisting our Chief Compliance Officer in reviewing, supervising and examining the compliance of both our business operations and employees' practicing behaviors.
- Audit and Supervision Department: Our Audit and Supervision Department is responsible for auditing and examining the effectiveness and execution of our risk management procedures as well as conducting an overall evaluation of our risk management system at least once a year.
- Other departments in charge of risk management mainly include the President's Office and our IT department. The President's Office is mainly responsible for our reputational risk management and formulating and implementing our branding strategy. It is also

responsible for media, public relations and crisis management, so as to maintain and improve our internal and external brand recognition. Our IT department is responsible for our information technology risk management, preventing and rectifying any technical malfunctions or data leakage, and improving the stability and efficiency of our IT system.

Risk Management Functions in Our Business Departments, Branches and Subsidiaries

Our various business departments, branches and subsidiaries are directly responsible for risk management and supervision in their respective business and management areas.

Persons in charge of each department, branch or subsidiary are directly responsible for the effectiveness of the risk management in the respective department, branch or subsidiary. It is their responsibility to understand fully and take into account the various risks related to the business and management activities in the course of decision-making. They shall also promptly identify, assess and respond to relevant risks; and proactively and promptly report the potential risks identified in their respective business and management areas to their supervisors, relevant departments in charge of risk management and the Chief Risk Officer. They shall, based on our risk management framework, formulate risk management systems and procedures for their respective business and management areas, so as to standardize their risk management. They shall proactively identify risks in their respective business and management areas, and develop effective risk response measures.

Risk Management Procedures

We have also established a "three defense lines" system of risk management and cooperate closely in various risk control stages to monitor, identify, assess, address, inspect and report risks:

- First defense line: Departments at the business level conduct self-governed risk management in the process of business operation, identifying risks and adopting response measures.
- Second defense line: The Risk Management Department and the Legal and Compliance Department focus on preventing and mitigating risks before and when they occur by assessing and monitoring risks.
- Third defense line: The Audit and Supervision Department focuses on inspecting and rectifying risks after they occur.

Quantitative Risk Management Indicator System

We have established a quantitative risk management indicator system covering risk appetite, risk tolerance, economic capital and risk limit, so as to prioritize businesses with higher risk-adjusted returns for purposes of resource allocation. This approach has effectively improved our risk management performance and increased our corporate value.

- Clear risk appetite and tolerance indicators: Risk appetite indicates the basic attitude of the Board and the senior management towards the balance between risk and return based on analysis of the various risk factors we face. Risk tolerance is a quantitative limit indicator that shows the effectiveness of risk management. According to the risk appetite, we set risk tolerance indicators for each specific business based on its characteristics, so as to clarify the maximum tolerable range of the risk management results. After years of effort, we have developed clear risk appetite descriptions covering five major risk types, namely overall risk, market risk, credit risk, operational risk and liquidity risk. We have also developed a risk tolerance indicator system covering four major business lines, namely brokerage and wealth management, investment banking, investment management, and investment and trading. We set our targets of risk appetite and risk tolerance at the beginning of each year, implement them in setting our economic capital budget and business authorization, monitor and report the execution of risk appetite and risk tolerance on a monthly basis, and continuously review the risk management based on the results of following our plan.

- Scientific economic capital management model: We took the lead in introducing the economic capital management model in the PRC securities industry in 2007, and kept on optimizing the methodologies on economic capital measurement and improving the economic capital management process. Our economic capital management fully covers market risk, credit risk and operational risk. In accordance with the Basel Accords, we have developed an internal model to measure market risk and credit risk of our economic capital which demonstrates high risk sensitivity and reliability. We measure operational risks by referring to the Standardized Approach under the Basel Accords, and widely use the internal model in areas such as risk monitoring, quantitative assessment and performance assessment.
- Business authorization management system focused on risk limit: We grant business authorization level by level based on the risk rating of the business at issue. In cases of manageable risks, we grant authorization prudentially based on the risk management capability, implementation of business authorization and actual risk management results of each business department, so as to improve decision-making efficiency. Unauthorized operations are strictly prohibited. Persons authorized at each level must exercise their power and conduct business activities only within the authorized scope.
- Comprehensive stress testing mechanism: The "Operation Mechanism of Comprehensive Stress Testing System of China Merchants Securities" was recognized by the Securities Association of China in 2010, and promoted to the entire industry as an advanced example. We have clearly set out the stress testing system under which work is divided among multiple departments, and designed methods and procedures for this stress testing. We conduct routine or ad hoc stress testing on liquidity risk, credit risk and market risk, as well as net capital and other risk limit indicators, based on business and market development. With this approach we can effectively evaluate changes in our operation and risk profiles under extreme circumstances.

Monitoring and Management of Major Risks

We have established a comprehensive risk management system covering market risk, credit risk, operational risk, liquidity risk and compliance risk, and determined the boundaries and general principles of various risk management.

Market Risk

The market risk we face is the risk of losses on our portfolio due to adverse changes in relevant markets. Our portfolio mainly includes proprietary investment, market-making for clients and other investment activities, while changes in the portfolio are mainly from strategic trading activities in our proprietary investment and the clients' market-making requirements. Our portfolio is calculated based on fair values. As a result, there may be daily fluctuations due to market conditions and changes in the portfolio. Major market risks we face include:

- equity risk: mainly attributable to portfolio risk exposure to changes in prices and volatility of equity securities such as stocks, stock portfolio and stock index futures;
- interest rate risk: mainly attributable to portfolio risk exposure to changes in the term structure of fixed-income investment, interest rate movements and credit spreads;
- commodity risk: mainly attributable to portfolio risk exposure to changes in spot commodity prices, forward commodity prices and volatility; and
- exchange rate risk: mainly attributable to portfolio risk exposure to changes in spot exchange rate, forward exchange rate and volatility.

In order to manage our market risk, we have adopted the following measures:

- A comprehensive, multi-currency and cross-market risk management system: We thoroughly identify, measure, assess and control the market risks of various investment products such as stocks, bonds, commodities and derivatives, as well as financial assets in China, Hong Kong, the United States, Europe, Singapore and other overseas markets. We have established a sound business risk limit indicator system at the overall company level, down to our department and business line, and even at the trading strategy level. Comprising indicators include size, exposure, concentration ratio, stop-loss limit, VaR, Greeks and Duration. Through an internationally accepted quantitative risk measurement methodology focused on the VaR model, along with tools such as sensitivity analysis, scenario analysis and stress testing, we have achieved an overall identification, assessment, measurement and management of market risk. By integrating a third party's specialized risk management system with the internally developed risk data acquisition, monitoring and reporting systems, we provide a strong fundamental information support and management platform for market risk management, and achieve identification, monitoring and assessment of market risk in various business lines.
- Generic and specific market risk management methods: Overall, we monitor all types of investments and transactions in both domestic and overseas markets where funds owned by us and our subsidiaries are involved. We keep the aggregate market risk strictly within a safe and proper proportion of our net assets. Through diversified market strategies and product investment (including but not limited to the reasonable allocation of equity investments and fixed-income investments, the mixed use of directional and market-neutral trading strategies), we have achieved a risk diversification that satisfies certain standards. We have established and strictly implemented stop-loss policies and measures to manage our risk exposure and minimize losses. We monitor our risks based on the stop-loss limits on a daily basis. In particular, our Risk Management Department established a series of risk indicators in addition to the stop-loss limits. When the losses exceed the warning parameters, our frontline business departments are required to adjust portfolios to reduce risks; when losses exceed the stop-loss limits, we will send mandatory stop-trading instructions to our frontline business departments and traders, including types of securities, trading directions and stop period, among others. With respect to a specific business type and trading strategy, we carry out targeted risks monitoring and management based on their characteristics. For example, when investing in stocks, we focus on controlling the size of investment and the concentration ratio, constructing a restricted pool, closely

tracking the top holdings, and encouraging the use of swing trading and dynamic hedging to reduce risks. We stick to the market-neutral principle for derivative hedging businesses; we make proper control and adjustment of losses arising from potential risks; and we strictly value the derivative products traded and measure the risks involved in order to effectively hedge the market risk. In terms of bond investment, we optimize the credit rating structure of the portfolio, and increase efforts in the focused research as well as identification and dealing of high-risk bonds.

Through these measures, we have robustly controlled the market risk. However, the usage and effectiveness of such measures are subject to certain limitations and various factors, such as hedging effectiveness, changes in market liquidity, and relevance of hedging prices. Therefore, based on market development and changes in the portfolio as well as real-time and accurate assessment of market risk, we have continuously improved and adjusted the risk management measures to actively manage market risk.

Credit Risk

Our credit risk refers to the risk of economic loss caused by the failure of the borrower or the counterparty to fulfill their contractual obligations. Our credit risk arises primarily from the following four businesses:

- businesses such as the margin financing and securities lending or the stock repurchase business in which clients breach the contract and cannot repay the debts owed to us;
- investment in bonds, trusts or other credit products in which the issuer or the borrower breaches the contract, generating the risk that the principal and the interest cannot be paid;
- business such as an equity return swap, an interest rate swap and an OTC option in which the counterparties fail to fulfill their payment obligation; and
- brokerage business in which clients default due to a lack of funds on the settlement date after brokers trade securities, futures and other financial products on behalf of the clients.

In order to effectively control credit risk, we have adopted the following measures:

- Prudent and proactive credit risk management: We proactively manage credit risk on a prudent and manageable basis. Under the condition of effectively controlling the risk and default loss of the borrower or the counterparty, we prioritize the allocation of risk resources. We are committed to maintaining the asset quality in our financing businesses such as margin financing and securities lending, securities-backed lending, leveraged financing and structured products, so as to ensure the proper diversification of our credit portfolio with regard to types of investment products as well as clients. Therefore, the credit risk from a single field will not have a material impact on the continuity of our operation.
- An institutional system covering all stages and a risk policy system based on risk limits: We have established a credit risk institutional system covering all stages from due diligence, credit review, collateral management to post-loan credit examination. We established a credit risk policy system that applies to key business products and sensitive industries. With tools such as clear limit indicators, admission criteria, due diligence standards and audit requirements, we develop our business according to our risk appetite.

- Industry-leading credit risk management quantitative tools: We took the lead in introducing an internal model approach to measure the economic capital of credit risk. Taking into full account the client mix, term structure, collateral structure and concentration ratio, we measure the credit risk of our main businesses through measures such as stress testing and sensitivity analysis. Based on factors like intrinsic value, liquidity, volatility and concentration ratio of collaterals, we have established negative list models for collaterals as well as collateral conversion rate models to enhance the protection of collaterals for our creditor's rights. We have also reduced our potential risk losses and expected losses through various risk mitigation tools such as risk transfer and hedging and agreement management.
- An internal credit rating system with the best practice in the PRC securities industry: We have established an internal rating system in line with the industry's best practice based on the characteristics of the industry and target clients. We have accumulated a large amount of quantitative and qualitative data on issuers or borrowers. By using a scientific rating method, we have developed several internal credit rating models that quantitatively assess all of our credit assets. Our internal credit rating results are gradually employed in risk management with respect to client access, credit management, risk limit management, risk monitoring, asset quality management and risk pricing.
- Full coverage of the substantive assessment of credit risk: We have established a collective decision-making mechanism consisting of the Credit Risk Committee and expert review. We effectively address the business risk by examining high-risk credit business, large-sum business and innovative business one by one. Substantive assessment of credit risk fully covers the standard exchange business, OTC non-standard business, on-balance sheet business, off-balance sheet business, domestic business and offshore business.

Operational Risk

Operational risk refers to the risk arising from imperfect internal procedures, employees, IT systems and external events. In order to minimize operational risk, we have adopted the following measures:

- We have established comprehensive systems for operational risk management in accordance with the Basel Accords and our strategic development needs, and we effectively led the operation of various businesses through measurement and allocation of operational risk-based economic capital.
- We have established an integrated system on the basis of operational risk appetite, tolerance and management policy. We improve the operational risk governance structure in a dynamic way by conducting gap analysis on the basis of continuous tracking and assessment of the current management status.
- We have utilized operational risk management tools in a scientific and elaborate way by using quantitative and qualitative operational risk exposure assessment methods and operational risk and self-assessment management tools.
- We have actively promoted the compilation of an operational risk manual. With such procedures as the focus and with each department or branch as a unit, we have written operational risk manuals that cover all of our businesses. On the basis of basic risk calculation and assessment functions, we keep following-up on improvement and tracking stages, revising the manuals accordingly.

- By using operational risk events and loss data collection management tools, we collect and summarize the important internal and external operational risk events encountered by each of our businesses. Additionally, we clarify areas of risks that require attention and their impacts. This has allowed our operational risk management to transition towards pre-event forecasting based on large volumes of data.
- We pay great attention to promoting operational risk management consciousness. We emphasize the importance of conducting risk identification and control before introducing innovative products and innovative businesses. This helps operational risk management cover all the departments and branches in our front, middle and back offices, and in turn effectively strengthens our ability to control in advance, monitor during and improve after the occurrence of such events.

Liquidity Risk

Liquidity risk refers to the risk that we might not be able to get timely capital injection at reasonable costs to repay debts that are due, fulfill other payment obligations or satisfy the capital needs for normal business operation. Possible liquidity risk events and factors include cash flow strains, persistent high financing costs, blocked financing channels and difficulties in servicing concentrated mature debts.

In order to prevent liquidity risk, we have adopted the following measures:

- We have established high-quality current asset reserves and a minimum excess reserve quota system. We have formulated liquidity contingency plans and reserved treasury bonds, Central Bank bills and other highly liquid assets which can be liquidated at any time under extreme circumstances to cover unexpected expenses.
- We have actively developed management for financing gaps. By using management tools such as a cash flow gap, sensitivity analysis and stress testing, we can identify potential risks at an early stage and to arrange financing or adjust the pace of fund usage for business purposes in advance so as to effectively manage the payment risk.
- We have continuously expanded our financing channels and balanced the distribution of debt maturity so as to avoid the payment risk caused by a single financing channel or servicing mature debts.
- We have established an internal risk reporting system to promptly monitor the liquidity risk in the operation of each business and at each branch. In addition, we have taken measures to promote the safety, soundness and sustainability of the aforementioned operations.

Compliance Risk

Compliance risk refers to the risk of being subject to legal sanctions, regulatory measures, and monetary loss or reputational damage as a result of business activities or employee conduct violating laws, regulations or rules.

In order to effectively prevent compliance risk, we have adopted the following measures:

- we have established a comprehensive organizational structure and institutional system for compliance management to conduct orderly compliance management;

- we have implemented measures such as compliance culture publicizing, compliance training, consultancy review, reminder reporting, examination and supervision, and assessment to ensure compliance;
- we have established a sound organizational structure and an internal control system for anti-money laundering; and
- we have put appropriate Chinese walls in place to ensure the smooth operation of each business line, prevent insider trading and manage conflicts of interests.

RISK MANAGEMENT AND INTERNAL CONTROL MEASURES IN OUR MAJOR BUSINESS LINES

We have implemented various risk management and internal control measures to manage the risks associated with our business activities.

Brokerage and Wealth Management Business

Securities and Futures Brokerage

We have taken the lead in building a risk management structure by formulating comprehensive internal rules and guidelines for our securities and futures brokerage business to ensure compliance with relevant laws and regulations. We prohibit our employees from conducting unauthorized trading or other activities against the rules that apply to our business operations.

The main risks in our securities brokerage business are operational risk, compliance risk and credit risk. We manage these risks primarily through the following measures:

- We have established an authorization management system and differentiated levels of authorization according to the corresponding business risk, and integrated the performance of internal control into the performance assessment.
- Our securities branches have implemented a control mechanism in which the front office is segregated from the back office. In securities branches, a chief operation officer is assigned to carry out front-line supervision and management of the business of the branches.
- We have established a unified customer management and customer service system for the brokerage business. Operational procedures related to account openings and subsequent business are standardized to protect the legitimate rights and interests of customers. A customer eligibility management mechanism has been established to evaluate the risk tolerance of clients. We have also established a mechanism for customer feedback and complaints handling to timely detect and deal with disorderly conduct and customer disputes.
- We have established a centralized and unified front office personnel management system, including marketing and customer service, in order to prevent the operational risk of non-standardized business practices in aspects of personnel recruitment, training, management of professional qualification, management of professional conduct, remuneration and assessment and risk monitoring. Through an off-site surveillance system, non-compliance in employees' professional conduct can be prevented.
- We have established a sound futures brokerage business management system. We have standardized stages such as intermediary business management, connecting rules, stock

index futures arbitrage system operation, and connection with external software. We have taken measures, such as establishing a special futures brokerage business management department and assigning particular persons to risk control, to prevent the risks inherent in the futures brokerage business.

- We have centralized the storage of transaction data, clearing data, accounting data and monitoring data. The headquarters has the centralized authority to assign and grant access to data. We have also established procedures for emergency events relating to information system security to prevent system risk.
- We have placed clients' funds under the custody of third parties. Deposit funds from clients are deposited at custodian banks and monitored by the investor protection fund and the custodian banks. It is the practice of the securities firm not to spend or embezzle such funds. Therefore, debts incurred from this part of the brokerage business do not contribute to our liquidity risk.
- We have enhanced our credit and customer deposit management in our brokerage business. Trades on behalf of domestic clients are settled with full deposits, hence there is no credit risk. For trades in securities and other financial products on behalf of overseas clients, credit risks are under effective control via enhanced credit and brokerage customer deposit management.
- We have formulated guidelines on risk control and forced liquidation for our futures brokerage business, established a sound risk control model for our brokerage transaction business and established a customer deposit management system to evaluate and adjust our customer deposit levels on a routine or ad hoc basis. By these measures we seek to control our credit risk.

Margin Financing and Securities Lending Business

The risk entailed in the margin financing and securities lending business is mainly the credit risk resulting from clients' default in the repayment of debt to the Company. We have continuously enhanced the risk management in our margin financing and securities lending business, strengthened the monitoring of risks for client accounts, and improved our risk warning abilities. With good risk control, we have achieved a balanced development in terms of business scale, quality and efficiency.

We are dedicated to maintaining the asset quality of the margin financing and securities lending business, and have adopted the following measures:

- We manage the margin financing and securities lending business in a centralized and unified way. Our headquarters is responsible for decision-making and management of the margin financing and securities lending business. The front office, middle office and back office are separated from and restricted by one another, with different departments and positions taking charge of different stages.
- We have established a relatively sound business system for the margin financing and securities lending business, exercised strict investor eligibility management and continuous qualification management, and adopted strict approval procedures.
- We have paid great attention to the extent that the quality of collateral guarantees our rights as a creditor. By utilizing tools such as negative list models for collateral and

collateral conversion rate models, we adopt different discount rates on collateral with different grades based on their quality and approve credit and manage the margin ratio according to the classification of clients.

- We have implemented a two-tier risk monitoring and management mechanism for the financing business to effectively prevent the risk of client default. The Margin Financing and Securities Lending Department marks to market, monitoring maintenance margin ratio, expiry of warehouse receipts, margin calls and changes of qualification of underlying securities. It also carries out post-loan management. The Risk Management Department monitors risks regarding our overall risk profile, large-sum and high-risk clients and concentration ratio independently, and analyzes and evaluates through measures such as stress testing.
- We strictly implement the risk management policy of forced liquidation and have established strict liquidation procedures and recourse mechanisms to ensure the fairness and efficiency of liquidation and to safeguard our rights to the maximum as a creditor.
- Since the stock market plunged in mid-June 2015, we have re-examined and further optimized the risk control mechanism of our margin financing and securities lending business. We focused on optimizing the liquidation management and the risk control on the concentration rate of clients' funds. We strengthened our management control over the concentration towards a single client or a single collateral, and further enhanced countercyclical adjustments. During a period when the market is overheated with high accumulated risks, we reduce the portfolio risk of the margin financing and securities lending business by reducing leverage ratio and collateral conversion rate, as well as by controlling financing targets and credit lines.

Securities-Backed Lending Business

We have paid great attention to credit risk of the securities-backed lending business. Our basic vetting criterion for granting approvals is that the borrower should have a sufficient repayment source. Meanwhile, we have strengthened our management control over the validity of collateral by establishing a sound full-process risk management system covering the stages in advance of, during and after the event.

The main management measures we have adopted are the following:

- We have formulated credit policies for our securities-backed lending business on the basis of our risk appetite. We have clarified the risk perimeter and base line of our securities-backed lending business through risk limits, access standards for borrowers and collateral, credit extension principles, and business authorization.
- We have established a multi-tier approval and authorization system with the Credit Risk Committee as the core, which consists of 11 members, all of whom have relevant experience of more than ten years in the securities industry. Large-sum, long-term and high-risk securities-backed lending businesses are subject to the collective decision-making of experts.
- We have established a management mechanism for the underlying securities pool of collaterals. On the basis of daily monitoring, the underlying securities pool of the securities-backed lending business is updated by designated staff on a real time basis. We

select high-quality stocks with sound fundamentals and liquidity to include in our collateral pool. In principle, we do not accept stocks outside our collateral pool for the securities-backed lending business.

- We have built a collateral quantitative model for the comprehensive evaluation of factors such as fundamentals, volatility, historical rise and fall in price and liquidity of individual stocks, as well as the concentration ratio, maturity and nature of collateral stocks, in order to reasonably determine the conversion rate of collateral.
- By means of stringent due diligence, post-loan examination, mark-to-market activities, risk warning and liquidation, we comprehensively identify and manage the credit risk of the securities-backed lending business in advance of, during and after the event.

Sales of Financial Products

In order to manage risks related to the sale of third-party financial products, we have taken the following measures:

- We have set up a Product Committee, along with a Product Review Team, which consists of 23 members, with on average more than 15 years of relevant experience in the securities industry. Through collective decision-making by experts, the Product Committee conducts compliance examination and risk level determination on third-party financial products.
- We have established a comprehensive institutional system with management measures for agency sales, marketing standards, investor eligibility and management of customer feedback, as well as a complete business flow for sales of third-party financial products from product admittance, product evaluation, product decision-making and product sales to ongoing monitoring. We promptly amend the procedures according to our business development.
- We have adopted access management for consignors and investment managers of third-party financial products. We carry out dual due diligence on managers, business departments and research and development centers outside of our white list, so as to control the risk related to the management capability upfront.
- We have established management principles for the eligibility of third-party financial products, and built corresponding relationship between the risk rating of such products and the evaluation of the risk tolerance of clients to strengthen management control over sales eligibility.
- For the sales of financial products, we have carried out ad hoc self-examination, internal and external audit for the management of branches, business promotion, risk disclosure and management of client eligibility to prevent and control risks.

Private Investment Fund Custody Service

We have set up a custody department to coordinate our custody business. Our custody department has established a well-developed custody outsourcing business process, so as to ensure a standardized operation and steady business development.

- We have formulated sound operational procedures for transfer agents and fund accounts. We have specified job responsibilities and work procedures of all departments and positions. The custody department has standardized its operations by designing specific operational procedures and work logs for related positions.

- The custody department has effectively separated the custody business from the outsourcing business by assigning different business operation personnel and measures such as segregation of office areas and office facilities, and by making them relatively inaccessible to, and independent from, each other.
- We have established a method of information verification and inspection on share registration and valuation accounting in the internal management system which safeguards our normal business operation. Our fund custody and outsourcing businesses use two different sets of valuation systems and compare their results for accuracy.
- We have established a technical support system for our fund custody and outsourcing businesses, in order to conduct adequate technical and business tests on all functions before launching the system. We then track and solve the problems detected in the tests. To prevent system errors in the actual business operation, the custody department has established a manual ad hoc inspection and authentication mechanism for key information so as to timely discover system running errors. We have constantly improved the technical system of fund custody and outsourcing businesses according to the needs of market development and business innovation to ensure that the technical system is forward-looking and advanced.

Investment Banking Business

We have established a comprehensive internal control system to constantly improve the business processes of the investment banking business. Our internal controls over the investment banking business focus on preventing market risk, credit risk, operational risk and compliance risk due to mismanagement, unclear responsibilities, lack of diligence and other causes. The aforementioned focuses are realized mainly through the following procedures:

Project approval	As for the prospective equity financing and debt financing projects that we may sponsor and underwrite, M&As and restructurings for which we may act as the financial advisor, and the businesses that we may recommend to be listed on the NEEQ, we establish the project approval processes for those businesses and strictly enforce them. We also set up an independent audit team to ensure that the business team effectively and prudently undertakes those projects, so as to reduce the risk from the source itself.
Project implementation	We formulate corresponding guidance documents for different types of businesses to strengthen risk management. The project team conducts thorough due diligence to ensure that relevant documents are true, accurate and complete. For IPOs and other high-risk projects, the risk management department conducts on-site inspections and reviews due diligence materials in conjunction with the internal audit department.
Internal audit	We thoroughly review the project in internal audit meetings. The auditor and the internal audit committee members review and discuss the problems concerning various aspects of the project, and then the project team responds to and rectifies the problems. Equity financings, debt financings, NEEQ listings, M&As and restructuring projects must be reapproved at the internal audit meeting and may not be officially submitted for application without approval.

Issuance and underwriting	We strictly control underwriting risk and compliance risk through the due diligence conducted by the project team; book-building, roadshow, marketing, pricing and allotment exercises conducted by the capital markets department and the bond sales department; comprehensive analysis by the risk management department; and collective decision-making by the Risk Management Committee and the underwriting commitments committee. In terms of independent allotments in the IPOs, we have set up an independent allotment decision-making committee and established an allotment system that incorporates the decision-making mechanism, the allotment mechanism and business procedures to effectively strengthen the risk and compliance management over independent allotment activities.
Ongoing supervision	We place emphasis on tracking and managing of ongoing supervision. The work involved includes regular reports and ad hoc on-site inspection, training service to the issuer and its directors, supervisors and senior management, among others. We regularly evaluate the ongoing supervision work of sponsor representatives, special ongoing supervision commissioners and team leaders, so as to ensure the quality of our ongoing supervision.

Asset Management Business

We conduct our asset management business through our wholly-owned subsidiary, CMS Asset Management. We update the business authorization for CMS Asset Management on a routine or ad hoc basis and carry out a review on certain high-risk and new business plans and other risk events beyond the authority granted to CMS Asset Management for the purpose of approval decisions.

We request that CMS Asset Management submits regular risk reports and special reports on significant events. Regular risk reports reflect risk identification, evaluation results and response plans and provide special evaluation of major risks. We also request that CMS Asset Management to promptly report any event that has a significant impact on the Company.

Following our risk management system, CMS Asset Management carries out tasks within its authorization and reviews and decides on any risk events that may arise during its operation through routine or ad hoc meetings. Meanwhile, CMS Asset Management has established an independent risk control and compliance management mechanism to enhance effective execution of the entrusted duties and accurate disclosure of risks. This mechanism helps promote stable business development, maintain the rights and interests of our investors and supervise and evaluate potential market risk, credit risk, interest rate risk, liquidity risk, operational risk and compliance risk. Our Legal and Compliance Department, Risk Management Department and Audit and Inspection Department also provide support to CMS Asset Management.

The internal control and risk management measures of our asset management business primarily include the following:

Investment decision-making procedures	The business management of CMS Asset Management has set three special deliberative bodies: the Securities Investment Decision-making Committee, the Risk Control Committee and the President's Office. We are able to effectively identify and control risks associated with all significant events by the combined efforts of the three bodies. On the basis of complying with relevant State laws, regulations and regulatory rules, the Securities Investment Decision-Making Committee has the ultimate authority in making decisions on investments in securities products. The Risk Control Committee is the highest decision-maker that evaluates risks of all investment decisions. It is responsible for formulating and supervising the implementation of risk management policies, risk appetite, risk tolerance and risk limit systems, regularly reviewing and evaluating our business risk profile and proposing risk management suggestions. The President's Office reviews the external strategic cooperation of the Company, makes suggestions and develops execution plans for key businesses, important products and innovative businesses that are beyond the prerogatives of the Risk Management Committee and the Securities Investment Decision-Making Committee. It also implements the Board's resolutions and coordinates and executes annual operational plans and investment plans.
Investment management procedures	Our investment decision-making bodies formulate income expectations of major asset categories based on their assessment of macroeconomic/ microeconomic trends and capital market trends. They determine the expected allocation, the key investment scope, and significant investment decisions on major assets. The investment manager of asset management products will, within the authorization of our decision-making bodies, make prudent investment decisions according to the investment scope, risk return target and investment restrictions set out in the asset management contract. We have established a securities pool for the investment and management of asset management products. We have created a list of securities to be included into the pool according to our internal and external research resources, and formed the investment securities pool after completing the corresponding investment approval procedures. Investment trades are conducted through the centralized trading system in independent trading rooms. The trading manager and traders perform pre-trade examination on compliance with regulations with respect to the trading orders. They have the right to refuse to execute trading orders that violate laws, regulations and investment management rules, and shall promptly report such events to supervisors.

We implement a risk monitoring and reporting mechanism under which we conduct in-process risk monitoring and follow-up risk reporting. For key investment restrictions, we conduct trial calculations of risks before any order is placed in the investment trading system. The order can be placed if the risk indicators of the risk control module are satisfied. In this way, we ensure the investments meet product risk return targets and investment restrictions.

Separation of businesses

We require that our asset management business be separated from our proprietary trading and other securities businesses in order to prevent insider trading and conflicts of interest. Senior management is also prohibited from managing businesses in which conflicts of interest exist and information needs to be screened. Such businesses will not be headed by the same person. The investment manager of a targeted asset management plan shall not act as the investment manager of any other asset management business.

We prohibit any trade between proprietary trading accounts and asset management accounts, or between different asset management accounts for the purpose of transferring profit or loss of asset management accounts. We require the asset management business to separate duties that may cause conflicts of interest, including investment operations, transfer and allocation of funds, account management, settlement and clearing, valuation and accounting, among others.

Opening independent accounts

We entrust client assets to qualified commercial banks, the China Securities Depository and Clearing Corporation Limited, securities firms approved by the CSRC or other asset custodian institutions that comply with the laws, regulations and regulatory rules. We provide asset management services to our clients through designated accounts. The asset management business is managed through designated cash accounts, securities accounts and trading accounts.

Eligibility management of relevant clients

We conduct eligibility due diligence on the identity of our clients and we access information on their assets, income, securities investment experiences, investment preferences, risk awareness and risk tolerance levels so that we can recommend products or services that match the risk tolerance level of the client. We also promptly examine the legitimacy of the sources of capital and uses of the managed assets.

Risk disclosure

In product contract documents, we prepare risk disclosure statements to disclose the market risk, credit risk, operational risk, liquidity risk and other specific risks associated with investment in asset management products, and submit them to the clients for their signature. During the sales process, we require our sales representatives to earnestly follow the principle of client eligibility and disclose to our clients the product risk return characteristics, investment scope, investment restrictions and other terms relating to special risks in the asset management contracts.

Independent risk assessment and monitoring	The risk control and compliance department carries out independent risk monitoring and assessment. Pre-event risk assessment includes risk identification and measurement, stress testing and scenario analysis, identification of various types of risks in the business process and the causes for their existence, and establishment of corresponding systems and preventative measures for possible risks. In-process risk tracking and monitoring mainly relates to whole-process monitoring conducted by the risk control and compliance department over the asset management business based on the risk monitoring and warning system. This allows us to keep track of the risk status and disclose and manage risks as early as possible via timely monitoring and warning. Post-event inspection and performance evaluation mainly relates to the summary and assessment of risk management performance and asset management performance.

Direct Investment Business

We manage the direct equity investment and private equity funds mainly through our wholly-owned subsidiary CMS Zhiyuan. The risk management committee and investment management committee set up by CMS Zhiyuan discuss and approve on appropriate investments and their exits.

CMS Zhiyuan has complied internal guidelines and standards for product scheme design, investment approval, project due diligence, investment decision making and execution, post-investment management and exit strategies with our own funds and private equity funds. With these guidelines, we seek to manage the risks throughout the life of a project, and establish a multilevel review mechanism to effectively manage and control the risks of the direct investment business.

- Board: The Board of CMS Zhiyuan examines and decides on the matters authorized by the shareholders, and controls the risks of direct investment business on the whole.
- Investment management committee: The investment management committee is responsible for examining the systems and procedures concerning the business investment decision-making of CMS Zhiyuan. It is also in charge of reviewing and deciding on the fund establishment plan, investment in and exit from our own fund investment projects, investment risk management reports, and other authorized matters within the authorization of the Board.
- Risk management committee: The risk management committee is responsible for examining the risk management systems and procedures relating to the operation of CMS Zhiyuan.
- Investment management department: The investment management department is responsible for developing detailed business management measures and risk management systems, managing and coordinating throughout the investment process, assessing project risks and monitoring the implementation of risk management policies.

Investment and Trading Business

We implement cross-market and multi-currency comprehensive quantitative management for our own fund investment, and monitor the market risks of all investment-related business departments and subsidiaries. Our investment and trading business mainly involves equity markets, fixed-income instruments markets and commodity markets. With regard to foreign exchange rate fluctuations concerning overseas transactions, we use risk management measures such as hedging our exposure position to control the resulting risks.

Our Board determines our maximum investment scale on an annual basis, while the Board's Risk Management Committee determines the risk appetite and risk tolerance indicators, relating to equity and fixed-income securities investment. We carry out all-inclusive and quantitative calculation and analysis according to economic capital allocation and risk return characteristics and diversification effects of various businesses, and set business authorization and risk management indicators for various businesses based on the principle of conducting examination and approval on differentiated levels. The following tables set forth our maximum investment scale, risk appetite and risk tolerance indicators in 2016.

Asset Class	Maximum Investment Scale
Equity securities and derivatives[(1)]	100% of our Net Capital[(2)]
A-share directional investment	50% of our Net Capital as of June 30, 2015
Fixed-income securities	400% of our Net Capital[(2)]

(1) Inclusive of our contribution to designated accounts at China Securities Finance
(2) Refers to our real-time Net Capital

Risk appetite indicator	Minimum/Maximum level
VaR of investment portfolio at a one-day 95% confidence interval/net assets	≤ 0.5%
Directional equity trading position/net assets	≤ 15%
Portfolio diversification[(1)]	≥ 20%
Concentration ratio of directional equity trading portfolio[(2)]	≤ 30%
Duration of fixed-income securities	≤ Five years

(1) Portfolio diversification = 1 – total portfolio VaR/the aggregate number of VaR of single security.
(2) Concentration ratio of directional equity trading portfolio = the aggregate cost of three largest holding equity securities in our long-only trading activities/the maximum investment scale of directional equity trading.

Risk tolerance indicator	Maximum level
Stop-loss limits of investment portfolio by securities investment department (mainly engages in equity securities and derivatives trading)[(1)]	N/A
Stop-loss limits of investment portfolio by fixed-income department (mainly engages in fixed-income securities trading)	RMB500.0 million

(1) Not applicable during the period in which we undertake not to reduce our A-share proprietary trading positions below the balance as of July 3, 2015 if the SSE Composite Index is below 4,500 points.

We also set trading and VaR limits for our investment to manage the risk exposure of our investment portfolio. The following table sets forth certain of our major trading and VaR limits during the periods indicated:

	2013		2014		2015		2016	
	VaR limits	Trading limits	VaR limits	Trading limits	VaR limits	Trading limits	VaR limits	Trading limits
	(RMB in millions)							
A-share equity trading	30.0	1,200.0	45.0	1,800.0	100.0	4,000.0	100.0	4,600.0
Overseas equity trading(1)	9.9	395	15.8	632	16.2	648	10.1	252
Onshore bond proprietary trading	50.0	30,000.0	50.0	30,000.0	70.0	40,000.0	85.0	55,000.0

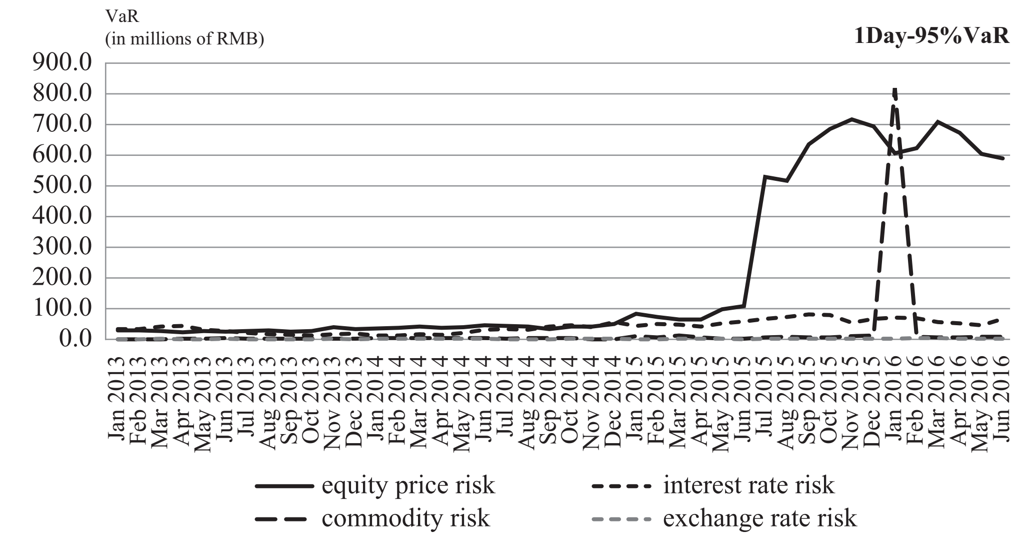
(1) Mainly in Hong Kong through CMS International; converted into Renminbi using annual/semi-annual average exchange rate.

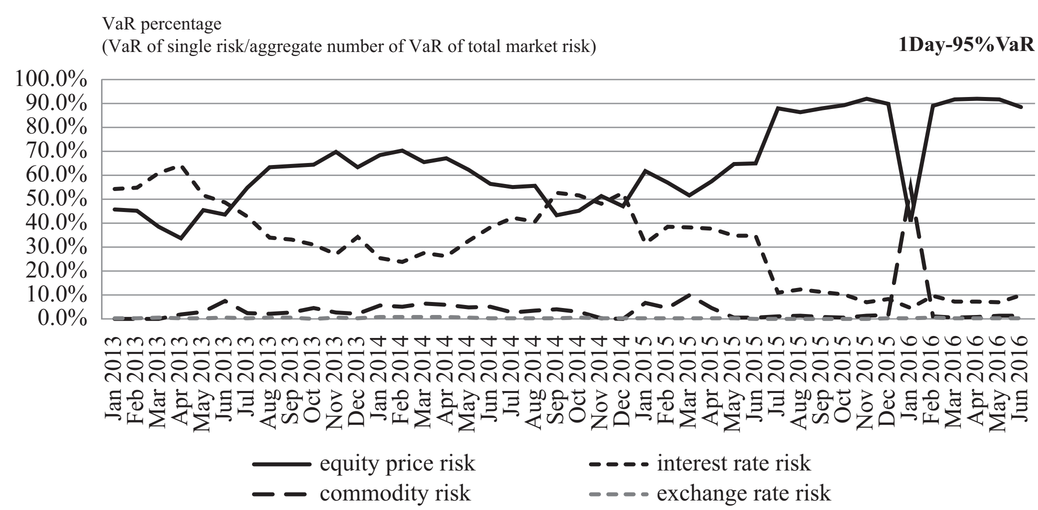
We set our trading and VaR limits based on our risk tolerance and appetite on an annual basis. We closely monitor daily VaR variations and actively analyze potential market fluctuations and related changes, including in our investment strategies and portfolio if there is any abnormal variation. When our portfolio VaR approaches or exceeds the limits, our Risk Management Department issues a warning notice to our frontline business departments and require them to adjust portfolios to a lower risk level. In addition, we adjust our investment strategies and portfolio by analyzing the real-time VaR variations. For instance, we adjust our hedging strategies when the VaR varies significantly, as it may indicate a potential market fluctuation.

In daily transactions, our frontline business departments have designated risk monitoring positions to monitor key risks in real time, and the Risk Management Department independently monitors the risks of the various departments. The Risk Management Department issues a timely warning notice to frontline business departments regarding any exceeding threshold values, and reports to the supervising managers. The responsible department is required to make and submit recommendations for approval. Based on the authorized measures, our Risk Management Department continues to monitor the business department to make sure the risk indicator lower to the threshold values or a newly authorized limit. In addition, our Securities Investment Decision-making Committee adjusts investment strategies according to market conditions on a regular or ad hoc basis.

We have also adopted a mechanism to review our limit setting and implementation. We test the effectiveness of such limits by calculating the correlation between our VaR limits and financial performance, and use the results to set limits for the coming year.

The following charts set forth our VaR by month (in both monetary terms and as percentages) over the Track Record Period.





In the second half of 2015, our VaR of equity price risk significantly increased mainly due to our participation in the stabilization measures implemented in the PRC.

Equity securities investment and trading

Our equity investment mainly comprises directional investment and market-neutral trading.

In respect of directional equity investment, we mainly invest in the domestic A-share market and the Hong Kong stock market. The relevant risk management measures are as follows:

- We have set an appropriate proportion of directional equity investment in the net capital and net assets, so as to reasonably control potential losses resulting from risk exposure.
- The business departments study the market and listed companies in various ways and establish a preferred pool and alternative pool for stock investment. The Risk Management Department sets corresponding standards to maintain and manage high-risk stocks. It also has strict research requirements and tracking mechanisms for investment in bulk holdings of stocks.

- We set limits on the concentration ratio of directional stock investment, the scale of total investment in different sectors, and the scale of individual stock investment in order to optimize the portfolio.
- We set a reasonable limit on the VaR of the portfolio and conduct daily calculation and monitoring so as to gain an accurate understanding concerning the degree of market risk to which the portfolio is exposed.
- We have set stop-loss limits on individual stocks and the portfolio and strictly control them. Furthermore, we have established a monthly protection and warning system for market values, under which we conduct prompt analysis and decisions when the drawdown of profits exceeds certain standards. In doing so, we seek to effectively control the effects of unfavorable market conditions.
- Based on market judgment, the business departments carry out appropriate dynamic hedging via CSI 300 and CSI 500 Index futures, among others, so as to reduce the drawdown rate of profits and prevent systemic market risk.

We have many trading strategies for our equity derivatives investment business such as futures spot arbitrage of stock index futures, quantitative matching, option market-making and OTC derivative transactions. Our risk management measures are as follows:

- We stick to market-neutral principles to effectively hedge risks and strictly control the scale and proportion of potential losses.
- We spread investment risks through diversified and intermarket derivative transaction strategies so as to diversify investment risks and reduce our dependence on a single market or strategy.
- For options and other financial derivatives, we have established a sound valuation management system for a comprehensive and accurate valuation and risk calculation of the financial products we are trading.
- To better control risks relating to derivative transactions, we have introduced risk control indicators that are in line with the characteristics of complex derivatives.
- For our OTC derivative business, we have established well-developed counterparty admission standards and credit approval procedures. We accurately determine relevant risk control indicators such as the conversion rate according to the historical market data and portfolio features (sector and concentration) of underlying securities, and make dynamic adjustments according to actual market changes.
- For exchange-traded options, the NEEQ and other market making businesses, we design neutral market-making strategies, strictly control unilateral positions and potential losses and prevent directional prediction deviation.
- We have established a "circuit breaker" mechanism to avoid further adverse impact on our business under abnormal market conditions by temporarily halting trading activities. In particular, we have developed an emergency mode for our derivatives trading system, which allows us to withdraw all outstanding trading offers within a short period of time and stops us from making further offers. Our derivatives trading is only resumed after sufficient analyses of market conditions are conducted and approvals are acquired from supervising managers.

Our Securities Investment Decision-Making Committee was the management decision-maker on the aforementioned increase in equity investment. Our President has the final decision-making authority as head of the committee, which comprises nine members, each of whom has more than eight years of relevant experience in the securities industry. The Company has formulated special administrative measures for investment and risk to clearly regulate investment transaction strategies and risk management measures. We mainly invest in stocks that have high intrinsic value and long-term growth potential and undervalued blue chip stocks. We select stocks from the SSE 180, SHSZ 300 and CSI 500 indices to build a temporary securities pool. The Risk Management Department establishes risk limits for, and monitors and manages risks of, newly acquired equity investments on a daily basis. It also independently calculates risk appetite and risk tolerance levels of each newly acquired equity investment, and gives timely warnings regarding any risk which is approaching or has exceeded certain threshold values. Our business departments and the Risk Management Department regularly report on a weekly basis to the Securities Investment Decision-Making Committee on investment transactions, changes in market and regulatory conditions and response plans, risk limit performance and major risk concerns. In case of material changes in market and regulatory conditions, or material changes in profit or loss on relevant securities investments, members of the Securities Investment Decision-Making Committee may provide recommendations and, upon the approval of the committee chairman, convene an extraordinary meeting to consider such recommendations and formulate corresponding measures to be implemented by the relevant departments.

We conduct hedging activities for equity trading by entering into futures contracts based on the CSI 300 Index. A stock index futures contract is valued at RMB300 times index points and settled by cash on the third Friday of the contract month. During the term of a stock index futures contract, usually between one to six months, we are able to buy or short-sell our desired amount of CSI 300 Index futures on margin based on our hedging needs and our prediction of the upcoming market conditions. For each trade, the minimum allowable index movement, or tick size, is 0.2 index point and the daily maximum price movement is a 10% increase or decrease of the settlement price from the previous trading day. In addition, we are required by the Shanghai Financial Futures Exchange to set aside at least 8% of the contract value as a margin deposit.

Fixed-income investment and trading

Our fixed-income investments mainly include domestic bond investments, overseas bond investments and fixed-income derivative investments. We pay close attention to relevant market and credit risks in transactions and take the following risk management measures:

- We set a risk limit on the size, duration, dollar value per basis point, VaR and other indicators of portfolio and individual bond investment.
- We control risk exposure to the interest rate risk by hedging through treasury bond futures, interest rate swaps and other derivatives.
- We conduct internal ratings of various fixed-income products issued through public offerings, and control the scale and proportion of bond investment in individual bonds and individual issuers according to their credit ratings.
- We constantly optimize the credit rating structure for our bond portfolio. For domestic bonds, we mainly invest in bonds rated AA+ or higher, and strictly control the proportion of investment in bonds rated AA- or lower; for overseas bond investments, we also have rating requirements. As of June 30, 2016, bonds rated AA+ or higher accounted for

approximately 86.2% of our investment portfolio in terms of amount invested, of which AAA-rated bonds accounted for 34.7%, while treasury bonds and financial bonds of policy banks accounted for 34.3%.

- We set limitations on bond investment in industries with excess capacity, and industries and enterprises with negative media reports. We focus on tracking bond investments (such as urban construction investment bonds and bonds issued by real estate developers) of relatively high risk and exercise risk control by formulating specific policies, restricting investment and appraising the credit credentials of each issuer.
- Our business departments and Risk Management Department jointly conduct routine or ad hoc inspections to detect the risks in our debenture bond investment portfolio, and carefully evaluate and classify problems identified; they have also set up a mechanism for the disposal of defaulted and downgraded bonds to avoid potential risks.
- Based on various strategies for trading treasury bond futures, interest rate swaps and other fixed-income derivatives, we set relevant risk limits and adhere to a trading style featuring arbitrage and hedging.

Commodity investment and trading

We have established a relatively comprehensive commodity investment and trading system covering directional and market-neutral trading for our own account market making and the OTC and precious metal commodity trading on behalf of clients. We provide global futures brokerage and OTC and commodity trading on behalf of clients and for our own accounts through our subsidiaries, including CMSUK and China Merchants Futures (HK). In particular, CMSUK and China Merchants Futures (HK) have passed the rigorous approval and verification processes of relevant developed countries on aspects such as risk control and compliance, and have obtained qualifications as liquidation members of major commodity exchanges, including the Chicago Mercantile Exchange, the Chicago Board of Trade, the New York Mercantile Exchange, the New York Commodity Exchange, the London Metal Exchange and ICE Futures Europe.

We pay great attention to risks associated with commodity investing and trading, and take the following risk management measures:

- We strictly control the scale of directional transactions and adhere to market-neutral strategies.
- For arbitrage and market-making businesses, we exercise strict control over unilateral positions and potential loss exposure, and set appropriate risk limits for different transaction types according to their characteristics.
- We focus on typical operational problems in commodity transactions, including problems regarding market discrepancy and physical settlement.
- For OTC trading on behalf of clients, we mainly develop clients who are large enterprises engaging in the trading of commodity resources in China, and provide them with financial services such as hedging.
- We set different transaction scales for every counterparty based on their credit qualification and the actual transaction demands. After examination and approval based on stringent credit screening procedures, we provide certain unsecured credit quotas for certain important clients with good credit records.

- We strictly hedge market risk exposure arising from the trading business on behalf of clients to maintain a market-neutral position.
- We mark to market daily on a real-time basis and promptly handle drastic fluctuations during the day; after markets close, we make timely settlement with, and margin calls on, clients so as to control credit risk exposure.
- We have established a sound commodities trading system and management measures. We manage so as to prevent possible operational risks in commodities trading through measures such as procedure setting, staff designation and multiple independent verifications.

Overseas Business

Adhering to our risk management system, CMS International set up a Risk Management Committee and a Credit Committee, and built a risk management framework centering on these two committees. These committees are responsible for reviewing and authorizing, within the authorized scope, CMS International's operational risk issues through routine or ad hoc meetings.

We update CMS International on its business authorization on a routine or ad hoc basis. We review certain high-risk or new business plans or other risk events that exceed the authority granted to CMS International, and decide whether to grant approval.

Based on our risk management structure, CMS International has deployed a team familiar with overseas markets and with extensive experience in the risk management of overseas business to control and manage various risks, including credit, market and operational risks, legal and compliance risk and liquidity risk. CMS International has followed the principle of full coverage of credit risk management and evaluates all credit risks by categorization. In addition, for market and operational risks, CMS International has cooperated with our risk management team and carried out dual control and management on the risk exposure of transactions in our own securities accounts.

CMS International has formulated effective supervision procedures for different risk factors based on local regulations and regulatory environments so as to evaluate and supervise all risks arising from the diversified overseas business. CMS International also carries out dynamic supervision through various risk management measures and risk indicators.

To ensure that our senior management can timely and fully understand our risk profile, we set a reporting mechanism for internal risks, including regular reporting of risks and reports in response to significant events. Regular reporting of risks requires CMS International, in accordance with the types of business and the demands of management, to provide materials, including but not limited to, daily and quarterly reports, and other regular reports that demonstrate risk identification, assessment results and solutions, and make special assessments on significant risks. In respect of the reporting mechanism of significant events, CMS International has formulated a reporting system which standardized the employee reporting process for events that may have a significant impact on us.

Conflicts of Interest

Conflicts of interest may arise between (i) our various operating units; (ii) our clients and ourselves; (iii) our clients; (iv) our employees and ourselves; or (v) our clients and our employees.

In order to prevent conflicts of interest, we have adopted corresponding measures including, but not limited to, the following:

- Research personnel are prohibited from providing false or misleading information or contradictory views in investment analysis, forecasts or recommendations regarding the same issue to the public, different clients and various departments at the same time; and
- Senior management personnel responsible for two or more businesses for which they have conflicts of interest are prohibited from participating, directly or indirectly, in business activities that will result in conflicts of interest, such as investment decision-making and advice regarding specific types of securities.

We have adopted a series of measures and methods to manage conflicts of interest. One of the means of managing conflicts of interest is to adopt Chinese walls. We primarily adopt measures of information segregation to avoid conflicts of interest. In the event that there are still conflicts of interest notwithstanding Chinese walls, such conflicts of interest must be disclosed. If such conflicts of interest cannot be managed effectively through disclosure, we may adopt measures such as imposing restrictions on business activities. In the event that we impose restrictions on business activities, we endeavor to prioritize our clients' interests and treat all clients fairly.

During the Track Record Period, we did not experience any significant failure to protect confidential information from, or related to, our clients.

Chinese Wall

A Chinese wall is a barrier to protect sensitive information from being transmitted between, or being used by, businesses with conflicts of interest. It includes a series of measures to prevent the occurrence of conflicts of interest between us and clients as well as between different clients and between different business lines.

We have a diversified range of businesses and products, and we will inevitably encounter conflicts of interest between two or more parties during the course of our business. In order to protect the interests of our clients and to maintain our good reputation, we have established Chinese walls in different business lines to prevent or minimize potential conflicts of interest by controlling the flow of sensitive information and establishing applicable rules and policies on information segregation. Specifically, we have implemented measures including, but not limited to, the following:

- Business lines with conflicts of interest, such as investment banking, investment and trading, investment management and research departments, are physically segregated. They operate in different offices and use separate computers, facsimile machines, printers and other office equipment. We have adopted a strict access management system by setting access control for key places such as business departments and trading rooms with sensitive information.
- We have established an observation list and a restrictive list system. In the event that we obtain sensitive information regarding certain securities or establish a business connection in relation to such securities (such as providing underwriting or financial advisory services to corporate clients), we put such securities on the observation list or timely adopt restrictive measures to such securities based on the project progress. In particular, based on the project progress, we put such securities and relevant information on the observation list or restrictive list, monitor the business activities relating to the companies or securities on the observation list and conduct an investigation if there is any abnormal condition. We

also impose restrictions on related businesses, such as investment and trading in, and research reporting on, such companies or securities in accordance with relevant laws and regulations.

- Funds and securities accounts associated with our investment and trading, investment management, margin financing and securities lending and other businesses with conflicts of interest are separately handled, independently set up, strictly segregated and independently managed, and funds and securities in separate accounts cannot be mixed or transferred from one to another.
- The IT systems for different businesses with conflicts of interest are each other independent of or logically separated.

We believe that our information segregation system and Chinese wall mechanism have been effective in preventing insider trading and managing conflicts of interest during the Track Record Period.

Segregation of Duties

To minimize the possibility of collusion and improper trading, duties and functions within our various business departments are assigned to different teams of employees. No employee may work concurrently for two or more departments with conflicts of interest.

Employees in the business departments are not allowed to work concurrently in subsidiaries with conflicts of interest. Employees are not allowed to work concurrently in the IT department, Finance Department or departments with supervision and inspection functions concurrently. Settlement officers are not allowed to concurrently work in our IT department or trading departments.

Anti-Money Laundering

We have incorporated anti-money laundering procedures into our internal control system and daily operation in strict compliance with the PRC laws and regulations on anti-money laundering, as well as relevant requirements of the PBOC and the CSRC. We comply with the "know-your-client" principles and undertake steps for client identification, reidentification and continuous review of client identification. In addition, we have carried out different due diligence investigations and other risk control measures for clients based on their risk classifications, and have adopted a significant and suspicious transaction reporting system according with the relevant requirements.

We have properly maintained the identity information and transaction records of our clients. According to the confidentiality requirements, we have provided an anti-money laundering training program for employees and strengthened our clients' understanding of anti-money laundering laws. We also actively cooperate with the PBOC in various anti-money laundering actions, such as on-site inspection and off-site supervision.

In Hong Kong, we implement comprehensive internal control policies on anti-money laundering at CMS International and all of its subsidiaries. In accordance with the "Guideline on Anti-Money Laundering and Counter-Terrorist Financing" issued by the SFC, we conduct due diligence on each customer and verify the identity of each account's beneficial holder to make sure it is not related to any terrorist suspects, and we assess the money laundering and terrorist financing risks. We conduct continuous monitoring measures based on the risk level assessed, which include reviewing customer profiles from time to time, and monitoring customers' trading activities to identify complex structured, large or abnormal transactions. Where any suspicious transaction is identified, we report such transaction to relevant regulatory authorities in a timely manner. Our senior management values our anti-money laundering culture, appoints our compliance and anti-money laundering reporting officers, and arranges training sessions for our employees to further raise awareness of anti-money laundering internal control policies. Our business operations in other jurisdictions, such as the UK, generally follow the anti-money laundering policies of CMS International. In addition, we implement local policies in other jurisdictions to comply with applicable local anti-money laundering laws.

We have never participated in, or intentionally assisted with, any money laundering activity. For risks related to money laundering, see "Risk Factors—Risks Relating to Our Business and Industry—We may fail to detect money laundering and other illegal or improper activities in our business operations on a timely basis."

LEGAL AND REGULATORY

Licensing Requirements

We conduct our business mainly in the PRC and Hong Kong and are, therefore, subject to the relevant regulations of the PRC and Hong Kong. Our Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant regulatory requirements and guidelines in the jurisdictions where we operated in all material respects, and obtained the permits and licenses necessary for our operations in accordance with laws and regulations in the jurisdictions where we operate. We renew all of our permits and licenses from time to time to comply with the relevant laws and regulations. Our Directors have confirmed that, to the best of their knowledge, as of the Latest Practicable Date, all of our employees and brokers had obtained the relevant licenses required for their business activities. Since our A Share offering in November 2009 and up to the Latest Practicable Date, neither we nor any of our Directors had been subject to auditing or administrative penalties by the CSRC, nor have any of us or them been criticized or publicly reprimanded by the Shanghai Stock Exchange for violations of any listing rules or other relevant applicable rules.

Due to the licensing regimes of the SFC, our subsidiaries incorporated in Hong Kong are required to obtain licenses necessary to conduct their businesses in Hong Kong. Our subsidiaries incorporated in Hong Kong hold a number of licenses, including the Type 1 license for dealing in securities, Type 2 license for dealing in futures contracts, Type 4 license for advising on securities, Type 5 license for advising on futures contracts, Type 6 license for advising on corporate finance and Type 9 license for asset management. See "Appendix VI—Statutory and General Information."

Legal Proceedings

We are party to a number of legal proceedings arising in the ordinary course of our business. Our Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, there were no legal proceedings pending or threatened against us or our Directors that could, individually or in the aggregate, have a material effect on our business, financial condition or results of operations. However, we believe that the following pending or threatened legal proceedings warrant particular attention:

- ***Alibaba case***

CMSHK, our Hong Kong subsidiary, has been named as a defendant in a class action lawsuit filed in a California state court in the United States. The complaint asserts claims under the U.S.

Securities Act against Alibaba Group Holding Limited ("Alibaba"), certain officers and directors of Alibaba, and the 34 underwriters (including CMSHK) of Alibaba's IPO in 2014. The plaintiffs allege, among other things, that the offering documents filed in connection with the IPO were misleading and omitted material information because they failed to disclose certain warnings Alibaba received from regulators relating to Alibaba's business practices.

According to the public filings in connection with the Alibaba's IPO, CMSHK was allotted, including the over-allotment exercised by the underwriters, 920,305 shares in the Alibaba's IPO (a principal amount of approximately US$62.6 million), representing 0.25% of the offer size of the Alibaba's IPO. All of the underwriters, including CMSHK, received customary indemnification undertakings from Alibaba in connection with the IPO.

The defendants filed a motion to dismiss in early May 2016 and expect to argue this motion in a court hearing in the fourth quarter of 2016. As this lawsuit is still at a preliminary stage, we are unable to estimate at this time the timetable for completion or outcome of this lawsuit.

- ***China Metal Recycling case***

CMSHK acted as a joint sponsor and a joint underwriter for the listing of the shares in China Metal Recycling (Holdings) Limited ("China Metal Recycling") on the Main Board of the Hong Kong Stock Exchange in June 2009. Net of listing expenses, China Metal Recycling raised approximately HK$1,685 million by the IPO, and CMSHK underwrote approximately 1.4% of the total offer shares (including the over-allotment option exercised by the underwriters) in China Metal Recycling's IPO.

On February 26, 2015, the SFC obtained a court order from the Court of First Instance of the High Court of Hong Kong to wind up China Metal Recycling under section 212 of the Securities and Futures Ordinance, for the purpose of protecting the company's minority shareholders, creditors and the investing public. The SFC alleged that the affairs of China Metal Recycling involved a highly complex, sophisticated and dishonest scheme spanning Hong Kong, Macao, the Mainland and the United States. The scheme inflated the performance, revenue and profit of China Metal Recycling dating back to the time of its IPO prospectus in 2009 and became larger and more complex in subsequent years until the scheme was brought to an end when the SFC commenced these proceedings in July 2013.

On June 7, 2016, a writ of summons was filed by the liquidators of China Metal Recycling in the High Court of Hong Kong against CMSHK for unspecified damages and relief. According to this writ, which has not yet been served, the liquidators of China Metal Recycling would potentially claim against CMSHK for, among other things, damages as a result of breach of contract and breach of statutory, regulatory, fiduciary, contractual, tortious, equitable and other duties, as well as negligence.

After discussing with our legal advisors, we believe that (i) the liquidators of China Metal Recycling do not have a strong legal basis for their claim against CMSHK; and (ii) on balance, it is unlikely that, should a case be established by the liquidators against CMSHK, the court would award damages of an amount beyond the fees and expenses incurred by China Metal Recycling in connection with the listing of its shares. As a result, we are of the view that this claim does not have a material and adverse effect on our business, financial condition and results of operations.

Regulatory Non-compliance

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in the PRC, Hong Kong, the United Kingdom and other jurisdictions where we operate (including, but not limited to, the CSRC, the PBOC, the Shenzhen Stock Exchange, the Shanghai Stock Exchange, the Hong Kong Stock Exchange, the SFC and, where applicable, their respective local branches and offices).

We or our employees have, from time to time, been involved in incidents of regulatory non-compliance and received notices and warnings from, or been fined by, the relevant regulatory authorities. We and our employees have also been involved in certain non-compliance incidents that led to the deduction of our regulatory points. The main consequence of regulatory points deduction is that it may lead to a downgrade of our regulatory rating. See "Regulatory Environment—Regulatory Environment of the PRC—Corporate Governance and Risk Control—Corporate Governance and Risk Control of Securities Companies—3. Classified Regulation" for the details of the scoring system. However, such incidents have no adverse impact on our business and results of operations as our regulatory ratings have remained "(Class A) AA" for nine consecutive years, from 2008 to 2016. We set out below the details of our non-compliance incidents, among which certain incidents led to the deduction of regulatory points (but none of which subjected us to fines) during the Track Record Period and up to the Latest Practicable Date, and the primary remedial measures adopted:

Non-compliance incidents	Summary explanations and remedial measures
Subsequent to an audit conducted by the National Audit Office in 2011, we were made aware that Li Liming, who was then an executive director in our Investment Banking Department but resigned in June 2011, allegedly abused his position as the person-in-charge of certain projects and embezzled up to RMB52.6 million by fabricating certain third-party companies to gain third-party payments during our business operations. In response to the alleged wrongdoings of Li Liming, in August 2012, the CSRC Shenzhen Bureau issued a written regulatory decision and a letter of admonition to us after carrying out an on-site inspection, stating that we: (i) failed to effectively inspect and manage the expenses of third-party engagement of our investment banking projects; (ii) failed to properly manage client relationships in our investment banking business; and (iii) failed to implement a comprehensive inspection system with respect to conflict of interest and independence issues. As a result, we were unable to identify the misconduct of our former employee Li Liming or prevent him from obtaining illegal gains, which reflected the inadequacy of our internal control and risk management. Accordingly, the CSRC Shenzhen Bureau required us to rectify the relevant problems and carry out an internal inspection for accountability, but did not require the submission of a rectification report.	Since 2011, we have conducted a comprehensive review of our internal control system, and made substantial improvements. While we have had internal controls in place with respect to third-party cooperation and engagement to mitigate non-compliance risks since 2007, as of Li Liming's wrongdoings we had not specified the qualification and commission rate requirements with respect to third-party engagement in investment banking projects, and had not required applicable supporting documents from third parties. In response to the Li Liming case, we have adopted a series of remedial measures, including: (i) In August 2011, our Investment Banking Department began to implement the preclearance and internal review procedures for third-party cooperation and engagement in our investment banking projects. While Li Liming's unlawful practices were reflective of individual ethics, the Investment Banking Department took this non-compliance incident seriously, and improved its management system and ensured the effectiveness of its implementation.

Non-compliance incidents	Summary explanations and remedial measures
In May 2013, Li Liming was prosecuted by the People's Procuratorate of Pudong New District of Shanghai (the "Pudong Procuratorate") for alleged embezzlement of our corporate funds that took place from 2007 to 2011 (the "Li Liming case"). In August 2014, we received a written prosecutorial recommendation from the Pudong Procuratorate requiring us to submit a written rectification report within one month which would outline certain remedial measures, including: (i) improving our internal control over the expenses for third-party engagement; (ii) enhancing the management's awareness and accountability for monitoring obligations; and (iii) strengthening the professional ethics of our employees.	(ii) In February 2012, our Investment Banking Department, working with our Legal and Compliance Department, Risk Management Department and Audit and Inspection Department, commenced a series of amendments on our aforementioned internal regulations with respect to third-party engagement. The amendment was completed in September 2012 and promptly implemented. We further amended the internal regulations in May and August 2013, November 2014, and April and August 2015. In particular, we: • standardized the third-party engagement letter form in our investment banking business, and required that such form be adopted in our future engagement with third parties; and • formulated qualitative and quantitative standards for investment banking projects that are eligible for hiring third parties, qualification and eligibility of third parties, commission rate arrangements, and proper authorization and procedure of reviews and approvals. (iii) In May 2012, our Investment Banking Department issued a guideline that set out detailed professional ethics requirements for all senior managers and employees in our Investment Banking Department. In addition, we enhanced our internal controls and clarified the accountability system for regulatory and legal violations in relation to third-party engagement in our investment banking business. (iv) Our Audit and Inspection Department has regularly conducted internal inspections on the management of our third-party cooperation and engagement. In addition, our Legal and Compliance Department has regularly conducted compliance training to enhance our employees' awareness of such issues and to reduce non-compliance risks.

Non-compliance incidents	Summary explanations and remedial measures
	In August 2014, we submitted a written remedial report to the Pudong Procuratorate, which did not raise any follow-up questions with respect to our report or impose any other penalties on us.
In March 2013, the CSRC Shenzhen Bureau issued a written regulatory decision to us in relation to a customer complaint against one of our former securities agents, Jia Zhen. The decision stated that during the bureau's inspection on a customer complaint regarding our Hong Kong stock recommendation business, it noticed several internal control deficiencies in our brokerage business, such as (i) inadequate supervision of sales representatives and (ii) inadequate internal controls over Hong Kong stock recommendation. As a result, the CSRC Shenzhen Bureau required us to (i) increase the frequency of our internal audit, and (ii) submit a detailed remedial plan on internal audit and compliance to the CSRC Shenzhen Bureau before May 30, 2013. See "Non-compliance incidents" beginning on page 244. We submitted the remedial plan on May 6, 2013 and the rectification report on December 10, 2013 to the CSRC Shenzhen Bureau. As of the Latest Practicable Date, we had not received any objections or follow-up comments on our report from the regulators.	In August 2011, our Lujiazui Branch terminated the securities agency contract with Jia Zhen. In June 2012, the customer filed a complaint concerning Jia Zhen, and claimed for financial losses resulting from the unauthorized discretionary trading of Hong Kong stocks by Jia Zhen. Upon receipt of the regulatory decision issued by the CSRC Shenzhen Bureau, we formulated a detailed remedial plan in May 2013 to improve our internal controls over brokerage business. Specific measures include: (i) The channel management department conducts self-inspections on such business practices of Hong Kong stock recommendation services and reports to the Legal and Compliance Department. (ii) The Legal and Compliance Department conducts on-site inspections of five selected branches, with a focus on the management of Hong Kong stock recommendation services and business practices of our sales representatives. (iii) In 2013, our Audit and Inspection Department inspected 66 branches, covering 67% of all branches. According to the results of the inspections, we did not discover any non-compliance incident with respect to the management of our Hong Kong stock recommendation services and business practices of our sales representatives. In July 2013, our Retail Brokerage Department further decided that our PRC securities branches and their sales representatives are prohibited from (i) opening brokerage accounts for Hong Kong stocks on behalf of PRC customers; (ii) displaying any promotional materials and

Non-compliance incidents	Summary explanations and remedial measures
	application forms in relation to the retail brokerage of Hong Kong stocks; (iii) promoting the retail brokerage of Hong Kong stocks, trading Hong Kong stocks for PRC customers and witnessing the opening of Hong Kong stocks account without the presence of a Hong Kong licensed broker; and (iv) engaging in any activities in violation of rules in connection with the recommendation of Hong Kong stocks. In addition, CMSHK established an inspection mechanism to prevent similar incidents. In respect of material non-compliance risk relating to sales representatives trading Hong Kong stocks on behalf of PRC customers, CMSHK established a customer survey system and a mechanism to handle customers' complaints and disputes, enhanced the monitoring system for abnormal trading, and established a comprehensive and continuing inspection system to manage the compliance risk relating to representatives dealing in Hong Kong stocks on behalf of customers.
In October 2013, following an on-site inspection of Shandong Rike Chemical Co., Ltd. ("Rike Chemical"), the CSRC Shandong Bureau issued regulatory decisions on the violations by Mr. Yang Jianbin and Ms. Liu Lihua, both of whom are our sponsor representatives, and ourselves, of supervision duties on the post-listing compliance of Rike Chemical: (i) Insufficient inspection on the escrow accounts for offering proceeds. Mr. Yang and Ms. Liu obtained the bank statements of the escrow accounts designated for receiving the IPO proceeds from Rike Chemical, the issuer, rather than from the receiving banks pursuant to applicable rules, and failed to properly perform the inspection procedures for some of these escrow accounts and procure sufficient evidence to complete the inspection. (ii) Forgery of training records and related signatures. The continuing supervision record produced by Mr. Yang and Ms. Liu shows	Immediately upon receipt of the regulatory decisions, our continuing supervision group for Rike Chemical (the "Continuing Supervision Group") convened an internal meeting and performed the following remedial measures: (i) Completing additional inspection procedures on the escrow accounts for offering proceeds. On October 31 and November 1, 2013, Mr. Yang conducted on-site interviews with all the banks where Rike Chemical had opened escrow accounts for receiving offering proceeds, and learned that there had not been any irregularities with the designated accounts. In November 2013, Mr. Yang and Ms. Liu compared the bank statements received from the receiving banks and the copies previously received from Rike Chemical, and confirmed that the two sets of bank statements were in conformity with each other.

Non-compliance incidents	Summary explanations and remedial measures
three training sessions provided to Rike Chemical since 2012, but none took place. In addition, the signatures of Rike Chemical's directors and supervisors on the signing sheet of these fictitious training sessions were forged (on which the signature of Rike Chemical's chief financial officer on the interview record for continuing supervision was forged). (iii) Disclosure of information inconsistent with the facts in the follow-up report. The follow-up report stated that our continuing supervision personnel attended all the shareholder meetings, board of directors meetings and board of supervisors meetings in the first half of 2013 and organized relevant training sessions, whereas in reality they did not attend such meetings and such training sessions did not take place. The CSRC Shandong Bureau required Mr. Yang and Ms. Liu to rectify the aforementioned violations and submit their respective rectification report within 30 days. In addition, the bureau also required us to submit a rectification report within 30 days. We submitted the rectification reports to the regulators immediately after completing remedial measures for the non-compliance incident identified by the CSRC Shandong Bureau. As of the Latest Practicable Date, we had not received any objections or follow-up comments on our reports from the regulators.	(ii) Conducting training sessions. On November 2 and November 3, 2013, the Continuing Supervision Group conducted three on-site training sessions for the directors, supervisors and senior management of Rike Chemical on such topics as continuing compliance and internal control. (iii) Improving internal controls over record-keeping and preparation of follow-up reports. The Continuing Supervision Group resolved to enhance the internal controls over record-keeping, and ensure the authenticity and accuracy of the follow-up reports by implementing a multilevel review mechanism. All members of the Continuing Supervision Group should discharge their duties of continuing supervision to ensure the effectiveness of the continuing supervision of Rike Chemical. In addition, after receiving the regulatory decision, we promptly inspected and undertook comprehensive remedial measures. Our remedial measures to prevent the recurrence of similar incidents include: (i) Implementing internal inspections on continuing supervision procedures according to relevant regulatory requirements, strengthening direct supervision of the Continuing Supervision Group, conducting on-site inspections and training more frequently and reviewing all the relevant public information of the issuer; (ii) Enhancing the awareness of the importance of a continuing supervision system for listed companies, implementing incentive and penalty policies to improve our continuing supervision system, and urging our employees to comply with regulations and laws.

Non-compliance incidents	Summary explanations and remedial measures
	With respect to our sponsor representatives who were personally responsible for such non-compliance incidents: (i) We demoted Mr. Yang and withheld his performance bonus for three months. (ii) We sanctioned Ms. Liu and withheld her performance bonus for three months. (iii) We reprimanded Mr. Chen Dongyang, another member of the Continuing Supervision Group, and withheld his performance bonus for two months.
From October 10 to 17, 2013, the CSRC Shenzhen Bureau conducted an on-site inspection of our margin financing and securities lending business and identified a regulatory violation, where we extended the terms of certain margin financing and securities lending accounts after the expiration of the maximum contractual terms stipulated by the relevant stock exchanges. Accordingly, in April 2014, the CSRC Shenzhen Bureau sent a letter of admonition to us and required that such non-compliant conduct be rectified.	The non-compliance incident was due to our failure to closely monitor our margin financing and securities lending services on the opening and liquidation of margin accounts. Immediately after the receipt of the regulatory decision, we communicated with the CSRC Shenzhen Bureau and have proactively implemented a series of remedial measures to strengthen our internal controls, including: (i) closely monitoring the contractual terms of the margin accounts, and procuring that the clients settle their respective liabilities before due date and (ii) strengthening the risk control capabilities of our branches and improving our customer communications in order to minimize the compliance risks. In addition, to prevent the recurrence of non-compliance incidents of a similar nature, we issued an internal notice to all departments, subsidiaries and branches to remind them of their obligations to strictly comply with all applicable laws, regulations and internal rules in respect of margin financing and securities.

Non-compliance incidents	Summary explanations and remedial measures
In March 2014, the CSRC Liaoning Bureau conducted an on-site inspection of the margin financing and securities lending business of our Huigong Street Branch in Shenyang and identified a regulatory violation, where staff at the branch opened margin accounts for clients whose continuous trading records with us were less than the minimum six months. Accordingly, the CSRC Liaoning Bureau sent a letter of admonition to such branch in April 2014 and required it to submit a rectification report within 20 days. We submitted a rectification report to the CSRC Liaoning Bureau in May 2014. As of the Latest Practicable Date, we had not received any objections or follow-up comments on our report from the regulators.	The non-compliance incident was due to our failure to closely monitor our branches on the opening of margin accounts. Prior to the submission of the rectification report to the CSRC Liaoning Bureau in May 2014, we implemented the following measures with respect to the accounts that were identified as non-compliant in the CSRC Liaoning Bureau inspection: (i) Up to the date of the rectification report, for clients who did not meet the requirement of a six-month continuous trading history, we adjusted the credit limit of their margin accounts to zero and procured their written confirmation on the statements of their credit accounts. (ii) Up to the date of the rectification report, for clients who met the requirement of a six-month continuous trading history, if such clients wished to continue margin financing and securities lending, they needed to sign an acknowledgement of risk exposure and confirm the statements of their credit accounts.
In July 2014, the SFC issued an announcement in which it suspended Ms. Wu Li Jun, a former employee of CMSHK, for six months from July 3, 2014 to January 2, 2015. The disciplinary action followed an SFC investigation which found that between September and December 2011, Ms. Wu made nine deposits in the total sum of HK$15,831,032 for various clients to CMSHK's segregated accounts for holding client monies. Ms. Wu knew that CMSHK did not permit her to make cash deposits on behalf of her clients in their absence. She nevertheless disregarded the requirement and deliberately circumvented its internal control procedures governing the ways in which client deposits should be made to CMSHK. Ms. Wu failed to properly and adequately safeguard client assets as she had put her clients' interests at risk by allowing her clients to deposit their monies into her personal bank account or a third party's bank account before the monies were deposited into CMSHK's segregated accounts.	CMSHK strictly prohibits account executives or other staff from making deposits on behalf of customers in their absence. Ms. Wu ceased to be an account executive of CMSHK in January 2014. To effectively prohibit all account executives from making deposits on behalf of customers in their absence, CMSHK has further implemented the following internal control measures: (i) Hosting training on client money handling; (ii) Conducting monthly customer telephone interviews (on a sampling basis) in order to understand, among other matters, the cash deposit arrangement of the customers; and (iii) issuing daily customer statements upon any movement in their account balances.

Non-compliance incidents	Summary explanations and remedial measures
The SFC considers that Ms. Wu's conduct called into question her fitness and properness to be a licensed person. In deciding the penalty, the SFC took into account all relevant circumstances, including that: (i) there is no evidence that Ms. Wu obtained any monetary benefits in the money transfer process; (ii) Ms. Wu promptly deposited money received from the clients into CMSHK's segregated accounts; and (iii) Ms. Wu has an otherwise clean disciplinary record.	
From December 15 to December 21, 2014, the CSRC conducted an on-site inspection of our margin financing and securities lending business. On January 16, 2015, the CSRC issued a regulatory letter to us identifying a violation in our margin financing and securities lending business, namely, providing margin financing and securities lending services to certain clients with less than a six-month continuous trading record with ourselves, or with securities firms having a control relationship with ourselves. The CSRC required us to rectify the aforementioned non-compliant conduct within one month from the date of the regulatory letter. On March 5, 2015, we submitted the rectification report to the regulators immediately after completing remedial measures for the non-compliance incidents identified by the CSRC. As of the Latest Practicable Date, we had not received any objections or follow-up comments on our reports from regulators.	In our periodic internal inspections, we had rectified issues relating to the 69 non-compliant accounts identified by the CSRC by December 12, 2014, which was before the CSRC's on-site inspection. Specifically, we had completed the rectification of 14 such accounts by September 30, 2014, a further five such accounts by October 31, 2014, eight such accounts by November 28, 2014, and 42 such accounts by December 12, 2014. We included an exhibit setting forth the rectification schedule in our rectification report to the CSRC dated March 5, 2015. For customers with less than a six-month continuous trading record with us, we adjusted their margin limit to zero in an effort to stop these customers from conducting margin trades until they satisfied the requirement of a six-month continuous trading record. Although we have rectified all the non-compliant accounts identified by the CSRC before its on-site inspection, we were subject to the deduction of regulatory points due to our historical non-compliance. For internal control purposes, we have strengthened management controls over account opening, and strictly prohibit clients with inadequate trading experience from participating in the margin financing and securities lending business. On December 19, 2014 and January 19, 2015, our margin financing and securities lending department emphasized and reiterated the six-month continuous trading period requirement in a notice addressed to all branches.

Non-compliance incidents	Summary explanations and remedial measures
In June 2015, the CSRC Shenzhen Bureau sent us a letter of admonition with respect to the following incidents: (i) our centralized trading system experienced a shutdown at 10:05 a.m., May 29, 2015, impacting trading for more than 30 minutes, which was categorized as a major information security incident; and (ii) a failure to switch over to the backup server, which prevented us from promptly restoring the central trading system. Accordingly, the CSRC Shenzhen Bureau required us to take rectification measures on our trading system, and disciplinary measures against the employees responsible. A rectification report was required to be submitted to the regulators within 30 days. On July 2, 2015, we submitted the rectification report to the regulators immediately after completing remedial measures for the non-compliance incidents identified by the CSRC Shenzhen Bureau. As of the Latest Practicable Date, we had not received any objections or follow-up comments on our report from regulators.	After this incident, we conducted an internal review and found that this incident was caused by (i) a malfunction of the trading system arising from a database defect, which led to the activation of the contingency plan by our on-duty IT personnel; and (ii) a failure to switch over to the backup server in the activation of the contingency plan, due to failure to synchronize data between the main and backup trading systems. In response to the regulatory decision, we have adopted the following measures: (i) Sanctioning the responsible personnel. We demoted both the manager and deputy manager of our IT department, and reprimanded the system administrator of the IT department and vice president in charge of the IT department who are responsible for employees; (ii) Promptly adopting specific measures to rectify the problems revealed by this major information security incident; (iii) Proactively formulating and implementing the medium and long-term rectification plans, including continually improving our technological capabilities in IT system maintenance and improving our internal control system; (iv) Upgrading the capacity of our trading system. In particular, in June 2015, we deployed two new servers equipped with upgraded data base and backup server, data synchronization and data monitoring functions; (v) Improving and updating our integrated IT operations and management platform.

Non-compliance incidents	Summary explanations and remedial measures
• ***Jia Zhen incident*** In February 2016, the SFC issued an announcement in which it has banned Mr. Jia Zhen, a former account executive of CMSHK, from re-entering the industry for ten months from February 20, 2016 to December 19, 2016 for breach of the SFC's Code of Conduct for Persons Licensed by or Registered with the SFC. The SFC found that between February 2010 and June 2011 Mr. Jia entered into a private arrangement with a client and effected transactions in the client's account on a discretionary basis without obtaining the client's written authorization. The SFC considers that the client's interests were prejudiced as Mr. Jia's failure deprived the client from CMSHK's protection on discretionary account. As the client's securities account was not designated as a discretionary account by CMSHK, the operation of the client's securities account could not be properly monitored and supervised by CMSHK. • ***Ng Hongs incident*** In March 2016, the SFC issued an announcement in which it has banned Mr. Ng Hongs, a former account executive of CMSHK, from re-entering the industry for ten months from March 12, 2016 to January 11, 2017 for breach of the SFC's Code of Conduct for Persons Licensed by or Registered with the SFC. The SFC found that Mr. Ng obtained a written authorization from his client which authorized him to conduct trades on a discretionary basis in the client's account. He did not, however, obtain CMSHK's management approval before entering into such arrangement with the client and effected transactions for the client on a discretionary basis between August 2010 and September 2011 without CMSHK's knowledge. The SFC considers that the client's interests were prejudiced as Mr. Ng's failure deprived the client from CMSHK's protection on discretionary account. A written	At all times, CMSHK enforces a policy that strictly prohibits all account executives from concluding discretionary trading arrangements with clients, unless (i) the clients have executed a written authorization if they wish our account executives to trade stocks for them on a discretionary basis; and (ii) this authorization has been approved by the senior management of the equities division of CMSHK. In July 2012 and February 2013, Mr. Jia's and Mr. Ng's employment relationships with us were terminated, respectively. To effectively prohibit all account executives from concluding private discretionary trading arrangement with clients, CMSHK has further implemented the following internal control measures: (i) organized compliance training sessions to provide clear guidelines regarding the proper account opening procedures; (ii) installed a transaction monitoring system to strengthen our compliance management; and (iii) conducting monthly customer telephone interviews (on a sampling basis) in order to understand, among other matters, whether there is any unauthorized discretionary arrangement. See "Non-compliance incidents" beginning on page 237.

Non-compliance incidents	Summary explanations and remedial measures
authorization which was signed by the client without CMSHK's knowledge and approval did not offer the client any protection, as the client's securities account was not designated as a discretionary account by CMSHK and the operation of the client's securities account could not be properly monitored and supervised by CMSHK.	
In December 2015, the CSRC Guangxi Bureau conducted an on-site inspection of our Minzu Boulevard Branch in Nanning and identified procedural deficiencies in our continual customer due diligence, and handling and reporting the use of a margin account by a non-account holder invited by a certain account holder, on April 8, 2016, the CSRC Guangxi Bureau sent a letter of admonition to such branch in relation to this incident, and required us to rectify such deficiencies and submit a rectification report. On April 26, 2016, we submitted the rectification report to the regulators immediately after completing remedial measures for the non-compliance issues identified by the CSRC Guangxi Bureau. As of the Latest Practicable Date, we had not received any objections or follow-up comments on our report from the regulators. In August 2016, we were informed by the CSRC that this non-compliance incident has resulted in a deduction of our regulatory points for purposes of its regulatory rating of securities firms.	In response to the regulatory decision, we have adopted the following measures: (i) reinforcing the strict execution of client suitability control guidelines, and enhancing the quality of client identity verification and continual follow-ups with our clients; and (ii) educating our clients more comprehensively not to carry out improper activities, such as inviting third parties to use their accounts, and rectifying and reporting improper activities in a timely manner upon discovery.

Our Directors confirm that none of our existing Directors or members of our senior management has been involved in any of the regulatory non-compliance incidents disclosed above. Due to the fact that (i) we had implemented measures to rectify the non-compliance incidents immediately upon becoming aware of the incidents as disclosed above and all such incidents had been rectified up to the Latest Practicable Date; (ii) in response to the above non-compliance incidents, we have carefully investigated each incident and implemented a series of remedial measures, supervision mechanisms and policies to strengthen our risk management and internal controls, and our internal control consultant has confirmed that remedial measures have been taken to rectify the internal control deficiencies of our Group; (iii) no objections have been raised and no follow-up actions have been taken by the regulatory authorities in the PRC against the rectification reports or remedial measures taken by us in relation to the regulatory non-compliance incidents disclosed in this prospectus as of the Latest Practicable Date; (iv) control measures have been undertaken by us to prevent the reoccurrence of similar incidents; (v) the incidents disclosed above resulted from individual acts of our employees that are neither authorized nor within the course of employment, failing to prevent such incidents does not make our Directors negligent in discharging their duty to manage or oversee the management of our business; (vi) none of the Directors was subject to any warning, penalty, sanction or reprimand by the regulatory authorities in the PRC as a result of the regulatory noncompliance incidents disclosed in this prospectus as of the Latest Practicable Date; (vii) the qualifications of our Directors are approved by the CSRC and have not been challenged by the CSRC as of the Latest Practicable Date; (viii) we have received the "(Class A) AA" regulatory rating from the CSRC for nine consecutive years since 2008, the highest rating issued to a PRC securities firm to date (for details of the factors taken into account by the CSRC in assigning regulatory ratings, see "Regulatory Environment"); and (ix) the regulatory non-compliance incidents disclosed above are not significant to our business operations and do not have any material adverse effect on our business, financial condition and results of operations, or this Global Offering, as confirmed by our PRC legal advisors, King & Wood Mallesons, we are of the view that (a) we have adequate and effective internal controls to prevent similar non-compliance from reoccurring in the future; and (b) such incidents do not affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules. After making reasonable inquiries of us about these non-compliance incidents and our remedial measures, there is nothing that has caused the Joint Sponsors to disagree with our view.

Non-compliance of Our Associated Company

Between March 9, 2011 and May 30, 2013, Mr. Ma Le, then fund manager of one of our associated companies, Bosera Funds, was suspected of taking advantage of nonpublic information to trade securities. The CSRC investigated this matter, and Mr. Ma was then prosecuted for the same. In December 2015, Mr. Ma was sentenced to three years in prison and ordered to forfeit his profits, which amounted to approximately RMB19.1 million, and to pay a fine of RMB19.1 million.

In July 2013, the CSRC Shenzhen Bureau conducted an on-site inspection of Bosera Funds in relation to its internal control and risk management. On September 2, 2013, the CSRC sent a letter of admonition to Bosera Funds, in which the CSRC ordered Bosera Funds to undergo a six-month rectification period and submit a rectification report, and decided to suspend all reviews of, and approvals for, its applications for any new business or product until its rectification results were sufficient to pass a post-rectification examination with respect to the following: (i) lack of internal policy for employees involved in investment activities regarding cross-border travel; (ii) failure to strictly perform employee communications control procedures; (iii) lack of effective verification procedures regarding securities trading activities and securities accounts of employees and their direct relatives; (iv) deficiencies in employee attendance management; and (v) ineffective detection of abnormal trading activities of Bosera Funds. None of our existing Directors or members of our senior management has been involved in the above regulatory non-compliance incident.

On January 14, 2014, Bosera Funds submitted a rectification report to the CSRC and the CSRC Shenzhen Bureau immediately after completing remedial measures for the non-compliance issues identified by the CSRC. On April 15, 2014, Bosera Funds received approval from the CSRC regarding its application for a new product. As of the Latest Practicable Date, Bosera Funds had not received any objections or follow-up comments on its report from the regulators.

The rectification report that Bosera Funds submitted mainly includes the following remedial measures:

- establishing internal policy and approval procedures for employee cross-border travel;

- enhancing centralized management of communications devices of all personnel involved in investment and research activities and device check-out procedures during trading hours;
- enhancing the reporting system for relevant securities trading information of employees, and review procedures on reported securities accounts and trading information;
- optimizing employee temporary leave, business trip management and attendance check mechanisms; and
- refining internal policy on abnormal transaction monitoring, and developing relevant monitoring indicators, as well as post-discovery investigation and examination procedures for abnormal trading activities.

Ongoing Investigations

Our Hong Kong subsidiary, CMSHK, is subject to the regulation of various regulatory authorities in Hong Kong (including but not limited to the SFC), and is required to assist and/or is subject to the investigation of the relevant regulatory authorities from time to time. As of the Latest Practicable Date, CMSHK was subject to the following regulatory investigations (the "Investigations") which concern:

- CMSHK's role as the joint sponsor in the listing of a company on the Hong Kong Stock Exchange in 2009;
- certain internal procedures regarding the handling of clients' money by CMSHK; and
- a client complaint regarding suspected unauthorized transactions in the relevant account of the client held with CMSHK.

The Investigations are still pending and, as of the Latest Practicable Date, no penalty had been imposed on CMSHK and our directors, supervisors or senior management. We are unable to predict the outcome of the Investigations. Depending on the investigation findings, CMSHK may become subject to sanctions, including fines, public reprimands and/or revocation or suspension of licenses. Any such sanctions, if imposed on CMSHK, could materially and adversely affect our reputation, business, prospects, strategies and financial position.

Our Directors believe that, to the best of their knowledge, information and belief, and having regard to the financial contribution of CMSHK to our Group during the Track Record Period, the Investigations are not currently expected to have material adverse impacts on our business operations and financial performance.

Given the uncertainties surrounding the Investigations, including the actions that the regulatory authority might take and the timing, outcome and impacts thereof, you should read and consider these matters carefully and pay particular attention to the risk factor "Risk Factors—We may be subject to litigations and regulatory investigations and proceedings and may not always be successful in defending ourselves against such claims or proceedings."

Regulatory Inspections

The regulatory authorities carry out routine or ad hoc inspections, examinations and inquiries in respect of our compliance with the laws, regulations, guidelines and regulatory requirements applicable to us and our business.

During the Track Record Period and up to the Latest Practicable Date, the CSRC, the PBOC and their respective local offices and bureau carried out routine or ad hoc inspections on us, including, without limitation, our continuing supervisory duties and our anti-money laundering internal control system. Certain inspections, although not resulting in fines or other penalties being imposed on us, revealed certain deficiencies and weaknesses in our business operations, risk management and internal controls, and we took immediate remedial measures in response to the notifications from the regulatory authorities. The results of the principal examinations or inspections are summarized below.

On-site Inspections of Branches

- From November 2012 to November 2014, the regulators conducted several on-site inspections of our establishment and the implementation of an anti-money laundering internal control system, and issued several inspection opinion letters highlighting various issues, primarily including insufficient regulation of certain aspects of the anti-money laundering internal control system, failure of certain customers to renew their identification documents upon expiry, and inadequate anti-money laundering training at certain branches.

  In response to these regulatory letters, we took a series of remedial measures, including (i) revising and improving our anti-money laundering internal control rules; (ii) contacting customers through voicemail, text messages, registered mail, home visits and other methods while keeping record of such communications; and (iii) tailoring our anti-money laundering training to employees in different roles and with various responsibilities.
- During an on-site branch inspection in May 2014, the regulatory authority found certain problems in the client account management (such as the witnessing of account openings) and document management of the branch, and the branch rectified these problems in response to the inspection.
- During an on-site branch inspection in May 2014, the regulatory authority found certain problems in the margin financing and securities lending business (such as perfunctory risk assessment), securities-backed lending and stock repurchase business (such as customer suitability management) of the branch, and the branch rectified these problems in response to the inspection.
- During an on-site branch inspection in August 2014, the regulatory authority found certain problems in the new customer visit and irregular trading detection of the branch, and the branch rectified these problems in response to the inspection.

Ongoing Supervision

The CSRC and its local offices and bureau conducted on-site verifications of several companies under our post-listing supervision, and identified certain issues associated with our continuing supervisory duties, including:

- failure to diligently perform our continuing supervisory duties, and failure to diligently implement the internal control policies related to the continuing supervision;
- failure to diligently perform our inspection and verification duties relating to an issuer's fulfillment of its disclosure obligations;
- failure to timely identifying problems in respect of a listed company's corporate governance, meetings of shareholders, board of directors and supervisors, use of proceeds, internal controls and financial management;

- failure to submit continuing supervisory reports in accordance with regulations stipulated in the CSRC guidelines, and failure to provide proper guidance to the listed company;
- failure to submit a report on the prolonged failure to perform a covenant by the controlling party of a listed company;
- failure to timely review disclosure documents of a listed company, to provide adequate supervision of the establishment of its internal control system, to keep a complete record of the continuing supervisory working papers; and
- failure to discover the omission by two listed companies to disclose related party transactions in their public filings.

In response to the weaknesses identified by the regulatory authority, we took the following remedial measures:

- conducting self-reviews with respect to the formulation, implementation and management of our continuing supervisory system. Specifically, we (i) inspected our relevant branch's implementation of such system and its record-keeping of the working papers for the relevant continuing supervisory project; and (ii) carried out a comprehensive investigation and analysis of the continuing supervisory issues related to the relevant project, requested the issuer to rectify accordingly, required our applicable branches to strictly implement the internal control system, and to proactively take rectification measures and disciplinary measures against non-compliant employees;
- requesting our staff to implement strictly the continuing supervisory system, and requiring the issuer to take rectification measures immediately;
- formulating a detailed remedial plan with the issuer, including enhancing the training of its employees and strengthening reviews and inspections of corporate documents, reviewing and re-filing the working papers with respect to meetings of shareholders, supervisors and directors and educating our employees as to applicable regulations, amending the internal regulations for use of proceeds and closely monitoring its implementation, identifying certain weaknesses in the issuer's financial management system and formulating a rectification plan with the issuer, and ensuring that the issuer disclosed all information to fulfill its compliance obligations;
- requiring our employees to comply strictly with the requirements of the CSRC regulations in continuing supervision report submission, and formulating rectification measures regarding our guidance to the issuer;
- formulating a detailed plan to request the actual controlling person of the listed company to perform its covenant before a certain date; and
- strengthening the inspection of disclosure documents of the issuer, supervising the issuer in formulating and implementing internal regulations, keeping a complete record of the continuing supervisory working papers, and monitoring the issuer so as to establish an effective internal review process for use of the proceeds.

Our Directors confirm that, except as disclosed in "—Legal and Regulatory," there were no other material regulatory examination findings or material incidents of regulatory non-compliance during the Track Record Period and up to the Latest Practicable Date.

OVERVIEW

We have in the past conducted certain transactions with individuals and entities that will become our connected persons (as defined under Chapter 14A of the Hong Kong Listing Rules) upon Listing. Such transactions will continue after 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 SSE Listing Rules and other applicable laws and regulations in the PRC insofar as our A Shares remain listed. The requirements of the Hong Kong Listing Rules in relation to connected transactions are different from those of the Shanghai Stock Exchange. In particular, the definition of connected person under the Hong Kong Listing Rules is different from the definition of related party under the SSE Listing Rules. Therefore, a connected transaction under the Hong Kong Listing Rules may or may not constitute a related party transaction under the SSE Listing Rules, and vice versa.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Provision of securities and futures brokerage, wealth management and asset management services to Directors, Supervisors, chief executive and their respective associates

In our ordinary course of business, we provide securities and futures brokerage, wealth management and asset management services to our clients, including our Directors, Supervisors, chief executive and their respective associates (all of whom are our connected persons), in accordance with the applicable laws and regulations. The terms and conditions of the securities and futures brokerage, wealth management and asset management services (including but not limited to the fees and commissions charged by us) which we offered to such connected persons are on normal commercial terms comparable to those offered to Independent Third Parties. It is expected that we will continue to provide securities and futures brokerage, wealth management and asset management services to such connected persons after Listing, and such services will constitute our continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

Taking into account the revenue derived from our provision of securities and futures brokerage, wealth management and asset management services to our aforementioned connected persons in the past, our Directors currently expect that all the relevant percentage ratios calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules will be less than 0.1% on an annual basis. Therefore, such transactions are de minimis transactions and, pursuant to Rule 14A.76(1) of the Hong Kong Listing Rules, will be exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

If the relevant percentage ratio(s) calculated based on our revenue derived from the provision of securities and futures brokerage, wealth management and asset management services to our connected person(s) exceeds the de minimis threshold stipulated under the Hong Kong Listing Rules, we will observe and comply with the applicable requirements thereunder.

CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Securities and Financial Products, Transactions and Services Framework Agreement

We have entered into a Securities and Financial Products, Transactions and Services Framework Agreement with China Merchants Group on September 21, 2016 (the "Framework Agreement") for a term commencing from the Listing Date to December 31, 2018. It is expected that separate contracts will be entered into between members of our Group and China Merchants Group and/or its associates to provide for the terms and conditions of the specific transaction(s) in accordance with the principal terms set out in the Framework Agreement.

As China Merchants Group indirectly holds approximately 50.86% of our total issued share capital immediately prior to the Global Offering and will hold approximately 44.09% of our total issued share capital immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised and taking into account the proposed subscription of H Shares by China Merchants Group in the Global Offering), China Merchants Group will be our Controlling Shareholder upon Listing. Accordingly, our transactions with China Merchants Group and/or its associates[(1)] including those under the Framework Agreement will constitute our connected transactions upon Listing and will be subject to the requirements under Chapter 14A of the Hong Kong Listing Rules.

Principal terms

Pursuant to the Framework Agreement, we and China Merchants Group and/or its associates agreed to conduct securities and financial transactions with one another, and provide securities and financial products as well as financial services to one another, in our respective ordinary and usual course of business based on normal commercial terms and market practices at prevailing market prices or rates.

A. Securities and Financial Products and Transactions

Reasons for the transactions

We conduct securities and financial transactions with China Merchants Group and/or its associates in our ordinary course of business from time to time. We select the most suitable securities and financial products provided by different suppliers (including China Merchants Group and/or its associates, which are our connected persons, and Independent Third Parties) based on our internal evaluation system and procedures after taking into consideration various factors including the cost, market condition and our risk exposure, business needs and development requirements.

During the Track Record Period, we had acquired securities and financial products (such as different types of fixed income products) from China Merchants Group and/or its associates in our

(1) According to the announcement of China Merchants Bank on the Hong Kong Stock Exchange and the Shanghai Stock Exchange dated February 29, 2016, China Merchants Group will de facto control 30.06% of the total share capital of China Merchants Bank after completion of the allocation (at nil consideration) of Sinotrans & CSC Holdings Co., Ltd. into China Merchants Group. As a result, China Merchants Bank (and its subsidiaries) will become associates of China Merchants Group and therefore connected persons of our Company under the Hong Kong Listing Rules. As of the Latest Practicable Date, the approval procedures required for the obtaining of a waiver from the obligation to make a general offer for China Merchants Bank as associated with such change of equity interest had not been fully completed. Further, such increase in the shareholding in China Merchants Bank by China Merchants Group would not occur if the transfer of shares in China Merchants Bank by Sinotrans & CSC Holdings Co., Ltd. and its subsidiary (as disclosed in the announcement of China Merchants Bank on the Hong Kong Stock Exchange and the Shanghai Stock Exchange dated September 20, 2016) materializes. Nonetheless, the disclosure herein has assumed that China Merchants Bank (and its subsidiaries) had become connected persons of our Company.

ordinary course of business from time to time based on our business needs and when we considered that the relevant products were suitable; China Merchants Group and/or its associates had also acquired securities and financial products from us (such as collective asset management schemes) in their ordinary course of business from time to time, taking into account their business needs and the suitability of the products we offered; further, we had conducted financing transactions (including interbank lending and borrowing and sale and repurchase of debt securities) with China Merchants Group and/or its associates, as well as made investments (including acquisition of equity interests) in transactions involving China Merchants Group and/or its associates during the Track Record Period.

According to the Framework Agreement, we expect that the securities and financial products and transactions between us and China Merchants Group and/or its associates after the Listing include (but not limited to) the following:

- products with fixed income features—including bonds, funds, trust, wealth management products, asset management schemes, asset securitized products, convertible bonds, structured products, interest rates and credit risk derivative products and other fixed income products;
- equity-related products or transactions—including stocks, equity interest and other products with the features of equity;
- financing transactions—financing transactions among financial institutions with or without guarantees, including interbank lending and borrowing, sale and repurchase; and
- other related securities and financial products and derivative products—including swaps, futures, forward contracts, commodities and foreign exchange.

Pricing basis

The market rates in respect of each of the securities and financial products and transactions above are generally transparent across the market. The commission rates and fees for such securities and financial products and transactions shall be conducted at the prevailing market prices or market rates normally applicable to Independent Third Parties for similar types of products and transactions at the time of the transaction. To ensure that the above transactions with China Merchants Group and/or its associates are on normal commercial terms and to safeguard the interests of our Shareholders as a whole, including the minority Shareholders, we have put in place internal approval and monitoring procedures relating to our connected transactions which are further set out in "—Measures to Safeguard the Interests of our Shareholders" below.

Historical figures

The approximate historical figures of securities and financial products and transactions entered into between us and China Merchants Group and its associates for the three years ended December 31, 2015 and the six months ended June 30, 2016 were as follows:

	Historical figures (RMB millions)			
	For the year ended December 31,			For the six months ended June 30,
Securities and financial products and transactions	**2013**	**2014**	**2015[3]**	**2016**
Inflow[1]	13,772	6,203	71,178	36,096
Outflow[2]	13,354	2,973	79,716	34,453

Notes:

(1) "Inflow" means our total cash inflow arising from the sale of fixed income products and equity products to, transactions of derivative products with, and/or borrowing/repurchase from financing transactions with, China Merchants Group and its associates.
(2) "Outflow" means our total cash outflow arising from the purchase of fixed income products and equity products from, transactions of derivative products with, and/or lending/resale from financing transactions with, China Merchants Group and its associates.
(3) The figures in 2015 increased substantially primarily because (i) China Merchants Group and/or its associates had purchased our "Daily Profit" (天添利) product, a money-market product generally associated with frequent purchasing and redemption transactions, which in aggregate had led to a substantial amount of cash inflow and outflow; (ii) there was an increase in the bond transactions in which China Merchants Group and/or its associates was a counterparty as a result of, among others, favorable market conditions; and (iii) the bonds market was active in 2015, resulting in more interbank repurchase transactions.

Annual caps

We consider that it is impracticable and extremely difficult to set a separate annual cap for each category of the securities and financial products and transactions set out above for the following key reasons:

- each of the securities and financial products and transactions is entered into at the then prevailing market prices in the ordinary and usual course of our business with high frequency. Such transactions are market-driven and are entered into depending on various factors including, among others, the bidding price and timing of the bids. The value of each of these transactions is determined by the market and varies from time to time and from year to year depending on various external factors that are out of our control, including the then economic conditions as well as the fluctuations in the financial markets of the PRC and Hong Kong. Accordingly, reference to historical figures for each of these transactions may not be a fair indication as to the expected aggregate value of the transactions for the three years ending December 31, 2018;
- most of these transactions are entered into in a very short timeframe and are very sensitive to market prices. If an annual cap is set for each category of these transactions, it may cause significant delay to such transactions and undue disruption 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. Setting an annual cap for each category of these transactions will therefore be impracticable and extremely difficult for our Group;
- the variety and characteristics of products are changing frequently in the ever-changing PRC securities and financial market, hence it is difficult to practically estimate with accuracy when new products will be launched;
- we play a relatively passive role in some of these transactions and, as such, it is impracticable for us to estimate the expected annual value of such transactions with accuracy. For example, China Merchants Group and/or its associates may purchase our products (such as our "Daily Profit" (天添利) product) based on their own business needs and internal control policies. We handle such transactions with China Merchants Group and/or its associates in a manner similar to our transactions with Independent Third Parties, and we do not control whether and which products China Merchants Group and/or its associates purchase or the timing or amount of their purchases; and
- all such transactions will continue to be entered into at the then prevailing market prices or market rates in the ordinary and usual course of our business.

In light of the above, we consider that it is more practicable to set an annual cap for the total inflow and outflow of all the securities and financial products and transactions under the Framework Agreement, instead of a separate annual cap for each category of those products and transactions.

The estimated annual caps of the total inflow amount and total outflow amount of the securities and financial products and transactions contemplated under the Framework Agreement for the three years ending December 31, 2018 are as follows:

	Annual caps (RMB millions)		
	For the year ending December 31,		
Securities and financial products and transactions	**2016**	**2017**	**2018**
Inflow[(1)]	96,000	115,500	140,000
Outflow[(2)]	96,000	115,500	140,000

(1) "Inflow" means our total cash inflow arising from the sale of fixed income products and equity products to, transactions of derivative products with, and/or borrowing/repurchase from financing transactions with, China Merchants Group and its associates.

(2) "Outflow" means our total cash outflow arising from the purchase of fixed income products and equity products from, transactions of derivative products with, and/or lending/resale from financing transactions with, China Merchants Group and its associates.

In estimating the annual caps of the total inflow and outflow amount of the securities and financial products and transactions with China Merchants Group and/its associates, we have considered, among others, the following key factors:

- historical figures of the total inflow amount and total outflow amount of those securities and financial products and transactions with China Merchants Group and its associates during the Track Record Period, and in particular, the amounts in the year ended December 31, 2015 and the six months ended June 30, 2016 which were relatively higher than the figures in the prior years;
- the expected growth of our business generally which may, in turn, lead to an increase in the amount of funds that our Group's treasury function will invest in, for example, money-market products, for liquidity management purpose, where such investments are usually required to take place within a short period of time and are conducted on an arm's length basis. Accordingly, it is expected that there will be an increase in the amount of such securities and financial products and transactions between our Group and China Merchants Group and its associates. Such products and transactions are generally associated with frequent purchasing and redemption patterns;
- the annual caps for the year ending December 31, 2016 have taken into consideration the amounts for those securities and financial products and transactions taken place in the first half of 2016 between our Group and China Merchants Group and its associates;
- it is expected that there will be an increase in the total inflow amount and total outflow amount in the three years ending December 31, 2018 taking into account the volume of products, such as money-market products, that we may purchase for liquidity management, the new types of securities and financial products that we may offer (including equity, quants, fixed income, hybrid and other types of collective asset management schemes) and the growing and diversifying business of China Merchants Group and its associates, which will create more opportunities for us to conduct securities and financial transactions and mutually provide securities and financial products; and
- the inherent nature of the securities and financial products and transactions described above, including their market-sensitivity and timeliness, and our Group's limited control

over the counterparties in those transactions, as well as the volatility and unpredictability of the financial markets in general, and particularly the significant increase in the total inflow and outflow amounts in the year ended December 31, 2015 which further demonstrates that an adequate buffer should be included in the annual caps in light of the market-driven nature of such products and transactions so as to prevent undue restriction on our future business operations.

B. Financial Services

Reasons for the transactions

In our ordinary course of business, we provide various financial services to our clients, which include China Merchants Group and its associates. Due to their business needs and our expertise and professional capabilities, we had been engaged by China Merchants Group and its associates to provide financial services including (but not limited to) underwriting, sponsoring, financial advisory and financial products agency sale services from time to time during the Track Record Period.

Services provided by us to China Merchants Group and/or its associates pursuant to the Framework Agreement include (but not limited to):

- underwriting and sponsoring services—including the underwriting and sponsoring of equity and debt securities. We receive underwriting commissions and sponsor fees for such services;
- other investment banking services—including financial advisory services for, among others, M&A and restructuring. We receive financial advisory fees and/or other fees for such services;
- financial products agency sale services—including provision of agency sale services. We receive service fees and/or other fees for such services;
- targeted and specialized asset management services—for targeted asset management services, we manage the assets of customers through a designated account pursuant to the specific terms of the contracts between the customers and us. For specialized asset management services, we manage certain assets for customers for a specific purpose. We receive service fees for such services;
- leasing of trading seats—we lease our trading seats to institutional clients, and receive trading commission and/or other fees for such services; and
- other financial services.

During the Track Record Period, we had selected China Merchants Group and/or its associates as our financial service providers due to our business needs. The selection process was similar to that we adopt when we select Independent Third Parties as service providers.

Services provided by China Merchants Group and/or its associates to us pursuant to the Framework Agreement include (but not limited to):

- deposit services—including (a) deposits of cash balances from our business operations, including cash from our daily operations and proceeds from our fund-raising activities such as equity and bond issues; (b) deposits of cash from our brokerage customers; and (c) other deposits. We receive interest on such deposits;

- customer depository services—including management services to manage the cash deposits of our customers. We pay service fees for such services;
- custodian services—including custodian services of wealth management products. We pay service fees and/or other fees for such services;
- financial products agency sale services—we engage the agents to sell our financial products. We pay service fees and/or other fees for such services;
- lending services—including providing financing as our working capital or for specific projects. We pay interests and/or other fees; and
- other financial services.

Pricing basis

The pricing basis for the financial services we provide to China Merchants Group and/or its associates under the Framework Agreement is as follows:

- underwriting and sponsoring services—underwriting commissions and sponsor fees shall be determined by arm's length negotiation after taking into account factors including the then prevailing market conditions, size of the proposed issue and commission rates of recent issues of similar nature and size in the market generally as well as the rates that we charge on Independent Third Parties. The securities underwriting and sponsorship market is highly competitive and the underwriting commission rates and sponsor fees have become generally transparent across the market, which enables us to adopt a market-based pricing approach;
- other investment banking services—financial advisory fees and other service fees shall be determined after taking into account factors including the transaction nature and size, and the then prevailing market conditions. The fees for investment banking services have become generally transparent across the market, which enables us to adopt a market-based pricing approach;
- financial products agency sale services—service fees shall be determined based on factors including market prices, industry practice and the total amount of financial products under the agency sale arrangements with reference to the service fee rate charged by us for the agency sale service of similar financial products provided to independent customers;
- targeted and specialized asset management services—asset management service fees shall be determined based on factors including market rates, normal market practices, the AUM of the asset management schemes and the management terms. For targeted asset management schemes, we charge management fees as a certain percentage of AUM based on the standard fee rate for each separate asset management scheme. For specialized asset management schemes, our management fee rates would also take into account the purpose of the asset management scheme and the relevant industry; and
- leasing of trading seat—we charge a percentage of the trading volume in respect of each trade conducted through our trading seats as our commission where such percentage shall be determined based on the then prevailing market rates and industry practice. The commission rate charged on the leasing of trading seats is generally transparent across the market.

The terms (including pricing terms) between China Merchants Group and/or its associates and us in respect of our provision of financial services above shall be comparable to those offered to our other institutional clients of a similar size and with similar transaction volume who are Independent Third Parties, and shall be subject to the same internal approval and monitoring procedures and pricing policies applicable to independent clients. For further details, see "—Measures to Safeguard the Interests of Our Shareholders" below.

The pricing basis for the financial services provided by China Merchants Group and/or its associates to us under the Framework Agreement is as follows:

- deposit services—interest rates of deposits shall be determined according to the market rates of deposits in the financial industry chargeable to independent customers for the same type of deposits during that period;
- customer depository services—depository service fees shall be determined according to the fee standards applicable to similar securities firms;
- custodian services—service fees shall be determined based on the then prevailing market rates. The market rates are generally transparent across the market;
- financial products agency sale services—service fees shall be determined based on factors including market prices, industry practice and the total amount of financial products under the agency sale arrangements with reference to the service fee rate paid by us for the agency sale service of similar financial products provided by independent suppliers; and
- lending services—the interests on the financing shall be determined by reference to the relevant interest rates stipulated by the PBOC for the same period, or market rates taking into account factors including the purposes and terms of the financing.

The terms (including pricing terms) between China Merchants Group and/or its associates and us in respect of our procurement of financial services above shall be comparable to those offered by our other suppliers of a similar profile who are Independent Third Parties for comparable services, and shall be subject to the same internal selection, approval and monitoring procedures and pricing policies applicable to independent suppliers. For further details, see "—Measures to Safeguard the Interests of Our Shareholders" below.

Historical figures

The approximate historical figures from the financial services as set out in the Framework Agreement with China Merchants Group and its associates for the three years ended December 31, 2015 and the six months ended June 30, 2016 were as follows:

	Historical figures (RMB millions)			
	For the year ended December 31,			For the six months ended June 30,
	2013	2014	2015	2016
Financial services				
Revenue generated by us				
Underwriting and sponsoring services	11	17	74	6
Other investment banking services	22	6	43	0
Financial products agency sale services	1	1	4	1
Targeted and specialized asset management services	5	19	7	7
Leasing of trading seats	14	30	44	12
Interests on deposits	226	306	834	284
Total	**279**	**379**	**1,006**	**310**
Fees paid by us				
Customer depository services	23	23	63	23
Custodian and other services(1)	20	85	292	127
Lending services	6	30	32	14
Total	**49**	**138**	**387**	**164**

(1) Included fees paid for financial products agency sale services.

Annual caps

The estimated annual caps of the financial services (insofar as an annual cap is required to be set for that service) to be provided under the Framework Agreement for the three years ending December 31, 2018 are as follows:

	Annual caps (RMB millions)		
	For the year ending December 31,		
	2016	2017	2018
Financial services			
Revenue generated by us	1,025	1,535	2,300
Fees payable by us	440	660	890

In estimating the annual caps of the revenue to be generated by us from the provision of financial services to China Merchants Group and its associates, we have considered, among others, the following key factors:

- historical amounts of the revenue we generated from providing financial services to China Merchants Group and its associates during the Track Record Period, including the different service rates and fees we charged for the provision of different types of financial services, and considering, in particular, that our provision of financial services to China Merchants Group and its associates is largely market-driven and so the proposed annual caps shall include an adequate buffer to cover any market volatility and changes. Otherwise, an annual cap that is too restrictive might cause undue disruption to our operations and hamper our ability to respond quickly to changes in the highly volatile financial market;

- the development initiatives within China Merchants Group, including "Collaboration between Industrial Companies and Financial Companies" (產融結合) and "Collaboration between Financial Companies" (融融結合), which can facilitate the growth of business in the finance segment of China Merchants Group and its associates. For further details, see "Business—Competitive Strengths—A core financial service platform of China Merchants Group, benefiting from the century-old "China Merchants" brand and its unique business resources." The growing and diversifying business of China Merchants Group and its associates, as well as our plan to enhance collaboration between our operations and other members of China Merchants Group, will create more opportunities for us to provide financial services. For further details, see "Business—Business Strategies";
- it is expected that there will be an increase in underwriting commissions, sponsoring fees and other service fees associated with the growth in the issuance of equity and debt financing instruments of China Merchants Group and its associates in the three years ending December 31, 2018. Considering (i) the increase in our revenue from providing underwriting and sponsoring services to China Merchants Group and its associates in the three years ended December 31, 2015, and particularly the significant increase in our revenue from such services in the year ended December 31, 2015 by more than four times which further demonstrates that adequate buffer should be included in the annual caps in light of the market-driven nature of such services so as to prevent undue restriction on our future business operations, (ii) the existing ongoing transactions which we are providing underwriting or sponsoring services to China Merchants Group or its associates, and the potential transactions for which we may provide such services, (iii) our strategic objective to become a premier investment bank in China, as well as (iv) the various initiatives and reforms in the PRC market, such as the expected implementation of the registration-based systems, which we anticipate will create more demand and business opportunities for our underwriting and sponsoring business, it is expected that our revenue from providing underwriting and sponsoring services to China Merchants Group and its associates will continue to grow on average by approximately 40% to 65% annually in the three years ending December 31, 2018;
- it is expected that there will be an increase in advisory fees and other investment banking service fees provided to China Merchants Group and its associates in areas such as M&A and restructuring as a result of their expansion of such business in the three years ending December 31, 2018. Taking into account the existing ongoing transactions on which we are providing advisory or other investment banking services to China Merchants Group or its associates, and the potential transactions for which we may provide such services, and given that M&A and restructuring are among the strategic goals of China Merchants Group, coupled with our plan to enhance our M&A advisory services, it is expected that there will be more opportunities for us to provide financial advisory services to China Merchants Group and its associates, and that our revenue derived from such services is expected to continue to grow on average by approximately 40% to 70% annually in the three years ending December 31, 2018;

- it is expected that there will be an increase in our commission and other fees from leasing of trading seats to China Merchants Group and its associates at approximately 40% to 70% on average annually in the three years ending December 31, 2018 taking into account the continual increase in our revenue from such leasing of trading seats to China Merchants Group and its associates in the three years ended December 31, 2015 which had doubled from 2013 to 2014 and increased by approximately 46.4% from 2014 to 2015, as well as the expected growth in scale and trading volume of China Merchants Fund;
- in respect of the interest on deposits, it is expected that there will be a continual increase in the amount of client deposits accompanying the growth of our business in the three years ending December 31, 2018, as well as proceeds from the Global Offering and an increase in other market-driven fundraising activities, the proceeds of which may be placed with China Merchants Bank and Wing Lung Bank Limited ("Wing Lung Bank"). This would lead to an increase in our interest income, and taking into account the significant increase in our interest on deposits in the year ended December 31, 2015 which was more than 2.5 times of that in the year ended December 31, 2014, it has further demonstrated that adequate buffer should be included in the annual caps so as to prevent undue restriction on our future business operations;
- our leading position in the relevant markets which would enable us to better seize the opportunities to provide financial services to China Merchants Group and its associates; and
- the PRC securities market is expected to further develop alongside the economic growth, market reforms and increasingly diversified product and service offerings.

In estimating the annual caps of the fees payable by us for procuring financial services from China Merchants Group and its associates, we have considered, among others, the following key factors:

- historical amounts of the fees we paid to China Merchants Group and its associates for its financial services during the Track Record Period, including the different service rates and amounts that we paid for different types of financial services, and considering, in particular, that our procurement of financial services from China Merchants Group and its associates is largely market-driven and so the proposed annual caps shall include an adequate buffer to cover any market volatility and changes. Otherwise, an annual cap that is too restrictive might cause undue disruption to our operations and hamper our ability to respond quickly to changes in the highly volatile financial market;
- our demand for financial services will increase as a result of our business growth, and it is expected that there will be increased cooperation among China Merchants Group, its associates and us in the three years ending December 31, 2018;
- our demand for customer depository services will increase as a result of our business development in the PRC. The amount of fees we paid for such services had almost tripled from 2014 to 2015. It is expected that the fees we pay for such service will continue to grow at a steadier rate of approximately 40% to 70% on average annually in the three years ending December 31, 2018;
- the service fees paid by us to China Merchants Group and its associates for custodian and other services had grown by four times from 2013 to 2014 and almost 3.5 times from 2014 to 2015. It is expected that such fees to be paid by us will continue to increase at a steadier rate of approximately 25% to 35% on average annually in the three years ending

December 31, 2018 as a result of the continual increase in the scale of our asset management business; and

- our funding needs will increase as a result of our expected business growth, and the corresponding amount of interest payable on financing granted by China Merchants Group and its associates will accordingly increase.

In addition, the proposed annual caps have taken into account the factor of inflation and were determined on the assumption that there will not be any material adverse changes in market conditions, operational and business environment or government policies which may materially affect the business of our Group and that of China Merchants Group and its associates during the relevant periods under projection.

Waiver from strict compliance with the maximum daily balance requirement in respect of our bank deposits

We are required to set a maximum daily balance for our deposits with China Merchants Group and/or its associates. 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 requirements of setting a maximum daily balance for our deposits on the basis of the following:

In respect of the deposits of our customers' funds:

- the deposits of our customers' funds with China Merchants Bank and Wing Lung Bank, which are the banking associates of China Merchants Group, are placed with reference to the then prevailing market interest rates in the ordinary and usual course of our business and the business of such banks;
- pursuant to the *Regulation on the Supervision and Administration of Securities Companies* issued by the State Council on April 23, 2008 (as amended), for a securities firm that engages in securities brokerage business, the transaction settlement funds from its customers shall be deposited in a designated commercial bank, and a separate account shall be opened and managed for each client. Once a customer has decided on a particular bank, we shall open the account in our name for the customer in accordance with such instruction and 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 or her own trading requirements. 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 cannot control or accurately estimate the maximum balance of our customers' deposits, we will not be in a position to comply with the maximum daily balance limit requirement. We shall not set any limit which we will not be in a position to comply with; and
- if a maximum daily deposit 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.

In respect of the deposits of our proprietary funds:

- the deposits of our proprietary funds with China Merchants Bank and Wing Lung Bank, which are the banking associates of China Merchants Group, are placed with reference to the then prevailing market interest rates in the ordinary and usual course of our business and the business of such banks;

- it is impracticable and extremely difficult for us to estimate the amount of incoming funds to be received by us on a daily basis given that financial and securities businesses are highly responsive to the market. In addition, we may from time to time liquidate some of our proprietary financial products and portfolios to satisfy our operational and business needs, 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 had placed our proprietary funds with various large commercial banks in China and Hong Kong, which are heavily regulated by the CBRC, PBOC and Hong Kong Monetary Authority, where applicable. In choosing which bank we should place our deposits, we will consider various factors such as the deposit rate offered by the banks, geographical convenience of the domestic and overseas branches and other commercial considerations. We would choose to place our deposits with the bank which we consider as the most suitable, and such decision is entirely commercially-driven and the deposit arrangements between us and China Merchants Bank and Wing Lung Bank are conducted on normal commercial terms; and
- if a maximum daily deposit 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.

Implications under the Hong Kong Listing Rules and waivers from strict compliance with the Hong Kong Listing Rules

The highest applicable percentage ratios in respect of the transactions under the Framework Agreement is above 5%. Such transactions will therefore be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the Framework Agreement is expected to continue on a recurring and continuing basis and is fully disclosed in this prospectus, our Directors consider that strict compliance with the announcement and independent shareholders' approval requirements would be impracticable, unduly burdensome and would impose unnecessary administrative costs upon us.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver under Rule 14A.105 of the Hong Kong Listing Rules from strict compliance with the announcement and independent shareholders' approval requirements under Rules 14A.35 and 14A.36 of the Hong Kong Listing Rules in respect of the transactions under the Framework Agreement.

In respect of our bank deposits under paragraph B of the section headed "Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements", based on the reasons mentioned above, our Directors (including our independent non-executive Directors) are of the view that full compliance with the requirement of setting a maximum daily deposit balance for those transactions is unduly burdensome for our existing operations and would restrict our potential growth to the detriment of our Company and our Shareholders as a whole. Accordingly, 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 requirement of setting a maximum daily balance for our bank deposits under Rule 14A.53 of the Hong Kong Listing Rules as described under paragraph B of the section headed "Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements".

In the event of any future amendments to the Hong Kong Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this prospectus, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

Measures to Safeguard the Interests of our Shareholders

To safeguard the interests of our Shareholders as whole, including the minority Shareholders, we have put in place internal approval and monitoring procedures relating to our connected transactions, which include the following:

- for certain types of our procurements including procurement of general services or information technology, we select suppliers and determine the relevant terms of the procurements through a tender, bidding and negotiation process. Depending on the categories of the services or products to be procured, the monetary amount involved and the specific nature of the procurement, we will either make a public invitation to tender or make specific invitations to tender to at least three qualified suppliers who meet the relevant requirements. An independent assessment committee will be set up to assess the price and other terms offered by the candidates in the tenders and also to select the suppliers based on a methodology depending on the actual circumstances of the procurement in question. In such case, any offer from China Merchants Group or its associates has to pass such selection process before they could be selected and accepted as our supplier;
- in the offer or sale of the same batch of securities or financial products to customers (including both connected persons and Independent Third Parties), we will offer the same pricing terms to all the customers and no preferential terms shall be provided to the customers who are our connected persons; and
- we have internal guidelines which provide that additional approval procedures, including prior assessment and approval by our independent Directors before the matter is submitted for consideration by our Board, shall be required for transactions that exceed certain monetary amounts.

Our independent non-executive Directors and auditors will conduct an annual review of our continuing connected transactions (including the rates offered by and to China Merchants Group and its associates) and provide annual confirmations in accordance with the Hong Kong Listing Rules that the individual transactions are conducted in accordance with the terms of the relevant agreement (including the Framework Agreement), on normal commercial terms and in accordance with our pricing policy.

Confirmation from our Directors

Our Directors (including our independent non-executive Directors) are of the view that the continuing connected transactions under the Framework Agreement have been and will be entered into in our ordinary and usual course of business and on normal commercial terms, and are fair and reasonable and in the interest of us and our Shareholders as a whole. The proposed annual caps (if applicable) for those transactions are fair and reasonable and in the interest of us and our Shareholders as a whole, and in light of the measures set out in "—*Measures to Safeguard the Interests of our Shareholders*" above, not setting a maximum daily balance limit in respect of our deposits (including deposits of customers' funds and proprietary funds) with China Merchants Group and/or its associates will not be prejudicial to the interest of our Shareholders as a whole.

Confirmation from the Joint Sponsors

The Joint Sponsors are of the view that the continuing connected transactions under the Framework Agreement are entered into in the ordinary and usual course of business of the Company and on normal commercial terms, and are fair and reasonable and in the interest of the Company and the Shareholders as a whole. The proposed annual caps (if applicable) for those transactions are fair and reasonable and in the interest of the Company and the Shareholders as a whole, and in light of the measures set out in "—*Measures to Safeguard the Interests of our Shareholders*" above, not setting a maximum daily balance limit in respect of the Group's deposits (including deposits of customers' funds and proprietary funds) with China Merchants Group and/or its associates will not be prejudicial to the interest of the Shareholders as a whole.

OVERVIEW

Our Board currently consists of 15 Directors. Two of them are executive Directors, eight of them are non-executive Directors and five of them are independent non-executive Directors. Our Directors are elected at general meetings. They serve a term of three years and are eligible for re-election upon expiry of their term of office. Independent non-executive Directors shall not hold office for more than six consecutive years.

Our Supervisory Committee currently consists of nine Supervisors. Our Supervisors include six shareholder representative Supervisors and three employee representative Supervisors. The shareholder representative Supervisors and the employee representative Supervisors are elected at general meetings and employee representative assemblies, respectively, for a term of three years and are eligible for re-election upon expiry of their term of office.

Senior management is responsible for the management of day-to-day operations of the Company.

The following tables set forth information regarding our Directors, Supervisors and senior management. All of our Directors, Supervisors and senior management meet the qualification requirements under the relevant PRC laws and regulations for their respective positions.

Directors, Supervisors and Senior Management

The following table shows the key information of our Directors:

Name	Age	Date of joining the Company	Date of appointment as Director	Position	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. GONG Shaolin (宮少林)	61	July 2001	November 2001	Chairman of the Board and Executive Director	In charge of the overall operation of the Board	None
Ms. SU Min (蘇敏)	48	June 2016	June 2016	Non-executive Director	Participates in making significant decisions and gives advice on our risk management, remuneration and appraisal	None
Mr. HUA Li (華立)	45	July 2014	July 2014	Non-executive Director	Participates in making significant decisions and gives advice on our audit and risk management	None
Mr. XIONG Xianliang (熊賢良)	48	December 2014	December 2014	Non-executive Director	Participates in making significant decisions and gives advice on our strategies	None

Name	Age	Date of joining the Company	Date of appointment as Director	Position	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. WANG Yan (王岩)	51	September 2011	December 2011	Executive Director, President and Chief Executive Officer	Participates in making significant decisions, and in charge of our daily operation and management	None
Mr. GUO Jian (郭健)	52	March 2004	May 2014	Non-executive Director	Participates in making significant decisions and gives advice on our strategies	None
Ms. PENG Lei (彭磊)	43	August 2007	August 2007	Non-executive Director	Participates in making significant decisions and gives advice on our risk management, and nomination of Directors and senior management	None
Mr. WANG Daxiong (王大雄)(1)	55	June 2016	June 2016	Non-executive Director	Participates in making significant decisions	None
Mr. HUANG Jian (黃堅)	47	August 2012	August 2012	Non-executive Director	Participates in making significant decisions and gives advice on our strategies and audit	None
Mr. CAO Dong (曹棟)	47	August 2013	May 2014	Non-executive Director	Participates in making significant decisions and gives advice on our strategies, risk management, remuneration and appraisal	None
Mr. YI Xiqun (衣錫群)	69	August 2013	August 2013	Independent non-executive Director	Participates in making significant decisions and gives advice on our connected transactions, nomination of Directors and senior management, remuneration and appraisal	None

(1) Mr. WANG Daxiong was nominated by the Board to be non-executive Director pursuant to a resolution of the Board dated May 20, 2016. The appointment of Mr. Wang was approved by the Shareholders at a general meeting on June 30, 2016 and was pending the approval of the CSRC on director's qualification as of the Latest Practicable Date. The date of joining the Company and the date of appointment as Director set out herein refer to the aforementioned date of the Shareholders' general meeting.

Name	Age	Date of joining the Company	Date of appointment as Director	Position	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. LIU Jialin (劉嘉凌)	53	August 2011	August 2011	Independent non-executive Director	Participates in making significant decisions and gives advice on our connected transactions, strategies, risk management, remuneration and appraisal	None
Mr. DING Huiping (丁慧平)	60	July 2014	July 2014	Independent non-executive Director	Participates in making significant decisions and gives advice on our connected transactions, audit, and nomination of Directors and senior management	None
Mr. ZHU Haiwu (朱海武)	50	July 2016	July 2016	Independent non-executive Director	Participates in making significant decisions and gives advice on our connected transactions audit, remuneration and appraisal	None
Mr. YANG Jun (楊鈞)	59	June 2011	June 2011	Independent non-executive Director	Participates in making significant decisions and gives advice on our connected transactions, audit, and nomination of Directors and senior management	None

The following table shows the key information of our Supervisors:

Name	Age	Date of joining the Company	Date of appointment as Supervisor	Position	Responsibility	Relationship with other Directors, Supervisors and senior management
Ms. ZHOU Linda Lei (周語菡)[1]	47	May 2014[1]	July 2014	Chairman of the Supervisory Committee	In charge of the overall operation of the Supervisory Committee and supervises the performance of Directors and senior management	None
Mr. LI Xiaofei (李曉霏)	46	July 2014	July 2014	Supervisor	Supervises operation and financial activities as well as the performance of Directors and senior management	None
Mr. LIU Chong (劉冲)	46	July 2008	May 2014	Supervisor	Supervises operation and financial activities as well as the performance of Directors and senior management	None
Mr. FANG Xiaobing (房小兵)	45	July 2011	July 2011	Supervisor	Supervises operation and financial activities as well as the performance of Directors and senior management	None
Mr. ZHANG Zehong (張澤宏)	43	July 2011	July 2011	Supervisor	Supervises operation and financial activities as well as the performance of Directors and senior management	None
Mr. ZHU Haibin (朱海彬)	53	March 2000	July 2007	Supervisor	Supervises operation and financial activities as well as the performance of Directors and senior management	None
Ms. YIN Hongyan (尹虹艷)	45	August 1999	August 2007	Employee representative Supervisor	Supervises operation and financial activities as well as the performance of Directors and senior management	None

(1) Ms. Zhou Linda Lei had also served as Chairman of the Supervisory Committee between December 2001 and April 2003.

Name	Age	Date of joining the Company	Date of appointment as Supervisor	Position	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. ZHAN Guifeng (詹桂峰)	46	October 1999	July 2011	Employee representative Supervisor	Supervises the operation and financial activities as well as the performance of Directors and senior management	None
Ms. HE Min (何敏)	41	July 1999	July 2009	Employee representative Supervisor	Supervises operation and financial activities as well as the performance of Directors and senior management	None

The following table shows the key information of our senior management:

Name	Age	Date of joining the Company	Date of appointment as senior management	Position	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. WANG Yan (王岩)	51	September 2011	January 2012	Executive Director, President and Chief Executive Officer	In charge of our daily operation and management	None
Mr. XIONG Jiantao (熊劍濤)	48	June 1995	December 2005	Vice President	Assists the President in managing the retail brokerage, information technology, futures and asset management business	None
Ms. DENG Xiaoli (鄧曉力)	48	November 2001	November 2005 as Vice President August 2014 as Chief Risk Officer	Vice President, Chief Risk Officer	Assists the President in managing finance, risk management, settlement and training	None
Mr. SUN Yizheng (孫議政)	48	October 2007	November 2009	Vice President	Assists the President in managing the investment banking and OTC business	None

Name	Age	Date of joining the Company	Date of appointment as senior management	Position	Responsibility	Relationship with other Directors, Supervisors and senior management
Mr. DING Edward An Hua (丁安華)	52	May 2009	October 2011	Vice President	Assists the President in managing the institutional business and the research	None
Mr. LI Zongjun (李宗軍)	51	December 2014	July 2015	Vice President	Assists the President in managing the direct investment business	None
Mr. WU Huifeng (吳慧峰)	42	May 2004	December 2014	Secretary to the Board	Responsible for the coordination of information disclosure, investor relations, and organization of Shareholders' meetings, Board meetings and meetings of supervisory committee	None
Mr. ZHAO Bin (趙斌)	46	July 1992	January 2016	Chief Compliance Officer	Responsible for supervising our Group and staff's compliance of their operation, management and conduct	None

DIRECTORS

Mr. Gong Shaolin (宮少林), aged 61, has served as Chairman of the Board and our executive Director since November 2001. Mr. Gong has experience in the securities and financial industry via serving as chairman of the board of directors of CMS International from January 2006 to September 2015; vice president of China Merchants Bank (listed on the Shanghai Stock Exchange, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from July 1997 to July 2001; secretary of the general office of the PBOC, division head of the fund planning department (計劃資金司處長) of the PBOC, vice president of the Shenzhen branch of the PBOC and deputy administrator (副局長) of the Shenzhen branch of the SAFE from December 1986 to June 1997.

Mr. Gong obtained a Ph.D. degree in economics from Southwestern University of Finance and Economics in June 1999. Mr. Gong was granted the title of Senior Economist by the PBOC in July 1993.

Ms. Su Min (蘇敏), aged 48, is our non-executive Director. Ms. Su has experience in management of finance-related or listed companies via serving as general manager and director of

China Merchants Finance Holdings Company Limited from September 2015 and December 2015, respectively; supervisor of China Merchants Capital from January 2016; director of China Merchants Innovative Investment Management Co., Ltd. (招商局創新投資管理有限公司) from November 2015; director of China Merchants Bank (listed on the Shanghai Stock Exchange, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from September 2014; and chairman of the board of directors of Shenzhen China Merchants Qihang Internet Investment Management Co., Ltd. (深圳招商啟航互聯網投資管理有限公司) from November 2015. Ms. Su served as director of China Shipping Development Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600026; listed on the Hong Kong Stock Exchange, stock code: 1138) from May 2013 to August 2015; and director of China Shipping Container Lines Company Limited (listed on the Shanghai Stock Exchange, stock code: 601866; listed on the Hong Kong Stock Exchange, stock code: 2866) from June 2013 to December 2015. Ms. Su was appointed as director of Huishang Bank Corporation Limited (listed on the Hong Kong Stock Exchange, stock code: 3698) from December 2009 to May 2011 and as director of Anhui Province Wenergy Company Limited (listed on the Shenzhen Stock Exchange, stock code: 000543) from March 2008 to September 2011. Ms. Su has accounting-related experience and had served as chief accountant of China Shipping (Group) Company from April 2011 to September 2015; chief accountant of Anhui Province Energy Group Co., Ltd. from May 2007 to November 2011 and deputy general manager from November 2010 to April 2011.

Ms. Su obtained a bachelor's degree in finance from Shanghai University of Finance and Economics and a master's degree in business administration from the University of Science and Technology of China in July 1990 and December 2002, respectively. She was granted the qualification of senior accountant in June 2008 by Department of Human Resources and Social Security of Anhui Province.

Mr. Hua Li (華立), aged 45, is our non-executive Director. Mr. Hua has served as head of the finance department (property rights department) at China Merchants Group (招商局集團財務部(產權部)) since January 2012 and as director of China Merchants Finance Holdings Company Limited since December 2015. He has acted as director of China Merchants Energy Shipping Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 601872) since April 2014. Mr. Hua has acted as director of China Merchants Hua Jian Highway Investment Co., Ltd. since August 2014; and director of China Merchants Industry Holdings Co., Ltd., China Merchants Logistics Holding Co., Ltd. and China Merchants Chongqing Transportation Research and Design Company Limited (招商局重慶交通科研設計院有限公司) since May 2012. He was chairman of supervisory committee of China Merchants Property Development Co., Ltd. (formerly listed on the Shenzhen Stock Exchange, A share stock code: 000024, and B share stock code: 200024; formerly listed on the Stock Exchange of Singapore, S share stock code: C03; which had merged with China Merchants Shekou Industrial Zone Holdings Co., Ltd.), and was director of China Merchants Property Development Co., Ltd. from April 2004 to November 2013. From July 1993 to December 2011, Mr. Hua held the following positions at China Merchants Group: chief financial officer ("CFO") of China Merchants Shekou Industrial Zone Co., Ltd. (currently known as China Merchants Shekou Industrial Zone Holdings Co., Ltd., listed on the Shenzhen Stock Exchange, stock code: 001979); deputy general manager and general manager of the finance department of China Merchants Group; manager of the finance department of China Merchants Transportation Co., Ltd.; deputy head and head of the finance department of China Merchants Group; deputy manager of the finance department of China Merchants Holdings (International) Co., Ltd. (listed on the Hong Kong Stock Exchange, stock code: 0144); staff at the finance department of China Merchants Group and the Shanghai office of China Merchants Group.

Mr. Hua obtained a bachelor's degree in arts majoring in accounting from Shanghai Maritime University (formerly Shanghai Maritime Institute) and a master's degree in accounting from The Chinese University of Hong Kong in July 1993 and December 2005, respectively. Mr. Hua also obtained the qualification as a Certified Public Accountant (non-practising) from the Chinese Institute of Certified Public Accountant in March 2011.

Mr. Xiong Xianliang (熊賢良), aged 48, is our non-executive Director. Mr. Xiong has experience in strategic planning and research via serving as general manager (head) of strategic research development of China Merchant Group since October 2011, and head of strategic development department (information management department and research department) of China Merchants Group since March 2015. Mr. Xiong acted as non-executive director of China Merchants Bank (listed on the Shanghai Stock Exchange, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from July 2012 to June 2014. Mr. Xiong worked at the Research Office of the State Council from December 2004 to October 2011; at the general group of the steering committee of the Western Region Development of the State Council (國務院西部開發領導小組綜合組) from July 2003 to December 2003; at the Chongqing Development and Planning Commission from December 2000 to December 2004; and at the Development Research Center of the State Council from March 1994 to December 2000.

Mr. Xiong obtained a master's degree and a doctoral degree in global economics from Nankai University in June 1991 and December 1993, respectively.

Mr. Wang Yan (王岩), aged 51, has served as our executive Director since December 2011, and President and Chief Executive Officer since January 2012. Mr. Wang has experience in management of securities companies and banks via serving in management or administrative positions of various securities companies and banks. Mr. Wang has been director of CMS International and CMSHK since October 2011 successively, and he is currently serving as chairman of the board of directors of CMS International and CMSHK. Mr. Wang was director of China Merchants Securities Investment Management (HK) Co., Limited, CMS Capital (HK) Co., Limited and China Merchants Nominees (HK) Co., Limited from October 2011 to May 2014. Mr. Wang served as president and chief operating officer ("COO"), acting chief executive officer ("CEO"), executive president and CEO of BOC International Holdings Limited from March 2005 to September 2011; deputy general manager of the Hong Kong branch of Industrial and Commercial Bank of China Limited ("ICBC") (listed on the Shanghai Stock Exchange, stock code: 601398; listed on the Hong Kong Stock Exchange, stock code: 1398) from April 2000 to January 2005, and during that period from July 2001 to December 2004 also as deputy general manager of Industrial and Commercial Bank of China (Asia) Limited; representative and chief representative of the New York branch of ICBC from February 1997 to April 2000; and deputy division head of the general planning division of the international business department of ICBC from August 1991 to February 1997.

Mr. Wang obtained a bachelor's degree and a master's degree in law majoring in international law, and a doctoral degree in economics majoring in national economics, all from Peking University, in July 1986, July 1989 and January 2005, respectively. Mr. Wang was granted the title of Senior Economist by ICBC in August 1999.

Mr. Guo Jian (郭健), aged 52, is our non-executive Director. Mr. Guo has experience in equity and capital investment. Mr. Guo has experience in management of securities companies and capital investment-related companies. Mr. Guo has served as deputy general manager of China Merchants

Capital since May 2014 and general manager of China Merchants Kunlun Capital Co., Ltd. and Zhongxinjian Merchant Equity Investment Co., Ltd. since April 2014. Mr. Guo served as director of CECEP Solar Energy Technology Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 000591) from May 2014 to March 2016. Mr. Guo held the following positions with us between July 2004 and May 2014: general manager and executive director of our international business department; managing general manager of our investment banking department; assistant to President; secretary to the Board; and Vice President. Mr. Guo served as chairman of the board of directors of CMS Zhiyuan from March 2012 to January 2015. Mr. Guo was director of CMS International from January 2006 to April 2014 and director of CMSHK from May 2005 to April 2014.

Mr. Guo obtained a bachelor's degree in economics majoring in maritime financial accounting from Shanghai Maritime University (formerly Shanghai Maritime Institute) and an executive master of business administration (EMBA) from Hong Kong University of Science and Technology in July 1985 and June 2014, respectively.

Ms. Peng Lei (彭磊), aged 43, is our non-executive Director. Ms. Peng has relevant management and working experience via serving in management and administrative positions of various securities and finance-related companies. Ms. Peng has served as the deputy general manger of China Merchants Finance Holdings Company Limited since April 2016, as director of Morgan Stanley Huaxin Fund Management Co., Ltd. since March 2015 and as director of China Great Wall Securities Co., Ltd. since June 2011. Ms. Peng joined China Merchants Finance Holdings Company Limited in May 2002, and had served as deputy general manager of the general management department, general manager of the audit department, general manager of the China business department, general manager of the securities department and assistant to the general manager. Ms. Peng served as executive director of Union Asset Management Company from May 2002 to October 2003.

Ms. Peng obtained a bachelor's degree in economics majoring in business management from Southwestern University of Finance and Economics and a master's degree in economics majoring in finance from Peking University in July 1994 and July 2010, respectively.

Mr. Wang Daxiong (王大雄)(1), aged 55, is our non-executive Director. Mr. Wang has experience in management of listed companies. Mr. Wang acted as director of China Shipping Development Company Limited (listed on the Hong Kong Stock Exchange, stock code: 1138; listed on the Shanghai Stock Exchange, stock code: 600026) from August 1997 to March 2014, director of China Shipping Container Lines Company Limited (listed on the Hong Kong Stock Exchange, stock code: 2866; listed on the Shanghai Stock Exchange, stock code: 601866) from June 2004 to June 2014, chairman of the board of directors of China Shipping Haisheng Shipping Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600896) from April 2011 to April 2013, and director of China Merchants Bank (listed on the Hong Kong Stock Exchange, stock code: 3968; listed on the Shanghai Stock Exchange, stock code: 600036) from April 1998 to March 2014. Mr. Wang has finance-related experience via serving as head of the finance department and chief accountant of Guangzhou Maritime Transport (Group) Co., Ltd. from January 1996 to January 1998; department head, financial assistant and division head of the Finance Division of the Guangzhou Maritime Bureau (廣州海運局財務處) from March 1991 to January 1996, deputy head and head of the Finance Division of the Second Cargo of Guangzhou Maritime Bureau (廣州海運局二貨公司) from March 1988 to March 1991, and deputy head of

(1) Mr. WANG Daxiong was nominated by the Board to be non-executive Director pursuant to a resolution of the Board dated May 20, 2016. The appointment of Mr. Wang was approved by the Shareholders at a general meeting on June 30, 2016 and was pending the approval of the CSRC on director's qualification as of the Latest Practicable Date.

the Finance Division of the Guangzhou Maritime Bureau (廣州海運局) from December 1987 to March 1988.

Mr. Wang obtained a bachelor's degree, majoring in finance and economy, from Shanghai Maritime University and an EMBA degree from Shanghai University of Finance and Economics in July 1983 and January 2012, respectively. Mr. Wang also obtained the qualification of senior accountant from Ministry of Transport in November 1995.

Mr. Huang Jian (黃堅), aged 47, is our non-executive Director. Mr. Huang has finance-related experience via serving in financial departments and administrative positions of various companies. Mr. Huang has served as deputy general manager (person-in-charge) of capital operation department of China COSCO Shipping Corporation Limited since February 2016. Mr. Huang held various positions with COSCO, including deputy general manager of the finance department of COSCO from February 2012 to February 2016; general manager of the finance department and CFO of COSCO Americas Inc. from November 2006 to February 2012; vice president and general manager of the finance department of COSCO Logistics (Americas), Inc. (中遠物流(美洲)有限公司) (formerly Intermodal Bridge Services Inc. (中遠美國內陸運輸公司)) from September 2004 to November 2006; Mr. Huang held several positions in COSCO from July 1996 to September 2004, and the last position he held was head of capital management department of finance and capital division; and Mr. Huang was staff at the finance department of Shenzhen Ocean Shipping Co., Ltd. from July 1993 to July 1996.

Mr. Huang obtained a bachelor's degree in economics majoring in auditing from Capital University of Economics and Business (formerly the Beijing Institute of Finance and Trade) and a master's degree in business management from Beijing Institute of Technology in July 1992 and March 2002, respectively. Mr. Huang obtained the qualification of accountant from the MOF in May 1997.

Mr. Cao Dong (曹棟), aged 47, is our non-executive Director. Mr. Cao has audit-related experience via serving in audit departments of various companies. Mr. Cao served as Supervisor from August 2013 to May 2014. Mr. Cao has acted as deputy head and head of the audit department of Qinghuangdao Port Co., Ltd. (listed on the Hong Kong Stock Exchange, stock code: 3369) since April 2009, and deputy head and head of the audit department of Hebei Port Group Co., Ltd. since October 2009. Mr. Cao acted as deputy manager of the general department of the Caofeidian Construction and Development Command from December 2003 to April 2009 and deputy head of the investment center of Qinghuangdao Port Group Co., Ltd. from April 2003 to December 2003.

Mr. Cao obtained a bachelor's degree in economics majoring in finance from Hebei University and a master's degree in engineering majoring in software engineering from the University of Electronic Science and Technology of China in July 1991 and December 2011, respectively. Mr. Cao obtained the qualification of senior accountant from the Title Reform Leadership Group of Hebei Province in December 2001, and the qualification of certified public accountant (non-practising member) from the Chinese Institute of Certified Public Accountants in August 2010.

Mr. Yi Xiqun (衣錫群), aged 69, is our independent non-executive Director. Mr. Yi has relevant experience via serving as independent directors of various listed finance-related companies. Mr. Yi tendered his resignation from directorship for personal reasons in November 2014, and will continue to perform his duties until the new independent non-executive Director is appointed as soon as practicable and takes office. Mr. Yi has been executive vice president of the China Association of Private Equity since October 2010; Mr. Yi was independent non-executive director of Asian Capital

Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 8295) from June 2010 to April 2016; and independent non-executive director of ICBC (listed on the Shanghai Stock Exchange, stock code: 601398; listed on the Hong Kong Stock Exchange, stock code: 1398) from December 2013 to April 2016; independent non-executive director of China Merchants Bank (listed on the Shanghai Stock Exchange, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from January 2008 to March 2014; independent non-executive director of SOHO China Limited (listed on the Hong Kong Stock Exchange, stock code: 0410) from September 2007 to May 2015; deputy chairman and chairman of the board of directors of Beijing Enterprises Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 0392) from September 1999 to August 2009.

Mr. Yi graduated from Beijing University of Chemical Technology (formerly Beijing Institute of Chemical Technology) majoring in polymer chemistry in December 1975 and completed the enterprise management and research courses from Tsinghua University in July 1982.

Mr. Liu Jialin (劉嘉凌), aged 53, is our independent non-executive Director. Mr. Liu has working experience in the financial industry via serving as managing director of Cinda International Asset Management Limited since February 2011, and independent non-executive director of Far East Horizon Ltd. (listed on the Hong Kong Stock Exchange, stock code: 3360) since March 2011. He held various positions with Morgan Stanley from February 1992 to December 2007 and the position he last held was managing director of the Hong Kong fixed income division of Morgan Stanley Asia Limited.

Mr. Liu obtained a bachelor's degree in science majoring in physics from Peking University and a master's degree in science majoring in physics from Massachusetts Institute of Technology in July 1982 and June 1989, respectively.

Mr. Ding Huiping (丁慧平), aged 60, is our independent non-executive Director. Mr. Ding has worked at Beijing Jiaotong University (formerly Northern Jiaotong University) since December 1993, where he served as professor, Ph.D. tutor and head of the Center for Enterprise Competitiveness Research. Mr. Ding has relevant experience via serving as an independent director of various listed companies, including independent non-executive director of Huadian Power International Corporation Limited (listed on the Shanghai Stock Exchange, stock code: 600027; listed on the Hong Kong Stock Exchange, stock code: 1071) since May 2014 and from October 2003 to June 2009. He has been independent director of Metro Land Corporation Ltd. (listed on the Shanghai Stock Exchange, stock code: 600683) since April 2015. Mr. Ding was independent non-executive director of China International Marine Containers (Group) Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 000039; listed on the Hong Kong Stock Exchange, stock code: 2039) from May 2010 to July 2013; independent director of Road and Bridge International Co., Ltd. (formerly China Road and Bridge International Construction Co., Ltd.) (formerly listed on the Shanghai Stock Exchange, stock code: 600263, delisted in March 2012 due to merger by absorption) from February 2009 to February 2012; independent director of Shangdong Xinneng Taishan Power Generation Co., Ltd. (formerly Shangdong Luneng Taishan Cable Co., Ltd.) (listed on the Shenzhen Stock Exchange, stock code: 000720) from June 2003 to May 2009; and independent non-executive director of China Merchants Bank (listed on the Shanghai Stock Exchange, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from June 2003 to May 2006.

Mr. Ding obtained an associate doctoral degree and a doctoral degree in production economics from Linkoping Institute of Technology, Sweden in December 1991 and March 1993, respectively. Mr. Ding was appointed as Honorary Professor by the A.J. Palumbo School of Business Administration of Duquesne University in July 1996.

Mr. Zhu Haiwu (朱海武), aged 50, is our independent non-executive Director. Mr. Zhu has experience in management of listed companies and accountant-related work. Mr. Zhu has acted as partner of Ruihua Certified Public Accountants since January 2000. He has been independent director of Shanxi Securities Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 002500) since May 2015 and independent director of Sinosteel Engineering & Technology Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 000928) and Huayuan Property Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600743) since September 2014 and November 2014, respectively. Mr. Zhu was a member of the first and second session of the Listing Review Committee of Growth Enterprise Board of the CSRC from August 2009 to August 2011. He had successively served as project manager, and manager and deputy general manager of Zhonghua Accounting Firm from September 1993 to December 1999.

Mr. Zhu obtained a bachelor's degree in economics, majoring in accounting, from Shanghai University of Finance and Economics and a master's degree in professional accounting from Deakin University, Australia, in July 1985 and August 2002, respectively. Mr. Zhu obtained the qualification of Certified Public Accountant from the Chinese Institute of Certified Public Accountants in September 1994, the qualification of senior accountant from the MOF in November 1998, and the status of fellow of Certified Practising Accountant Australia in September 2002.

Mr. Yang Jun (楊鈞), aged 59, is our independent non-executive Director. Mr. Yang has experience in financial and other relevant transaction via holding various positions at Shanghai United Assets and Equity Exchange ("SUAEE") since July 2005, including assistant to the president, general manager of the Beijing headquarters, head of financial property transaction center (金融產權交易中心主任), COO of equity trading and general manager of the equity trading department. He has been independent director of Shanghai Zhenhua Heavy Industries Company Limited (listed on the Shanghai Stock Exchange, stock code: 600320) since April 2015. Mr. Yang has had years of experience working at the various levels of people's courts in Shanghai holding various positions, including grade four senior judge (四級高級法官) approved by the Supreme People's Court of the People's Republic of China in November 1998.

Mr. Yang obtained a bachelor's degree in laws from the East China University of Political Science and Law (formerly the East China College of Political Science and Law) and a master's degree in civil laws from Peking University in August 1983 and July 1991, respectively.

SUPERVISORS

Ms. Zhou Linda Lei (周語菡), aged 47, has served as Chairman of the Supervisory Committee since July 2014. Ms. Zhou was executive director of China Merchants China Direct Investments Limited (listed on the Hong Kong Stock Exchange, stock code: 0133) from March 2008 to September 2014 and from March 2002 to September 2005; managing director of China Merchants China Investment Management Limited from February 2008 to May 2014 and from February 2002 to July 2005, as well as chief investment officer of China Merchants China Investment Management Limited from February 2001 to January 2002; and independent director of China Merchants Fund from September 2007 to November 2013. Ms. Zhou served as independent director of Jiangxi Selon Industrial Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 002748) from May 2008 to May 2014; supervisor of Industrial Bank Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 601166) from April 2008 to October 2013.

Ms. Zhou obtained a bachelor's degree in economics majoring in accounting from Renmin University of China and a master's degree in business administration (accounting) from Sonoma State University as granted by the trustees of The California State University in July 1989 and January 1993, respectively.

Mr. Li Xiaofei (李曉霏), aged 46, is our Supervisor. Mr. Li has been general manager of the human resources department of China Merchants Finance Holdings Company Limited since May 2010 and assistant to the general manager of China Merchants Finance Holdings Company Limited since November 2014. Mr. Li has acted as supervisor of China Great Wall Securities Co., Ltd. since July 2015. Mr. Li served as senior manager of the human resources department of China Merchants Group from October 2006 to May 2010. He served as manager of the human resources and administration department and secretary to the board of directors of Grand Auto Park Company Limited (深圳市平方汽車園區有限公司) from October 2003 to October 2006. Mr. Li joined Shenzhen Nanyou (Holdings) Ltd. since July 1993, and served as the following: secretary of the general manager office, deputy manager of the planning and development department and deputy manager of the leasing department.

Mr. Li obtained a master's degree in economics majoring in labor economics from Renmin University of China in January 2004.

Mr. Liu Chong (劉冲), aged 46, is our Supervisor. Mr. Liu was Director of the Company from July 2008 to May 2014. He has served as general manager of China Shipping Investment Co., Ltd. ("China Shipping Investment") since October 2012 and general manager of China Shipping (Group) Leasing Co., Ltd. since August 2014, general manager of China Shipping Container Lines Company Limited (listed on the Shanghai Stock Exchange, stock code: 601866; listed on the Hong Kong Stock Exchange, stock code: 2866) since March 2016 and has been executive director of the company since May 2016. Mr. Liu has been nominated as a non-executive director of China International Marine Containers (Group) Co., Ltd. (Listed on the Hong Kong Stock Exchange, stock code: 2039; Listed on the Shenzhen Stock Exchange, stock code: 000039) in March 2016. Mr. Liu acted as chief accountant of China Shipping Container Lines Co., Ltd. from October 2011 to April 2013; head of the Capital management department of China Shipping (Group) Company ("China Shipping Group") from December 2010 to November 2011; chief accountant of China Shipping Haisheng Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600896) from January 2008 to November 2010; CFO and deputy general manager of China Shipping Logistics Co., Ltd. from May 2002 to January 2008; deputy general manager of China Shipping Investment from June 1998 to May 2002; and deputy head of the settlement center (Guangzhou division) of China Shipping Group from December 1997 to June 1998. Mr. Liu worked for Guangzhou Maritime Transport (Group) Co., Ltd. from January 1995 to December 1997 and the last position he held was internal banking vice president.

Mr. Liu obtained a bachelor's degree in economics from Sun Yat-sen University in July 1990. Mr. Liu obtained the qualification of Certified Public Accountant (non-practicing) by the Hainan Institute of Certified Public Accountants in February 2010 and was granted the title of Senior Accountant by China Harbour Engineering Co., Ltd (formerly known as China Harbor Construction (Group) Company) (中國港灣建設（集團）總公司) in November 2000.

Mr. Fang Xiaobing (房小兵), aged 45, is our Supervisor. Mr. Fang has served as general manager of the financial management department of China Communications Construction Company Ltd. (CCCC) (listed on the Shanghai Stock Exchange, stock code: 601800; listed on the Hong Kong

Stock Exchange, stock code: 1800) since August 2014; director of CCCC Finance Company Limited (中交財務有限公司) since March 2016, and has held the following positions at CCCC: executive general manager and CFO of the overseas business department from July 2013 to August 2014; chief accountant of the overseas business department from June 2012 to July 2013; and deputy general manager of the finance department from October 2005 to April 2011. Mr. Fang served as general manager of the financial funding department of China Communications Construction Group (Limited) from April 2011 to June 2012. Mr. Fang served at China Harbor Construction (Group) Company (中國港灣建設（集團）總公司) between November 1994 and September 2005, and the highest position he held was deputy general manager of finance department.

Mr. Fang obtained a bachelor's degree in engineering majoring in finance from Changsha University of Science & Technology (formerly Changsha College of Transportation) and a master's degree in business administration from Fordham University in the U.S. in June 1993 and February 2006, respectively. Mr. Fang was granted the title of Senior Accountant in July 2005 by China Harbor Construction (Group) Company (中國港灣建設（集團）總公司).

Mr. Zhang Zehong (張澤宏), aged 43, is our Supervisor. Mr. Zhang has been vice president of Shenzhen Huaqiang Holdings Limited ("Huaqiang Holdings") since August 2014 and director of Shenzhen Huaqiang Indrustry Co., Ltd. ("Huaqiang Industry") (listed on the Shenzhen Stock Exchange, stock code: 000062) since June 2012. Mr. Zhang served as general manager of Huaqiang Industry from June 2012 to August 2014; vice president of Huaqiang Holdings from November 2011 to June 2012; assistant to the president of Huaqiang Holdings from January 2007 to November 2011; managing director of Shenzhen Huaqiang Dingxin Investment Co., Ltd. from December 2008 to June 2012; and head of the auditing department, the finance department, and the settlement center of Huaqiang Holdings from October 2003 to October 2008.

Mr. Zhang obtained a bachelor's degree in economics majoring in accounting from Xi'an Shiyou University (formerly known as Xi'an Shiyou College) in June 1994 and a master's degree in economics majoring in accounting from Shaanxi Institute of Finance and Economics (now merged into Xi'an Jiaotong University) in July 1997. Mr. Zhang was granted the title of Intermediate Accountant by the Ministry of Finance in May 1999.

Mr. Zhu Haibin (朱海彬), aged 53, is our Supervisor. Mr. Zhu was Director of the Company from March 2000 to July 2007. Mr. Zhu has worked at COFCO Property (Group) Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 000031) as deputy general manager since February 2006, and as director from February 2006 to March 2007. Mr. Zhu held various positions at Shenzhen Baoheng (Group) Co., Ltd. from September 1993 to February 2006 including being its director and general manager.

Mr. Zhu obtained a master's degree in engineering from Zhejiang University in September 1995. He was granted the title of Senior Economist by COFCO in December 2012.

Ms. Yin Hongyan (尹虹艷), aged 45, is our employee representative Supervisor. Ms. Yin has been deputy general manager and general manager of our department of operations and administration since April 2009. Ms. Yin had held the following positions in the Company: manager of our Shenzhen Fumin Road securities branch from April 2007 to April 2009; assistant to general manager of our private customer service department from January 2006 to April 2007; deputy manager of our Shenzhen Fumin Road securities branch from January 2005 to January 2006; and assistant to manager and head of the customer service department of our Shenzhen Zhenhua Road securities branch from July 2000 to February 2005.

Ms. Yin obtained a doctoral degree in law majoring in sociology from Nankai University in June 2006.

Mr. Zhan Guifeng (詹桂峰), aged 46, is our employee representative Supervisor. Mr. Zhan has served as deputy general manager and general manager of our audit and supervision department since April 2009; supervisor of CMS Asset Management since July 2015. He served various positions in the Company from October 1999 to April 2009, including finance head of the Shanghai branch and the investment banking department, assistant to general manager of our audit and supervision department, and deputy general manager of our finance department. Mr. Zhan was also CFO of CMSHK from July 2007 to April 2009.

Mr. Zhan obtained a bachelor's degree in engineering majoring in finance from Changsha University of Science & Technology (formerly Changsha College of Transportation) and a master's degree in business administration from Fudan University in June 1993 and June 2004, respectively. Mr. Zhan was granted the qualification of Certified Public Accountant in December 1994 by the Ministry of Finance of the PRC.

Ms. He Min (何敏), aged 41, is our employee representative Supervisor. Ms. He served as deputy general manager of the finance department of the Company since April 2009; and assistant to the general manager of the finance department from April 2006 to April 2009. Ms. He has worked at the finance department of the Company since July 1999.

Ms. He obtained a bachelor's degree in economics majoring in accounting and a master's degree in management majoring in accounting, both from Zhongnan University of Economics and Law (formerly Zhongnan University of Finance and Economics), in July 1996 and June 1999, respectively. Ms. He was granted the qualification of Certified Public Accountant in October 1999 by the Chinese Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. Wang Yan (王岩), our President and Chief Executive Officer. See "Directors" in this section for Mr. Wang's biography.

Mr. Xiong Jiantao (熊劍濤), aged 48, has served as Vice President since December 2005. Mr. Xiong has served as chairman of the board of directors of China Merchants Futures since March 2008; director of Bosera Funds since November 2014; chairman of the board of directors of CMS Asset Management since March 2015; and director of CMS International since September 2015. Mr. Xiong served various positions in the Company from June 1995 to December 2005, including manager of computer department, general manager of computer center, general manager of the IT technology center and general technology director. Mr. Xiong had been seconded by the CSRC to be a member of the administrative take-over group of China Southern Securities. Mr. Xiong served as deputy manager of the information center of China Merchants Bank (listed on the Shanghai Stock Exchange, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from April 1993 to June 1995.

Mr. Xiong obtained a bachelor's degree in engineering majoring in telecommunications engineering from Nanjing University of Posts and Telecommunications (formerly Nanjing Institute of

Posts and Telecommunications), a master's degree in engineering majoring in automatic instrumentation and installation from Huazhong University of Science and Technology and an executive master's degree in business management from Fudan University in July 1989, June 1992 and June 2014, respectively.

Ms. Deng Xiaoli (鄧曉力), aged 48, has served as Vice President since November 2005 and Chief Risk Officer since August 2014, and secretary to the Board of the Company from August 2014 to December 2014. Joining the Company in November 2001, Ms. Deng served as deputy general manager and general manager of the risk management department of the Company from March 2002 to March 2006. Ms. Deng served as director of CMS International since January 2006, director of China Merchants Fund since November 2006 and vice chairman of the board of directors of China Merchants Fund since November 2013. Ms. Deng had been seconded by the CSRC to be a member of the administrative take-over group of China Southern Securities. Before joining the Company, Ms. Deng was senior analyst in the risk management department of Citigroup Inc. from August 1998 to October 2001 and senior risk analyst of Providian Financial Corporation from June 1997 to August 1998.

Ms. Deng obtained a bachelor's degree in science majoring in management science from Shandong University, a master's degree in arts from the State University of New York and a doctoral degree in philosophy from the State University of New York in July 1989, December 1993 and December 1996, respectively. Ms. Deng was granted the title of Senior Economist (Finance) by the Shenzhen Human Resources and Social Security Bureau (深圳市人力資源和社會保障局) in December 2013.

Mr. Sun Yizheng (孫議政), aged 48, has served as Vice President since November 2009. Mr. Sun served as director of Guangdong Equity Exchange Co., Ltd since September 2013. He was managing director and assistant to the president of the investment banking department of the Company from October 2007 to December 2009. Mr. Sun worked in the Listed Companies Department and the Listed Companies Supervision Department of the CSRC from February 1998 to April 2001.

Mr. Sun obtained a master's degree in engineering majoring in management engineering from Xi'an Jiaotong University and a doctoral degree in management majoring in technical economics and management from Tsinghua University in June 1992 and January 2002, respectively.

Mr. Ding Edward An Hua (丁安華), aged 52, has served as Vice President since October 2011. Mr. Ding has been our chief economist since May 2009 and director of CMS International since December 2009. Mr. Ding acted as consultant of the management committee of the research center of the Company from May 2009 to December 2009 and was our Director from August 2007 to April 2011. Mr. Ding also acted as director of China Merchants Bank (listed on the Shanghai Stock Exchange, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from June 2007 to June 2010 and director of China Merchants Energy Shipping Co., Ltd. (Listed on Shanghai Stock Exchange, stock code: 601872) from December 2004 to April 2010. Mr. Ding held various positions at China Merchants Group from March 2001 to April 2009 and from October 1992 to December 1994, including the following: deputy general manager of the business development department; deputy general manager of the corporate planning department; general manager of the strategic research department; and chief researcher of the research department.

Mr. Ding obtained a bachelor's degree in engineering majoring in automobile application engineering from Changsha University of Science & Technology (formerly Changsha College of

Transportation) and a master's degree in engineering majoring in industrial management engineering from South China University of Technology in October 1984 and December 1989, respectively.

Mr. Li Zongjun (李宗軍), aged 51, has served as Vice President since July 2015. He has served as chairman of the board of directors of CMS Zhiyuan since January 2015 and director of Ganzhou China Merchants Zhiyuan No. 1 Equity Investment Management Co., Ltd. (贛州招商致遠壹號股權投資管理有限公司) since June 2013. Mr. Li served as assistant to the President from December 2014 to July 2015; deputy general manager of China Merchants Capital from April 2013 to January 2014; deputy general manager of the corporate planning department of China Merchants Group from February 2006 to April 2013; and assistant to the general manager of China Merchants Holdings (International) Co., Ltd. (listed on the Hong Kong Stock Exchange, stock code: 0144) from March 2003 to February 2006. Mr. Li served as deputy manager of the overseas listing department of COSCO's asset management center from September 1997 to April 1999; and assistant to the general manager of COSCO Finance Co., Ltd. (formerly COSCO Group Finance Co., Ltd.) and general manager of its Beijing securities department from March 1994 to October 1997.

Mr. Li obtained a bachelor's degree in economics and a master's degree in economics, both from Nankai University, in June 1987 and April 1990, respectively. Mr. Li was granted the qualification of senior economist by the Ministry of Transport in October 1998.

Mr. Wu Huifeng (吳慧峰), aged 42, has served as Secretary to the Board since December 2014. Mr. Wu had held the following positions in the Company: assistant to the President from May 2014 to March 2015; co-general manager of the Board office from June 2014 to June 2015; Supervisor from July 2007 to May 2014; and Director from May 2004 to July 2007. Mr. Wu had held the following positions in China Merchants Finance Holdings Company Limited: deputy general manager from September 2013 to May 2014; assistant to the general manager from July 2008 to September 2013; general manager of human resources department from June 2008 to May 2010; general manager of the finance and audit department from June 1999 to June 2008. Mr. Wu served as deputy manager of the finance department of Shanghai Nanshan Real Estate Development Co., Ltd. (上海南山房地產開發有限公司) (formerly Shanghai Chengnan Real Estate Development Company (上海誠南房地產開發公司)) from August 1998 to June 1999; and clerk and head of the settlement center of China Nanshan Development (Group) Co., Ltd. from June 1996 to August 1998.

Mr. Wu obtained a bachelor's degree in economics majoring in accounting from the Shanghai University of Finance and Economics and a master's degree in economics majoring in finance from Peking University in June 1996 and January 2012, respectively. Mr. Wu was granted the qualification of accountant in May 1998 by the Ministry of Finance of the PRC.

Mr. Zhao Bin (趙斌), aged 46, has served as Chief Compliance Officer since January 2016. Mr. Zhao has been director of China Merchants Futures and CMS Asset Management from July 2008 and from July 2015, respectively. He had served as general manager of our department of retail brokerage from April 2008 to January 2016, and during such period, he served as general manager of our channel management department from April 2013 to January 2014. Mr. Zhao had also held the following positions in the Company: employee representative Supervisor from July 2007 to May 2011; general manager of private customer service department from January 2006 to April 2009; manager of our Shenzhen Nanshan Nanyou Road securities branch from August 2001 to January 2006; deputy manager (person-in-charge) of our Shenzhen Longgang securities branch from August 1999 to August 2001; and assistant to the general manager of brokerage business department from January 1999 to

August 1999. Mr. Zhao had held the following positions in the securities department of China Merchants Bank: assistant to the manager and manager of Haikou branch (營業部) from March 1996 to December 1998; head of Futian branch (營業部) from May 1995 to March 1996; and staff of the securities department from July 1992 to May 1995.

Mr. Zhao obtained a bachelor's degree in economics majoring in international finance from Shenzhen University and a master's degree in science majoring in project management from the University of Greenwich in June 1992 and February 2011 respectively.

Save as disclosed above, none of our Directors, Supervisors and senior management held any directorship in any public companies, the shares of which are listed in Hong Kong or overseas stock markets, during the three years prior to the date of this prospectus.

JOINT COMPANY SECRETARIES

Mr. Wu Huifeng (吳慧峰) is our joint company secretary and also a member of our senior management. See "Senior Management" in this section for Mr. Wu's biography.

Ms. Kwong Yin Ping Yvonne (鄺燕萍) is one of the joint company secretaries of the Company and was appointed in April 2016 with her appointment taking effect on the Listing Date of our H Shares.

Ms. Kwong has extensive experience in providing company secretarial and compliance services to numerous private and listed companies. She is a vice president of SW Corporate Services Group Limited, a company focusing on the provision of listing company secretarial and compliance services. She currently serves as the company secretary or joint company secretary of several companies listed on the Hong Kong Stock Exchange.

Ms. Kwong received a bachelor's degree in accounting from Hong Kong Polytechnic University in November 1997. She has been a fellow of The Hong Kong Institute of Chartered Secretaries and a fellow of The Institute of Chartered Secretaries and Administrators since December 2012.

COMPETING INTERESTS

As of the Latest Practicable Date, save as disclosed in this prospectus, none of our Directors had any competing interest, which competes or is likely to compete, either directly or indirectly with our business.

BOARD COMMITTEES

In accordance with relevant PRC laws, regulations, the Articles and the corporate governance practice prescribed in the Hong Kong Listing Rules, we have formed five board committees, namely the Strategy Committee, the Risk Management Committee, the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee.

Strategy Committee

The Strategy Committee of the Company consists of seven Directors, namely Mr. Gong Shaolin (宮少林), Mr. Xiong Xianliang (熊賢良), Mr. Wang Yan (王岩), Mr. Guo Jian (郭健), Mr. Huang

Jian (黃堅), Mr. Cao Dong (曹棟) and Mr. Liu Jialin (劉嘉凌). Mr. Gong Shaolin (宮少林) currently serves as chairman of the committee. The main duties of the Strategy Committee of the Company include (but are not limited to):

- analyzing, planning and providing recommendations on the mid- and long-term strategies of the Company;
- analyzing and providing recommendations on major investment proposals;
- analyzing and providing recommendations on major strategic investment decisions and mergers and acquisitions of the Company;
- analyzing and providing recommendations on other major matters affecting the development of the Company;
- organizing expert review committee(s) for the above matters;
- monitoring the implementation of the above matters; and
- other duties authorized by the Board.

Risk Management Committee

The Risk Management Committee consists of six Directors, namely Ms. Su Min (蘇敏), Mr. Hua Li (華立), Mr. Wang Yan (王岩), Ms. Peng Lei (彭磊), Mr. Cao Dong (曹棟) and Mr. Liu Jialin (劉嘉凌). Ms. Su Min (蘇敏) currently serves as chairman of the committee. See "Directors" in this section for experience of the members in risk management. The main duties of the Risk Management Committee of the Company include (but are not limited to):

- reviewing and providing recommendations on the general goals and basic polices of risk management and compliance of the Company;
- reviewing and providing recommendations on the institutional setting of risk management and compliance management of the Company;
- evaluating and providing recommendations on the risks involved in major decisions and the mechanism in resolving the major risks;
- reviewing and providing recommendations on the regular risk evaluation reports, compliance reports and economic capital management proposals; and
- other matters required to be resolved by regulatory institutions or authorized by the Board.

Audit Committee

The Audit Committee of the Company consists of five Directors, namely Mr. Zhu Haiwu (朱海武), Mr. Hua Li (華立), Mr. Huang Jian (黃堅), Mr. Ding Huiping (丁慧平) and Mr. Yang Jun (楊鈞). Mr. Zhu Haiwu (朱海武) currently serves as chairman of the committee. The main duties of the Audit Committee of the Company include (but are not limited to):

- providing recommendations on engaging or changing external auditors, supervising and assessing the performance of external auditors;
- guiding internal auditing and supervising the internal audit system of the Company and its implementation;

- coordinating the communication between the management, internal auditors and relevant departments with the external auditors;
- assessing its effectiveness; organizing daily review on the structure of assigning responsibility; guiding, monitoring and reviewing the responsibility system, and strengthening the internal supervision mechanism;
- reviewing and supervising the compliance and risk control duties, obligating events and relevant follow-ups of every department and position with regard to their respective duties and reporting their performance to the Board on a regular basis; understanding the compliance level of our senior management through regular interviews with the persons in charge of compliance matters or via other effective means;
- performing audit work on the major connected transactions of the Company; and
- other duties authorized by the Board.

Nomination Committee

The Nomination Committee of the Company consists of five Directors, namely Mr. Ding Huiping (丁慧平), Mr. Wang Yan (王岩), Ms. Peng Lei (彭磊), Mr. Yi Xiqun (衣錫群) and Mr. Yang Jun (楊鈞). Mr. Ding Huiping (丁慧平) currently serves as chairman of the committee. The main duties of the Nomination Committee include (but are not limited to):

- providing recommendations to the Board on the size and composition of the Board based on the business operations, asset scale and share structures of the Company;
- considering and formulating criteria and procedures for selection of Directors and senior management to be approved by the Board;
- searching and submitting qualified candidates of directors, senior management, chairman and senior management appointed by the holding company;
- reviewing and providing recommendations on the appointment and dismissal of Directors and senior management;
- reviewing and providing recommendations on the appointment and dismissal of other senior management to be submitted to the board for appointment; and
- other duties authorized by the Board.

Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee of the Company consists of five Directors, namely Mr. Yi Xiqun (衣錫群), Ms. Su Min (蘇敏), Mr. Cao Dong (曹棟), Mr. Liu Jialin (劉嘉凌) and Mr. Zhu Haiwu (朱海武). Mr. Yi Xiqun (衣錫群) currently serves as chairman of the committee. The main duties of the Remuneration and Appraisal Committee include (but are not limited to):

- reviewing and providing recommendations on the remuneration policy, standard and proposal of the Directors and senior management of the Company with reference to the duties and importance of the Directors and senior management as well as the remuneration package for similar positions of comparable companies. The remuneration standard and proposal include but are not limited to appraisal standard and procedures, major evaluation system, reward and penalty proposals;

- reviewing the overall remuneration policy of the Company and the total amount of annual remuneration, examining the remuneration policy and the execution of annual remuneration;
- reviewing the appraisal system for the Directors and senior management of the Company;
- reviewing and examining the performance of the duties of the Directors and senior management, conducting annual performance assessment and providing recommendations;
- overseeing the implementation of remuneration system of the Company; and
- other duties authorized by the Board.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Directors, Supervisors and senior management receive compensation in the form of salaries, directors' fees, contribution to pension schemes, discretionary bonuses and other allowances or otherwise.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the total remuneration paid to our Directors amounted to RMB10.73 million, RMB6.84 million, RMB11.04 million and RMB2.50 million, respectively.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the total remuneration paid to our Supervisors amounted to RMB8.85 million, RMB12.84 million, RMB7.10 million and RMB2.97 million, respectively.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the total remuneration paid to our senior management amounted to RMB34.81 million, RMB23.53 million, RMB38.83 million and RMB8.53 million, respectively.

For the years ended December 31, 2013 and 2014 and 2015 and the six months ended June 30, 2016, the total emoluments paid to the five highest paid individuals (including Directors) by our Group amounted to RMB25.11 million, RMB46.50 million, RMB32.27 million and RMB4.80 million, respectively.

Under the arrangement currently in force, we estimate the total fixed remuneration (before tax) payable to Directors and Supervisors for the year ending December 31, 2016 is approximately RMB10.00 million.

During the Track Record Period, no fees were paid by our Group to any of the Directors or the five highest paid individuals as an inducement to join us or as compensation for loss of office. Moreover, there is no arrangement under which any Directors and Supervisors have waived or agreed to waive their remuneration.

The remuneration of our Directors, Supervisors and senior management is determined with reference to the remuneration paid by comparable companies and the achievement of major operating indicators of the Company. Fixed remuneration is determined with reference to the remuneration data provided by the professional management consultation company and position of the Company among its competitors.

Save as disclosed in this prospectus, none of our Directors, Supervisors and senior management holds any interest in the H Shares and A Shares as set out in Part XV of the Securities and Futures Ordinance, as of the Latest Practicable Date. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiry, save as disclosed herein, there is no additional matter with respect to the appointment of the Directors and Supervisors that needs to be brought to the attention of the Shareholders, and there is no additional information relating to the Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Hong Kong Listing Rules as of the Latest Practicable Date.

EMPLOYEES

As of June 30, 2016, we had 10,373 employees. The remuneration packages of our employees primarily consist of salaries, discretionary bonuses and contributions to mandatory social security funds. As required by the relevant PRC regulations, we participate in various defined pension schemes for our employees, including those organized by provincial or municipal governments as well as supplemental pension schemes. Bonuses are generally discretionary and based on the overall performance of our business. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, we incurred staff costs of RMB2,004.05 million, RMB3,621.81 million, RMB8,180.36 million and RMB1,462.06 million, respectively.

We have not experienced any significant problems with our employees or disruption to our operations due to labor disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff.

COMPLIANCE ADVISOR

We have agreed to appoint J.P. Morgan Securities (Far East) Limited as the compliance advisor upon Listing in compliance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. The material terms of the compliance advisor's agreement are as follows:

(a) J.P. Morgan Securities (Far East) Limited shall act as our compliance advisor for the purpose of Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules for a 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, or until the agreement is terminated, whichever is earlier;

(b) the compliance advisor will provide us with certain services, including providing us with proper guidance and advice as to compliance with the requirements under the Hong Kong Listing Rules and applicable laws, rules, codes and guidelines;

(c) the compliance advisor will, as soon as reasonably practicable, inform us of any amendment or supplement to the Hong Kong Listing Rules announced by the Hong Kong Stock Exchange from time to time, and of any amendment or supplement to the applicable laws and guidelines; and

(d) the compliance advisor will act as one of the key channels of communication of the Company with the Hong Kong Stock Exchange.

SHARE CAPITAL

Immediately before the Global Offering

As of the Latest Practicable Date, the registered capital of our Company was RMB5,808,135,529, comprising 5,808,135,529 A Shares of RMB1.00 each, which are listed on the Shanghai Stock Exchange.

	Number of Shares	% of issued share capital
A Shares	5,808,135,529	100.00%

Immediately after the Global Offering

Immediately after the Global Offering, assuming that the Over-allotment Option is not exercised, the entire share capital of our Company would be as follows:

Description of Shares	Number of Shares	Approximate % of the enlarged issued share capital after the Global Offering
A Shares	5,719,008,149	85.37%
H Shares to be converted from A Shares and transferred to NSSF	89,127,380	1.33%
H Shares to be issued pursuant to the Global Offering	891,273,800	13.30%
Total	**6,699,409,329**	**100.00%**

Immediately after the Global Offering and assuming that the Over-allotment Option is fully exercised, the entire share capital of our Company would be as follows:

Description of Shares	Number of Shares	Approximate % of the enlarged issue share capital after the Global Offering
A Shares	5,705,639,049	83.50%
H Shares to be converted from A Shares and transferred to NSSF	102,496,480	1.50%
H Shares to be issued pursuant to the Global Offering	1,024,964,800	15.00%
Total	**6,833,100,329**	**100.00%**

Classes of Shares

The H Shares and A Shares in issue upon completion of the Global Offering are ordinary Shares in our share capital. After the launch of the pilot program of Shanghai-Hong Kong Stock Interconnection ("Shanghai-Hong Kong Stock Connect" or "Pilot Program") on November 17, 2014, cross-border trading of shares between China and Hong Kong is allowed. The A Shares of our Company are eligible northbound securities traded by Hong Kong and overseas investors in accordance with the rules and regulations of the Pilot Program subject to a maximum amount. A Shares can also be subscribed for and traded by legal and natural persons in China, QFIIs and qualified foreign strategic investors in Renminbi. It is expected that H Shares of our Company will be eligible southbound "Hong Kong Equities" securities approved to be subscribed for and traded by legal and natural persons in China in accordance with the rules and regulations of the Pilot Program subject to a maximum amount. H Shares can also be subscribed for and traded by QDIIs. All dividends on H Shares shall be paid in Hong Kong dollars whereas dividends on A Shares shall be paid in Renminbi.

In addition, A Shares and H Shares are regarded as different classes of Shares. The differences between the two classes of Shares, provisions on class rights, dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares, the method of Share transfer and appointment of dividend receiving agents are set out in "Appendix V—Summary of Articles of Association" to this prospectus. Furthermore, any change or abrogation of the rights of class Shareholders shall be approved by way of a special resolution of the general meeting of Shareholders and by a class shareholders meeting of class Shareholders convened by the affected class of Shareholders. See "Appendix V—Summary of Articles of Association" for the circumstances under which a general meeting and a class meeting are required. However, the approval by class of Shareholders is not required in the following circumstances:

(i) issue of A Shares and H Shares of not more than 20% of existing A Shares and H Shares respectively, either separately or concurrently in a period of 12 months, pursuant to an approval by a special resolution of the general meeting;

(ii) proposal of the issue of A Shares and H Shares of the Company upon its establishment pursuant to approval of the securities regulatory authority under the State Council, provided that the A Shares and H Shares shall be issued within 15 months after such approval; or

(iii) transfer of A Shares of the Company by its holders to foreign investors for listing on overseas stock exchange pursuant to and approved by the securities regulatory authority under the State Council. See "—Conversion of A Shares into H Shares for Listing and Trading on Hong Kong Stock Exchange" for details.

A Shares and H Shares shall rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made.

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 after the Global Offering.

TRANSFER OF STATE-OWNED SHARES TO NSSF

In accordance with the relevant PRC rules regarding the transfer of state-owned shares in overseas capital markets, 14 state-owned Shareholders of our Company are required to transfer to NSSF such number of A Shares equivalent to 10% of the total number of Offer Shares. Accordingly, 89,127,380 A Shares (if the Over-allotment Option is not exercised) or 102,496,480 A Shares (if the Over-allotment Option is fully exercised) will be transferred by the relevant state-owned Shareholders (China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司) and Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司) are the two major transferring Shareholders) to NSSF and converted into H Shares.

The A Shares as described above will be converted into H Shares on a one-for-one basis and such H Shares converted will not constitute part of the Offer Shares. None of those state-owned

Shareholders will receive any proceeds from the transfer of H Shares to NSSF or any subsequent disposal of such H Shares by NSSF. The transfer of state-owned Shares by the relevant state-owned Shareholders to NSSF were approved by the SASAC on April 23, 2016. Such conversion of A Shares into H Shares has been approved by the CSRC in its approval letter issued on August 3, 2016.

CONVERSION OF A SHARES INTO H SHARES FOR LISTING AND TRADING ON HONG KONG STOCK EXCHANGE

If any holder of our A Shares wishes to transfer its A Shares to overseas investors for listing and trading on Hong Kong Stock Exchange as H Shares, it must obtain the approval of the relevant PRC regulatory authorities, including the CSRC for the conversion of the A Shares and the approval of Hong Kong Stock Exchange for the listing and trading of the converted H Shares, as well as in compliance with the relevant procedures. To the best knowledge of the Company, such conversion may involve the following procedures:

(i) the holder of A Shares shall obtain the approval of the CSRC or the securities regulatory authorities authorized by the State Council for the conversion of all or part of its A Shares into H Shares;

(ii) we may apply for the listing of all or any of our A Shares on Hong Kong Stock Exchange as H Shares in advance of any proposed conversion and shall obtain prior approval from Hong Kong Stock Exchange for the listing and trading of the converted H Shares on the Hong Kong Stock Exchange;

(iii) the holder of A Shares shall submit an application to us for the deregistration of the amount of A Shares to be converted from the A Share register, together with the relevant document(s) of title;

(iv) upon approval of the Board and Hong Kong Stock Exchange, we will instruct the H Share Registrar to issue certificate(s) of such number of H Shares to the relevant holders of H Shares on or after a specified date;

(v) such number of H Shares converted from A Shares shall be registered in the H Share register maintained in Hong Kong on condition that:

    (a) our H Share Registrar shall issue a notice to inform Hong Kong Stock Exchange that the H Shares have been duly registered in the H Share register and the H Share certificate(s) has/have been properly issued; and

    (b) the admission of the H Shares (converted from A Shares) for trading in Hong Kong shall comply with the Hong Kong Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time;

(vi) upon completion of the conversion, the shareholding of the relevant holder of A Shares in our A Share capital registered in our A Share register shall be reduced by the number of A Shares converted and the number of H Shares shall be increased by the corresponding number of H Shares; and

(vii) we shall comply with the Hong Kong Listing Rules to inform our Shareholders and the public by way of an announcement of such fact before 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 of the Latest Practicable Date, save as disclosed in "—Transfer of State-owned Shares to NSSF," the Directors were not aware of any intention of any holder of A Shares to convert all or part of their A Shares into H Shares.

APPROVAL FROM HOLDERS OF A SHARES REGARDING THE GLOBAL OFFERING

Approval from holders of A Shares is required for our Company to issue H Shares and seek the listing of H Shares on Hong Kong Stock Exchange. Such approval was granted at the Shareholders' general meeting of our Company held on June 11, 2015 subject to the following conditions:

(1) Size of the offer

The proposed number of H Shares to be offered shall not exceed 15% of the total issued share capital enlarged by the issue of H Shares assuming the Over-allotment Option is not exercised. The H Shares to be issued pursuant to full exercise of the Over-allotment Option shall not exceed 15% of the H Shares initially offered under the Global Offering.

(2) Method of offering

The offering shall be conducted by way of international offering to institutional investors and public offering for subscription in Hong Kong.

(3) Target investors

The H Shares Global Offering shall comprise the Hong Kong Public Offering to public investors in Hong Kong and International Offering to international investors, qualified domestic institutional investors in the PRC and other investors who are approved by PRC regulatory bodies to invest abroad.

(4) Price determination basis

The issue price of the H Shares will be determined after due consideration of, among others, the interests of our existing Shareholders, acceptance of investors and the risks related to the offering. According to international practice, issue price will be determined through the demand orders and bookbuilding process, taking into consideration the domestic and overseas capital market conditions and the valuation level of comparable companies in domestic and overseas markets.

(5) Validity

The issue of H Shares and listing of H Shares on the Hong Kong Stock Exchange shall be completed within 18 months from the date of Shareholders' meeting on June 11, 2015.

Save as the Global Offering, there are no other approved share offering plans.

As of the Latest Practicable Date, the following persons directly or indirectly control, or are entitled to exercise the control of, 5% or more of our A Shares:

Shareholders	Nature of Interest	Class	Number of Shares directly or indirectly held	Approximate percentage of shareholding (%)
China Merchants Group	Interest held by controlled corporations[1]	A Shares	2,953,733,617	50.86
China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	Beneficial owner	A Shares	1,435,110,665	24.71
Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	Beneficial owner	A Shares	1,341,378,000	23.09
China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司)	Interest held by controlled corporations[2]	A Shares	513,203,300	8.84
China Ocean Shipping (Group) Company (中國遠洋運輸（集團）總公司)	Beneficial owner	A Shares	428,046,935	7.37

Immediately following the completion of the Global Offering (and assuming the Over-allotment Option is not exercised), our share capital will comprise of 5,719,008,149 A Shares and 980,401,180 H Shares (including H Shares converted from A Shares and transferred to NSSF), representing approximately 85.37% and 14.63% of the total share capital of our Company, respectively. The table below sets out the shareholding information of the above-mentioned Shareholders, immediately following the completion of the Global Offering, assuming no exercise of the Over-allotment Option:

Shareholders	Nature of Interest	Class	Number of Shares directly or indirectly held	Approximate percentage of shareholding (%)
China Merchants Group	Interest held by controlled corporations[3]	A Shares	2,886,027,221	43.08%
	Beneficial owner or other interest[4]	H Shares	67,706,400	1.01%
China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	Beneficial owner	A Shares	1,402,114,293	20.93%
Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	Beneficial owner	A Shares	1,310,719,131	19.56%
China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司)	Interest held by controlled corporations[5]	A Shares	502,947,936	7.51%
China Ocean Shipping (Group) Company (中國遠洋運輸（集團）總公司)	Beneficial owner	A Shares	418,948,014	6.25%

1. China Merchants Group holds 100% of the equity interest of China Merchants Finance Investment Holdings Co., Ltd., Shenzhen Jisheng Investment Development Co., Ltd. and China Merchants Steam Navigation Co., Ltd., and therefore is deemed to be interested in the same number of A Shares in which China Merchants Finance Investment Holdings Co., Ltd. (24.71%), Shenzhen Jisheng Investment Development Co., Ltd. (23.09%) and China Merchants Steam Navigation Co., Ltd. (3.05%) are interested under the SFO.
2. China COSCO Shipping Corporation Limited holds 100% of the equity interest of China Ocean Shipping (Group) Company and China Shipping (Group) Company (中國海運（集團）總公司), and therefore is deemed to be interested in the same number of A Shares in which China Ocean Shipping (Group) Company (7.37%) and COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運（廣州）有限公司) (1.47%), a wholly-owned subsidiary of China Shipping (Group) Company, are interested under the SFO.

3. China Merchants Group holds 100% of the equity interest of China Merchants Finance Investment Holdings Co., Ltd., Shenzhen Jisheng Investment Development Co., Ltd. and China Merchants Steam Navigation Co., Ltd., and therefore is deemed to be interested in the same number of A Shares in which China Merchants Finance Investment Holdings Co., Ltd. (20.93%), Shenzhen Jisheng Investment Development Co., Ltd. (19.56%) and China Merchants Steam Navigation Co., Ltd. (2.59%) are interested under the SFO.
4. Assuming subscription of 67,706,400 H Shares by China Merchants Group or its nominees at the Global Offering, subject to the appropriate waiver/consent being granted by the Stock Exchange.
5. China COSCO Shipping Corporation Limited holds 100% of the equity interest of China Ocean Shipping (Group) Company and China Shipping (Group) Company, and therefore is deemed to be interested in the same number of A Shares in which China Ocean Shipping (Group) Company (6.25%) and COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運（廣州）有限公司) (1.25%), a wholly-owned subsidiary of China Shipping (Group) Company, are interested under the SFO.

Save as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Global Offering (and the offering of any additional H Shares which may be offered pursuant to the Over-allotment Option), have an interest or short position in the Shares or underlying shares of our Company which would be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the issued voting shares of any other member of our Group. As of the Latest Practicable Date, we are not aware of any arrangement which may, on a subsequent date, result in a change of control of our Company.

OUR CONTROLLING SHAREHOLDER

China Merchants Group is our Controlling Shareholder as defined under the Hong Kong Listing Rules and is expected to remain as our Controlling Shareholder immediately after completion of the listing of H Shares. As of the Latest Practicable Date, China Merchants Group indirectly held approximately 50.86% of our issued share capital through China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司), Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司) and China Merchants Steam Navigation Co., Ltd. (招商局輪船股份有限公司). Upon completion of the listing of H Shares, China Merchants Group will indirectly hold approximately 44.09% of our then issued share capital (assuming the Over-allotment Option is not exercised and taking into account the proposed subscription of H Shares by China Merchants Group in the Global Offering). See "Share Capital" in this prospectus for details of our shareholding structure.

Business relationship between China Merchants Group and us

China Merchants Group is a large PRC state-owned conglomerate based in Hong Kong. As of June 30, 2016, the registered capital of China Merchants Group was RMB13,750 million. China Merchants Group currently operates in three core business sectors, namely transportation and related infrastructure, finance and property. The finance-related businesses that China Merchants Group is engaged in include banking, securities, funds and funds management, and insurance and insurance brokerage. For the years ended December 31, 2013, 2014 and 2015, China Merchants Group recorded total operating revenue of RMB72,221 million, RMB93,275 million and RMB122,030 million, respectively, and net profits of RMB22,770 million, RMB27,892 million and RMB41,675 million, respectively.

As of the Latest Practicable Date, China Merchants Group had interests in the following companies and it operated in the finance sector through such companies (besides its 50.86% interest in our Company):

- 29.97%[(1)] indirect interest in China Merchants Bank. China Merchants Bank is a commercial bank incorporated in the PRC and listed on the Hong Kong Stock Exchange (stock code: 3968) and the Shanghai Stock Exchange (stock code: 600036);
- 100% indirect interest in China Merchants Capital Investment Co., Ltd. ("China Merchants Capital"). China Merchants Capital is incorporated in the PRC and primarily engaged in alternative investment and asset management;
- 27.59% indirect interest in China Merchants China Direct Investments Limited ("CMCDI"). CMCDI is an investment company incorporated in Hong Kong and listed on the Hong Kong Stock Exchange (stock code: 133);
- 100% indirect interest in CM Houlder Insurance Brokers Limited. CM Houlder Insurance Brokers Limited is a company incorporated in Hong Kong and engaged in insurance brokerage business;

(1) China Merchants Group hold such interests through shareholding/control/company(ies) acting in concert with it, collectively. According to the announcement of China Merchants Bank on the Hong Kong Stock Exchange and the Shanghai Stock Exchange dated February 29, 2016, China Merchants Group will de-facto control 30.06% of the total share capital of China Merchants Bank after completion of the allocation (at nil consideration) of Sinotrans & CSC Holdings Co., Ltd. into China Merchants Group. As of the Latest Practicable Date, the approval procedures required for the obtaining of a waiver from the obligation to make a general offer for China Merchants Bank as associated with such change of equity interest had not been fully completed. Further, such increase in the shareholding in China Merchants Bank by China Merchants Group would not occur if the transfer of shares in China Merchants Bank by Sinotrans & CSC Holdings Co., Ltd. and its subsidiary (as disclosed in the announcement of China Merchants Bank on the Hong Kong Stock Exchange and the Shanghai Stock Exchange dated September 20, 2016) materializes.

- 100% indirect interest in China Merchants Insurance Company Limited. China Merchants Insurance Company Limited is a company incorporated in Hong Kong and engaged in general insurance business; and
- 100% indirect interest in China Merchants Financial Leasing Co., Ltd.. China Merchants Financial Leasing Co., Ltd. is a company incorporated in the PRC and engaged in financial leasing business[(2)].

In addition, as of the Latest Practicable Date, China Merchants Group had certain passive investments in the finance sector, which included 13.73% indirect interest in China Great Wall Securities Co., Ltd. ("Great Wall Securities"), a securities firm incorporated in the PRC; and 10.99% indirect interest in Morgan Stanley Huaxin Fund Management Co., Ltd. ("Morgan Stanley Huaxin Fund"), a Sino-foreign joint venture fund management company established in the PRC.

According to the Securities Law, Law of Commercial Banks of the PRC (中華人民共和國商業銀行法), Insurance Law of the PRC (中華人民共和國保險法) and other applicable financial regulations, securities business, commercial banking business and insurance brokerage and insurance business in the PRC must be operated and managed separately. The member companies within China Merchants Group engaging in various businesses including commercial banking, insurance brokerage and insurance are regulated and supervised by different regulatory authorities.

We are the only securities firm controlled by China Merchants Group. Our principal businesses include brokerage and wealth management, investment banking, investment management, and investment and trading. See "Business" in this prospectus for details. We act as agent in selling insurance products in the PRC. However, we are not engaged in insurance brokerage nor insurance business and therefore do not compete with CM Houlder Insurance Brokers Limited or China Merchants Insurance Company Limited. We are not engaged in the financial leasing business and therefore do not compete with China Merchants Financial Leasing Co., Ltd. We are of the view that, except for China Merchants Bank, China Merchants Capital, CMCDI, Great Wall Securities and Morgan Stanley Huaxin Fund (which do not have substantive competition with us as disclosed below), there is no competition between the principal finance-related business of China Merchants Group and our principal business.

Further, China Merchants Group is also engaged in non-financial businesses. There is no direct competition between us and China Merchants Group in respect of those businesses as we are not engaged in non-financial business.

China Merchants Bank

China Merchants Bank is a commercial bank listed on the Hong Kong Stock Exchange (stock code: 3968) and the Shanghai Stock Exchange (stock code: 600036). China Merchants Bank provides a broad range of corporate and retail banking products and services. It also conducts treasury operations for its own account and on behalf of its customers. China Merchants Bank is mainly regulated by the PBOC and the CBRC. Unless otherwise permitted by the PRC regulations, it is not allowed to engage in trusts and securities business. China Merchants Bank is not part of our business, given that we do not operate commercial banking business. It is also a regulatory requirement in the PRC that banking business and securities business must be operated and managed separately.

(2) China Merchants Financial Leasing Co., Ltd. was incorporated on June 1, 2016 and it had not commenced business as of the Latest Practicable Date.

The following table sets out the relevant financial information of China Merchants Bank during the Track Record Period.

(RMB millions)	**2013**	**2014**	**2015**
Total assets (As of December 31)	4,016,399	4,731,829	5,474,978
Operating revenue (For the year ended December 31)	133,030	166,367	202,166
Net profit (For the year ended December 31)	51,742	56,049	58,018

China Merchants Group does not participate in our daily operations nor the daily operations of China Merchants Bank. As of the Latest Practicable Date, China Merchants Group only indirectly held approximately 29.97% interests in China Merchants Bank through shareholding/control/company(ies) acting in concert with it, collectively, and its investment in China Merchants Bank is accounted for as investment in an associate.

Both we and China Merchants Bank are listed companies. China Merchants Bank, being a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, is independent from China Merchants Group in its operations and management. In addition, the directors of China Merchants 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 China Merchants Group for the best interests of our Company and Shareholders as a whole. Further, both China Merchants Bank and us have stringent corporate governance policies in place to avoid conflict of interest in compliance with laws, regulations and the Listing Rules. Among the directors of China Merchants Bank, only Ms. Su Min and Mr. Wang Daxiong[(1)] are our Directors. Moreover, Ms. Su and Mr. Wang are non-executive director of both our Company and China Merchants Bank, and they are not involved in our and China Merchants Bank's daily operations. In addition, both we and China Merchants Bank have set specific policies to avoid conflict of interest which include, for example, common directors should abstain from voting on transactions that relate to China Merchants Bank and/or its associates and us and should not be counted in the quorum of that board meeting. Further, when connected transactions are considered, independent non-executive directors of our Company and China Merchants Bank shall give their independent opinions to the board of directors on the connected transactions in accordance with the Hong Kong Listing Rules. Save as disclosed above, there are no overlapping directors or senior management between China Merchants Bank and us.

Our major customers and those of China Merchants Bank are different by nature. China Merchants Bank is a commercial bank which mainly provides services to its retail banking clients, private banking clients and corporate banking clients. We are a securities firm. By nature, the attributes of our clients, including their requirements on wealth management and risk appetites are inherently different from those of China Merchants Bank on the whole.

Our primary marketing and sale channels are different from those of China Merchants Bank. The financial products of China Merchants Bank are mainly marketed and sold through its nationwide bank branch network and electronic channels. On the other hand, we have formulated different marketing strategies, and sell our products to our customers mainly through our nationwide securities branch network, online platform and customer service personnel. See "Business—Our Business—Brokerage and Wealth Management—Wealth Management—Business Network, Marketing and Services" for details.

(1) As of the Latest Practicable Date, the appointment of Mr. Wang as a non-executive Director of our Company was pending the approval of the CSRC on director's qualification, and his formal assumption of office as a non-executive director of China Merchants Bank was also subject to approval on his qualification for directorship by the CBRC.

China Merchants Bank is engaged in finance-related businesses in Hong Kong through its subsidiaries, CMB International Capital Corporation Limited ("CMB International") and Wing Lung Bank. CMB International is an approved substantial shareholder and one of the intermediate holding companies of entities licensed to carry on various regulated activities under the SFO in Hong Kong. CMB International Capital Limited, a subsidiary of CMB International, is licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO in Hong Kong. CMB International Securities Limited, a subsidiary of CMB International, is licensed to carry on type 1 (dealing in securities) regulated activities under the SFO in Hong Kong. CMB International Asset Management Limited, a subsidiary of CMB International, is licensed to carry on type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO in Hong Kong. Wing Lung Securities Limited, a subsidiary of CMB International, is licensed to carry on type 1 (dealing in securities) regulated activities under the SFO in Hong Kong. CMB International Futures Limited, a subsidiary of CMB International, is licensed to carry on type 2 (dealing in futures contracts) regulated activities under the SFO in Hong Kong. Wing Lung Bank is a licensed bank in Hong Kong and is also a registered institution registered with the SFC for its regulated activities. It is licensed to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO in Hong Kong. Currently, Wing Lung Bank provides comprehensive banking services to its customers. On the other hand, CMSHK, our wholly-owned subsidiary, is licensed by the SFC to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO in Hong Kong. Currently, CMSHK provides a variety of financial products and services, including securities trading, asset management, bonds and futures trading, margin financing, and equities research services. As of the Latest Practicable Date, there was no common director or senior management between CMB International and us/CMSHK, or between Wing Lung Bank and us/CMSHK.

For the years ended December 31, 2013, 2014 and 2015, the operating revenue and net profits of CMB International represented only approximately 0.29%, 0.27% and 0.27%, respectively, of the operating revenue of China Merchants Bank, and only approximately 0.34%, 0.46% and 0.49%, respectively, of the net profits of China Merchants Bank. As of December 31, 2013, 2014 and 2015, the total assets of CMB International represented only approximately 0.02%, 0.04% and 0.05%, respectively, of the total assets of China Merchants Bank. The operating revenue and net profits of Wing Lung Bank for the same periods represented only approximately 2.89%, 2.84% and 2.56%, respectively, of the operating revenue of China Merchants Bank, and only approximately 3.97%, 4.46% and 4.62%, respectively, of the net profits of China Merchants Bank. As of December 31, 2013, 2014 and 2015, the total assets of Wing Lung Bank represented only approximately 4.22%, 4.18% and 3.94%, respectively, of the total assets of China Merchants Bank. For CMSHK, its operating revenue for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016 represented only approximately 4.84%, 4.26%, 2.28% and 1.87%, respectively, of our operating revenue. For the years ended December 31, 2013, 2014 and 2015, the net profits of CMSHK represented only approximately 1.32%, 1.86% and 0.88%, respectively, of our net profits. CMSHK recorded a net loss for the six months ended June 30, 2016. As of December 31, 2013, 2014 and 2015 and June 30, 2016, the total assets of CMSHK represented only approximately 7.49%, 4.97%, 3.19% and 3.34%, respectively, of our total assets. The above shows that, currently, the relative contributions of CMB International and Wing Lung Bank to the overall business size and financial significance of China Merchants Bank are limited, and such contribution of CMSHK to us is also not relatively high. As such, we believe that any potential competition CMSHK will face as a result of the business of CMB International and Wing Lung Bank will have little impact on our Group's overall business.

In addition, the Hong Kong securities market is of a significant scale and can accommodate a large number of market participants. It is common for multiple financial service providers to provide services to a client or a group of clients in the same transaction. As such, we consider that any potential competition between CMB International, Wing Lung Bank and CMSHK is of no difference from any competition between Independent Third Parties and us in the Hong Kong securities market.

China Merchants Bank holds 55% interest in its subsidiary, China Merchants Fund. China Merchants Fund is a fund management company. Its scope of business includes the promotion, establishment and management of mutual funds. We hold the other 45% interest in China Merchants Fund. We do not currently have the qualification to carry out mutual fund business and only indirectly participates in mutual fund business through our 45% interest in China Merchants Fund and 49% interest in Bosera Funds, both of which are our associated companies. The other shareholders of Bosera Funds are Independent Third Parties. Therefore, there is no direct competition between us and China Merchants Bank in the mutual fund business.

In light of the above and the non-competition undertaking given by China Merchants Group as described in "—Non-Competition Arrangement" below, we believe that there is no substantive competition between China Merchants Bank and us.

China Merchants Capital

China Merchants Capital was established in the PRC in 2012 to inherit the then existing direct investment business within China Merchants Group. China Merchants Capital is primarily engaged in alternative investment and asset management. It is accounted for as a subsidiary of China Merchants Group. Its registered capital is RMB1,000 million.

Although China Merchants Capital and CMS Zhiyuan, our wholly-owned subsidiary, both carry out certain direct investment business, China Merchants Capital is not part of our business, given that there are differences between the positioning and development strategies of China Merchants Capital and CMS Zhiyuan. When China Merchants Capital decides whether or not to invest, it would consider whether the investment could effectively integrate with and create synergies with the existing businesses of China Merchants Group. China Merchants Capital focuses on utilizing the internal resources of China Merchants Group to conduct various capital investments, with a view to maximizing synergies in the combined development of the financial sector and the industrial sector of China Merchants Group as a whole. On the other hand, CMS Zhiyuan currently focuses on pre-IPO investments and investments in structured products through the establishment of funds. Its major investment decision parameter is whether the proposed investment can generate potential capital gains or financial returns.

The following table sets out the relevant financial information of China Merchants Capital during the Track Record Period.

(RMB millions)	**2013**	**2014**	**2015**
Total assets (As of December 31)	3,548	4,712	7,647
Total operating revenue (For the year ended December 31)	115	238	242
Net profit (For the year ended December 31)	112	100	231

In addition, the PRC direct investment market is sizable and open, and it is able to accommodate a very large number of participants. Neither China Merchants Capital nor CMS Zhiyuan accounts for any meaningful share in the huge market that could create direct competition between the two companies. As of December 31, 2015, the aggregate size of the funds managed by China Merchants Capital (based on the paid up capital) was RMB24,352 million. As of June 30, 2016, the aggregate size of the funds managed by CMS Zhiyuan (based on the paid up capital) was RMB9,033 million. Following from the above, we consider that any potential competition between China Merchants Capital and CMS Zhiyuan is of no difference from any competition between Independent Third Parties and us in the PRC direct investment market.

During the Track Record Period, CMS Zhiyuan had not directly competed with China Merchants Capital or any funds managed by China Merchants Capital in any investment opportunities or projects. Rather, during the Track Record Period, CMS Zhiyuan had collaborated with different market participants (including China Merchants Capital) in making investments. It is common for multiple investors or funds to invest in the same target company. As of the Latest Practicable Date, among all the investment projects of CMS Zhiyuan, the funds under China Merchants Capital had also invested in nine of them. The collaboration of CMS Zhiyuan with China Merchants Capital was conducted on normal commercial terms and arm's length basis, which was of no substantive difference to its collaboration with Independent Third Parties. We believe that such collaboration with China Merchants Capital can strengthen the commercial bargaining power of CMS Zhiyuan and further minimize the limited potential competition or conflict of interests between CMS Zhiyuan and China Merchants Capital.

For the years ended December 31, 2013, 2014 and 2015, the total operating revenue and net profits of China Merchants Capital represented only approximately 0.16%, 0.25% and 0.20%, respectively, of the total operating revenue of China Merchants Group, and only approximately 0.48%, 0.36% and 0.55%, respectively, of the net profits of China Merchants Group. For the same periods, the operating revenue of CMS Zhiyuan represented only approximately 1.57%, 2.20% and 0.10%, respectively, of our operating revenue. For the six months ended June 30, 2016, CMS Zhiyuan recorded negative operating revenue. For the years ended December 31, 2013 and 2014, the net profits of CMS Zhiyuan represented only approximately 2.31% and 5.27%, respectively, of our net profits. For the year ended December 31, 2015 and the six months ended June 30, 2016, CMS Zhiyuan recorded net loss. This shows that, currently, the relative contribution of China Merchants Capital to the overall financial significance of China Merchants Group is limited, and such contribution of CMS Zhiyuan to us is also relatively small. As such, we believe that any potential competition between China Merchants Capital and CMS Zhiyuan will have little impact on our Group's overall business.

Although Ms. Su Min, our Director, is also a supervisor of China Merchants Capital and Mr. Guo Jian, our Director, is also the deputy general manager of China Merchants Capital, they are our non-executive Directors and neither of them is involved in our daily operations. They are primarily responsible for formulating our business strategies in their capacity as directors and are not involved in the daily operation of CMS Zhiyuan. In addition, Ms. Su Min is not involved in the daily operation of China Merchants Capital. She does not hold any position in CMS Zhiyuan and is not a member of the investment committee of any of the funds under CMS Zhiyuan. Currently, Mr. Guo Jian also does not hold any position in CMS Zhiyuan and is not a member of the investment committee of any of the funds under CMS Zhiyuan. He serves as a director of Shenzhen China Merchants Zhiyuan Equity Investment and Fund Management Company Limited (深圳市招商致遠股權投資基金管理有限公司) ("Shenzhen Zhiyuan Management Company") and Ganzhou China Merchants Zhiyuan No.1 Equity Investment Management Company Limited (贛州招商致遠壹號股權投資管理有限公司) ("Ganzhou Zhiyuan No. 1 Management Company"), which are our indirect subsidiaries through CMS Zhiyuan. Ganzhou Zhiyuan No. 1 Management Company is a wholly-owned subsidiary of Shenzhen Zhiyuan

Management Company. Shenzhen Zhiyuan Management Company does not manage any funds by itself but does so through Ganzhou Zhiyuan No.1 Management Company, which in turn acts as general partner in funds. As of June 30, 2016, the subscribed fund size of Ganzhou Zhiyuan No.1 Management Company was RMB2,508 million.

China Merchants Capital and CMS Zhiyuan all have a sound mechanism in place to regulate the investment decision-making process. If there is any actual or potential conflict of interest, the common director at China Merchants Capital and us shall not take part in the decision making. In addition, we, being a company listed on the Shanghai Stock Exchange, are operated and managed independently from China Merchants Group pursuant to the SSE Listing Rules. Our Directors have duties to act in the interest of our Shareholders as a whole. As such, we consider that the possibility of a conflict of interests resulting from the aforementioned overlapping positions is remote and any competition between China Merchants Capital and CMS Zhiyuan is of no difference from competition encountered by our Group with any Independent Third Party.

As of the Latest Practicable Date, CMS International, our wholly-owned subsidiary, and its subsidiaries, also operate direct investment business, but the scale of such business is very small with a total book value of investment of approximately HK$70.72 million as of June 30, 2016.

In light of the above and the non-competition undertaking given by China Merchants Group as described in "—Non-competition Arrangement" below, we believe that there is no substantive competition between China Merchants Capital and us.

CMCDI

CMCDI is an investment company listed on the Hong Kong Stock Exchange in 1993 (stock code: 133). CMCDI is principally engaged in investing in the PRC. Its investment objective is to acquire investments, principally in unlisted enterprises, in the PRC. It has acquired interests in the sectors of financial services, culture and media, manufacturing, energy and resources, information technology, agriculture, medical and pharmaceutical and education. As of December 31, 2015, CMCDI had net assets of US$635 million.

The following table sets out the relevant financial information of CMCDI during the Track Record Period.

(US'000)	**2013**	**2014**	**2015**
Net assets (As of December 31)	501,535	640,128	635,327
Net Profit (For the year ended December 31)	34,838	148,628	46,239

Although both we and CMCDI carry out direct investment business, we believe there is no substantive conflict of interest between CMCDI and us. CMCDI is not part of our Company, given that, as of the Latest Practicable Date, China Merchants Group held only 27.59% of the voting rights at the shareholders' meeting of CMCDI and accounted for its investment in CMCDI as investment in an associate in its accounts. Further, CMCDI is a listed company with an independent and regulated investment decision-making process. Similarly, we, being a company listed on the Shanghai Stock Exchange, are operated and managed independently from China Merchants Group for the best interests of our Company and Shareholders as a whole. Both we and CMCDI have a sound mechanism regulating our decisions on investment and disposals of investments. The articles of association of CMCDI and our Company both provide that the relevant director(s) must abstain from voting on the relevant resolution(s) and shall not be counted in the quorum where there is a conflict of interests. CMCDI had 11 directors, none of whom is our Director.

For the years ended December 31, 2013, 2014 and 2015, the investment income of China Merchants Group from CMCDI using the equity method of accounting represented only approximately 0.21%, 0.75% and 0.17%, respectively, of the operating profits of China Merchants Group. This demonstrates that the relative contribution of CMCDI to the overall financial significance of China Merchants Group is limited.

The investment manager of CMCDI is China Merchants China Investment Management Limited, which was indirectly held by China Merchants Group as to 55% as of the Latest Practicable Date. Notwithstanding this, the investment manager is mainly responsible for managing the general affairs of CMCDI and depending on the investment amount in concern, approval for any acquisition or disposal of investments has to be obtained from either the board of directors of the investment manager, the investment committee or the board of directors of CMCDI. None of our directors is a director of China Merchants China Investment Management Limited or a member of the investment committee of CMCDI.

In addition, the direct investment market is sizable with a large number of market participants. Neither we or CMCDI accounts for any meaningful share in the huge market that could create direct competition between the two companies. We consider any potential competition between CMCDI and us to be of no difference from the competition between any Independent Third Parties and us.

In light of the above and the non-competition undertaking given by China Merchants Group as described in "—Non-Competition Arrangement" below, we believe that there is no substantive competition between CMCDI and us.

Great Wall Securities and Morgan Stanley Huaxin Fund

Great Wall Securities is a securities firm incorporated in the PRC with a registered capital of RMB2,793 million. Great Wall Securities is principally engaged in the finance and securities business in the PRC, which includes securities brokerage, securities underwriting and sponsoring, proprietary securities trading and securities and asset management. As of the Latest Practicable Date, the controlling shareholder of Great Wall Securities, which is an independent third party of China Merchants Group and us, held approximately 51.53% interest in Great Wall Securities; China Merchants Group only indirectly held 13.73% interest in Great Wall Securities. China Merchants Group's investment in Great Wall Securities is recognized as available-for-sale financial assets in the balance sheet of China Merchants Group.

The following table sets out the relevant financial information of Great Wall Securities during the Track Record Period.

(RMB millions)	**2013**	**2014**	**2015**
Total assets (As of December 31)	18,787	32,714	49,432
Operating revenue (For the year ended December 31)	1,550	2,470	5,012
Net profit (For the year ended December 31)	394	722	1,890

Morgan Stanley Huaxin Fund is a Sino-foreign joint venture fund management company incorporated in the PRC. Its registered capital is RMB227.5 million and is principally engaged in the promotion and establishment of funds, fund management and provision of various asset management services. As of the Latest Practicable Date, the two major shareholders of Morgan Stanley Huaxin Fund, which are both independent third parties of China Merchants Group and us, held approximately

39.56% and 37.36% of the shareholding of Morgan Stanley Huaxin Fund, respectively; China Merchants Group only indirectly held 10.99% of the shareholding of Morgan Stanley Huaxin Fund. China Merchants Group's investment in Morgan Stanley Huaxin Fund is recognized as available-for-sale financial assets in the balance sheet of China Merchants Group.

The following table sets out the relevant financial information of Morgan Stanley Huaxin Fund during the Track Record Period.

(RMB)	**2013**	**2014**	**2015**
Total assets (As of December 31)	200,291,631	233,847,957	352,034,306
Operating revenue (For the year ended December 31)	191,350,889	257,812,477	400,577,018
Net profit (For the year ended December 31)	2,985,686	18,682,510	63,318,267

The interests held by China Merchants Group in Great Wall Securities and Morgan Stanley Huaxin Fund are passive investments. As of the Latest Practical Date, Great Wall Securities had 12 directors and eight supervisors, and Morgan Stanley Huaxin Fund had 12 directors and six supervisors. Other than two directors and one supervisor in Great Wall Securities and one director and one supervisor in Morgan Stanley Huaxin Fund (among which only Ms. Peng Lei is director of both Great Wall Securities and Morgan Stanley Huaxin Fund and also our non-executive Director; and Mr. Li Xiaofei is supervisor at Great Wall Securities and also our Supervisor), China Merchants Group has not nominated or appointed other management personnel or employees at Great Wall Securities and Morgan Stanley Huaxin Fund. Great Wall Securities and Morgan Stanley Huaxin Fund are not included in our Group, given that China Merchants Group has no control over the board of directors of Great Wall Securities and Morgan Stanley Huaxin Fund, and it is only a minority shareholder of Great Wall Securities and Morgan Stanley Huaxin Fund. China Merchants Group is not involved in their daily operation and management.

As such, we believe that there will not be substantive competition arising from the passive interests held by China Merchants Group in Great Wall Securities and Morgan Stanley Huaxin Fund insofar as the relationship between China Merchants Group and ourselves is concerned.

Other businesses of China Merchants Group

There are other members within China Merchants Group engaging in non-finance related sectors (such as transportation and property) which may also carry out certain finance-related activities from time to time. However, those finance-related activities are carried out to strengthen support the development of their principal businesses. As our principal business is different from the principal businesses of those companies (in terms of business scopes and major markets) and the nature, extent and reasons for engaging in the finance-related activities are different, and in light of the non-competition undertaking given by China Merchants Group as described in "Non-Competition Arrangement" below, we believe that there is no competition between those companies and us.

Other business relationship with China Merchants Group

We and China Merchants Group and/or its associates from time to time conduct securities and financial transactions with one another, and offer securities and financial products to one another, in our and China Merchants Group's and/or its associates' respective ordinary and usual course of business. Such types of securities and financial products and transactions include products with fixed income features, equity-related products and financing transactions. We and China Merchants Group and/or its associates also from time to time provide financial services to each other in our respective ordinary and usual course of business as follows: (a) the financial services provided by us to China Merchants Group and/or its associates include underwriting and sponsoring services, other investment banking services, financial products agency sale services, targeted and specialized asset management services and leasing of trading seats, and (b) the financial services provided by China Merchants Group and/or its associates to us include deposit services, customer depository services, custodian services, financial products agency sale services and lending services. The revenue generated by us from the above transactions with China Merchants Group and its associates accounted only for approximately 3.62%, 2.76%, 2.88% and 3.57%, respectively, of our total revenue in the three years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016. For further details, see "Connected Transactions—Continuing Connected Transactions Subject to the Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements—Securities and Financial Products, Transactions and Services Framework Agreement."

We operate as a core financial service platform of China Merchants Group and benefit from the century-old "China Merchants" brand as well as synergies with other members within China Merchants Group. There is no mandatory obligation on China Merchants Group or us to refer businesses to each other, but we may make such referrals or conduct agency sale or cross-selling in accordance with the arrangements under the securities and financial products, transactions and services framework agreement as disclosed in the "Connected Transactions" section of this prospectus, as well as other applicable laws, rules and regulations, depending on the actual circumstances of each case which include, among others, the specific needs of the customers in concern and our capability in providing the relevant services or products in need. For example, China Merchants Bank refers its customers to open brokerage accounts with us, and we were the largest partner securities firm with China Merchants Bank in terms of customers' deposits as of June 30, 2016. Such transactions are conducted in the ordinary and usual course of business of us and China Merchants Group and/or its associates and are based on normal commercial terms. For further details of the collaborative relationship between China Merchants Group and us, see "Business—Competitive Strengths—A core financial service platform of China Merchants Group, benefiting from the century-old "China Merchants" brand and its unique business resources."

Notwithstanding the above, we conduct our business independently from China Merchants Group and its subsidiaries in terms of operation, finance and management. For further details, see "—Independence from China Merchants Group" below.

INDEPENDENCE FROM CHINA MERCHANTS GROUP

Having considered the factors set out below, we believe that we can conduct our business independently from China Merchants Group and its subsidiaries following the Global Offering.

Operational independence

We hold all relevant qualifications and permits for conducting our business. We have our own customers whom we communicate with, serve and maintain relationship independently. We own or have the right to use all the operational facilities and technologies relating to our business and have sufficient capital, facilities and employees to operate our business independently.

We have our own operational structure comprising various departments that function and make decisions independently from China Merchants Group. We maintain a comprehensive internal control and have adopted sound corporate governance practices that satisfy the legal and regulatory requirements, including setting the rules of procedures for general meetings, board meetings and supervisory committee meetings, as well as connected transactions regulations. We can formulate and execute operational decisions independently.

We have from time to time entered into securities and financial transactions with China Merchants Group and its associates. We and China Merchants Group and its associates also provide securities and financial products as well as financial services to each other. The revenue generated from such financial service transactions accounted only for 3.62%, 2.76%, 2.88% and 3.57%, respectively, of the total revenue of our Group for the three years ended December 31, 2015 and the six months ended June 30, 2016. Further, those products or services are not provided exclusively to or sourced exclusively from China Merchants Group and its subsidiaries and the transactions are conducted on an arm's length basis in our ordinary course of business. For further details, see "Connected Transactions—Continuing Connected Transactions Subject to the Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements—Securities and Financial Products, Transactions and Services Framework Agreement."

In light of the above, we believe that our operations are independent from China Merchants Group.

Financial independence

Our finance department is independent from China Merchants Group and comprises of independent financial personnel. It is responsible for handling our financial matters, cash management and fund-raising from third parties. There is no sharing of common financial personnel between us and China Merchants Group and/or its subsidiaries. We have established an independent and comprehensive financial reporting, budgeting, management and financing system.

As of the Latest Practicable Date, there were no outstanding guarantees, loans, financial assistance or financing in any other form provided to us by China Merchants Group or its subsidiaries, and we have not provided any guarantees, loans, financial assistance or financing in any other form to China Merchants Group or its subsidiaries. China Merchants Bank and Wing Lung Bank (both of which were not a subsidiary of China Merchants Group as of the Latest Practicable Date) had extended certain loans ("Loans") to us in their normal course of business. As of June 30, 2016, the balance of the Loans extended by China Merchants Bank and Wing Lung Bank to us were approximately RMB368 million and HK$100 million, respectively (which represented only approximately 0.34% and 0.08%, respectively, of our total interest-bearing liabilities as of June 30, 2016). The Loans were provided by China Merchants Bank and Wing Lung Bank in their normal course of business based on the then prevailing market rates. See "Connected Transactions—Continuing Connected Transactions Subject to the Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements—Securities and Financial Products, Transactions and Services Framework Agreement" for details.

Although we had maintained unutilized banking facilities from Wing Lung Bank of approximately RMB1.2 billion as of June 30, 2016, during the Track Record Period, we had been able to raise funds from various sources on a stand-alone basis by virtue of our good credit rating and strong financial position and credit profile. As of June 30, 2016, we had approximately HK$5.8 billion of unconditional credit facilities, all of which were granted by Independent Third Parties (without any guarantee by China Merchants Group) and were unutilized. As such, we are capable of securing financial assistance from Independent Third Parties, and have adequate capital and facilities to operate our business independently.

Therefore, we believe that we are financially independent from China Merchants Group.

Management independence

Our Board comprises of 15 Directors, including five independent non-executive Directors. Five members of our Board, namely Ms. Su Min, Mr. Hua Li, Mr. Xiong Xianliang, Mr. Guo Jian and Ms. Peng Lei, are also directors or senior management of China Merchants Group and/or its major subsidiaries. Details are as follows:

Name of Director	Position held in our Company	Position held in China Merchants Group and/or its major subsidiaries
Ms. Su Min	Non-executive Director	• Director and general manager of China Merchants Finance Holdings Co., Ltd. • Chairman and general manager of China Merchants Financial Leasing Co., Ltd. • Chairman of Shenzhen China Merchants Qihang Internet Investment Management Co., Ltd. • Director of China Merchants Innovative Investment Management Co., Ltd.
Mr. Hua Li	Non-executive Director	• Head of the Finance Department (Property Rights Department) of China Merchants Group • Director of China Merchants Finance Holdings Co., Ltd. • Director of China Merchants Energy Shipping Co., Ltd. • Director of China Merchants Logistics Holding Co., Ltd. • Director of Chongqing Communications Research and Design Institute • Director of China Merchants Hua Jian Highway Investment Co., Ltd. • Director of China Merchants Industry Holdings Co., Ltd.
Mr. Xiong Xianliang	Non-executive Director	• Head of the Strategic Development Department (Information Management Department, Research Department) of China Merchants Group
Mr. Guo Jian	Non-executive Director	• Deputy general manager of China Merchants Capital • General manager of China Merchants Kunlun Capital Co., Ltd.
Ms. Peng Lei	Non-executive Director	• Deputy general manager of China Merchants Finance Holdings Co., Ltd.

Despite the positions as mentioned above, we believe that we and China Merchants Group can remain independent from each other for the following reasons:

(i) the five aforementioned directors are not involved in our daily operations;

(ii) our Articles of Association have provisions for the avoidance of conflict of interests in the decision-making process, which include but are not limited to the following: (a) if the relevant proposal under the Board resolution might lead to a conflict of interests arising between China Merchants Group and/or its subsidiaries and ourselves, the Director(s) related to China Merchants Group and/or its subsidiaries will abstain from voting and will not be counted in the quorum of the meeting. Our Directors believe that the remaining Directors have sufficient industry knowledge and business experience to make decisions and monitor such transactions even if the common Director(s) abstain from voting; (b) when connected transaction(s) are being considered, independent non-executive Directors shall give their independent opinions to the Board on the relevant connected transaction(s) in accordance with the Hong Kong Listing Rules;

(iii) we have five independent non-executive Directors (which meets the requirements of the Hong Kong Listing Rules) to protect the interests of our Company and our Shareholders as a whole;

(iv) our Directors are well aware of their fiduciary duties which, among other things, require them to act in the best interests of our Company and our Shareholders as a whole; and

(v) there is no overlapping senior management personnel who work with both China Merchants Group and us.

In light of the above, we believe that our management team is independent from China Merchants Group.

NON-COMPETITION ARRANGEMENT

For the purpose of the listing of our A Shares on the Shanghai Stock Exchange in 2009, China Merchants Group provided a non-competition undertaking on November 29, 2007, whereby China Merchants Group confirmed that it had not engaged in any business which competed with our then existing business. China Merchants Group had also further undertaken that:

1. it would not establish or acquire control in any other securities firms in the PRC;
2. in respect of the business operated by the non-securities related companies controlled by China Merchants Group, where such business is the same as or similar to the business carried out by securities firms, it will be for our Company to make adequate disclosures in accordance with applicable laws after listing; and
3. it would not use its status as the effective controller of our Company to prejudice the interests of our Company and those of the other Shareholders.

The following discussion and analysis should be read in conjunction with our consolidated financial statements included in "Appendix I—Accountants' Report," together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with IFRS.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis that we make in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed in "Risk Factors" and "Forward-Looking Statements" and elsewhere in this prospectus.

OVERVIEW

Operating with a client-oriented approach, we offer comprehensive financial products and services to individual, institutional and corporate clients. Our principal business lines comprise the following:

- *Brokerage and Wealth Management*: We trade stocks, funds, bonds, futures and other derivatives on behalf of our clients in return for fees and commissions. We also provide capital-based intermediary services (including margin financing and securities lending as well as securities-backed lending and stock repurchases) to clients and earn interest income. We provide wealth management services and a full range of institutional client services, such as prime brokerage.
- *Investment Banking*: We provide one-stop investment banking solutions to our corporate clients, including equity underwriting and sponsorship, debt underwriting, financial advisory services and OTC investment banking. In return, we principally earn underwriting and sponsorship fees and financial advisory fees.
- *Investment Management*: We provide investment management services, including asset management, direct investment and fund management, and earn management fees, performance fees and investment income.
- *Investment and Trading*: We trade equity and fixed-income securities and other financial products for our own accounts and apply advanced trading strategies and techniques for mitigating investment risks and enhance returns. In addition, to meet our customers' needs for investment, financing and risk management, we offer OTC financial products to, and trade with, our customers.

Benefiting from our comprehensive range of products and services, diverse financing channels, a high-quality and loyal client base, favorable market conditions and regulatory environment, as well as our effective risk management, we sustained rapid growth from 2013 to 2015. Our total revenue and other income increased from RMB7,740.1 million in 2013 to RMB13,766.2 million in 2014, and further increased to RMB34,988.6 million in 2015. Our profit for the year increased from RMB2,237.5 million in 2013 to RMB3,884.5 million in 2014, and further increased to RMB10,928.3 million in 2015. Due primarily to a decrease in our brokerage trading volume of stocks and funds, resulting in a substantial decrease in segment revenue and other income of our brokerage and wealth management business, and unfavorable market conditions, which has led to a substantial decrease in segment revenue and other income of our investment and trading business, our revenue and other income and profit for the period decreased to RMB8,728.8 million and RMB2,235.6 million, respectively, in the six months ended June 30, 2016 from RMB20,496.2 million and RMB7,335.1 million, respectively, in the same period in 2015.

BASIS OF PRESENTATION

Our financial statements have been prepared in accordance with IFRS and include applicable disclosure requirements of the Hong Kong Listing Rules and the Hong Kong Companies Ordinance. We prepared our financial statements on the historical cost basis, except for certain financial instruments that are measured at their fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Our financial statements are presented in Renminbi, which is our functional currency.

The financial information includes our financial statements and the financial statements of entities that we control (our subsidiaries). Control is achieved where we have the power to govern the financial and operating policies of an entity so as to obtain a benefit from its activities. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by our other members. All intragroup transactions, balances, revenue and expenses are eliminated in full on consolidation. Non-controlling interests in subsidiaries are presented separately from our equity therein.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following factors are the principal factors that have affected and, we expect, will continue to affect our business, financial condition, results of operations and prospects.

Economic and Market Conditions

As a securities firm in China, our business is exposed to the various inherent risks associated with the securities markets and affected by factors such as market volatility, changes in investment sentiment, fluctuations in trading volume, liquidity changes and the creditworthiness of the securities industry in the marketplace. As the PRC capital markets are still evolving, market conditions may change rapidly.

The PRC stock market has been highly volatile in recent years, which has significantly affected our business and results of operations. For example, the A-share stock market in China experienced a surge and set a historical record in trading volume in the fourth quarter of 2014 and the first half of 2015. According to Wind Info, the trading volume in the PRC stock market in the fourth quarter of 2014 was RMB33.6 trillion, representing 45.1% of the aggregate trading volume in the PRC stock market for 2014. In the first half of 2015, the trading volume in the PRC stock market was RMB139.2 trillion, an increase of 540.7% compared with the same period in 2014. However, from mid-June to the end of August 2015, the PRC stock market experienced significant fluctuations. The CSI 300 Index fell by 43.3% from 5,335.1 on June 12, 2015 to 3,025.7 on August 26, 2015.

As a result, our brokerage trading volume in China increased from RMB1,895.5 billion in the first half of 2014 to RMB4,719.2 billion in the second half of 2014, and further to RMB12,480.1 billion in the first half of 2015, but it decreased to RMB9,569.8 billion in the second half of 2015. Our fee and commission income from securities brokerage in China increased significantly from RMB1,509.8 million in the first half of 2014 to RMB3,521.5 million in the second half of 2014, and further to RMB8,693.2 million in the first half of 2015, but decreased to RMB6,146.3 million in the second half of 2015. The balance of our margin loans and securities lent in China increased from RMB23.3 billion as of June 30, 2014 to RMB57.9 billion as of December 31, 2014, and further increased to RMB112.8 billion as of June 30, 2015, but decreased to RMB62.9 billion as of December 31, 2015. Similarly, our segment revenue from investment and trading business increased from RMB778.3 million in the first half of 2014 to RMB1,495.3 million in the second half of 2014, and further increased to RMB4,604.9 million in the first half of 2015, but decreased to RMB1,127.3 million in the second half of 2015. In the first half of 2016, the PRC stock market remained volatile and the CSI 300 Index plummeted by 15.5%. The average daily trading volume of the PRC stock market decreased from RMB1,158.1 billion during the first half of 2015 to RMB530.4 billion during the first half of 2016. As a result, in the first half of 2016, our securities brokerage trading volume decreased by 60.1% compared with the same period in 2015, and segment revenue and other income of our investment and trading business also decreased by 88.1% compared with the same period in 2015.

In addition, our business and profitability may be adversely affected by general economic, market and other conditions, which include the following:

- declines in economic growth, business activities or investor confidence;
- reductions in the availability of, or increases in the cost of, credit and capital;
- significant volatility in inflation, interest rates or exchange rates or significant increases in commodity prices;
- outbreaks of hostilities or other geopolitical instability; and
- natural disasters or pandemics.

In particular, unfavorable economic and market conditions can adversely affect investor sentiment and trading and investment activities, resulting in reduced brokerage fee and commission income. Unfavorable economic conditions and other adverse geopolitical conditions may negatively impact investor confidence and corporate finance activities, resulting in significant declines in the size and number of fund-raising and M&A transactions, which could have an adverse effect on the revenue and profitability of our investment banking business. Furthermore, market volatility and adverse economic conditions may affect the performance of the assets and funds we manage, which could adversely affect the management fees and performance fees we receive. We have net long trading positions in equity securities, fixed income securities and derivatives as part of our investment and trading business. As a substantial portion of these investing and trading positions is marked to market, declines in fair value directly impact our profit and capital position, unless we have effectively hedged our exposures to such declines. However, it may not be possible or economical for us to entirely hedge such exposure. Sudden declines or significant volatility in asset prices may substantially curtail trading in the markets.

Stabilization Measures in the PRC Stock Market

In 2015, the A-share market experienced significant fluctuations, especially from mid-June to the end of August. In response to this stock market plummet, the PRC government has announced a series of measures to stabilize the stock market and restore investor confidence.

On July 6, 2015, along with 20 other PRC securities firms, we agreed to contribute an amount equal to 15% of our Company's net assets as of June 30, 2015, or approximately RMB6.9 billion, to the designated accounts at China Securities Finance for purchasing blue-chip ETFs in China. On

September 1, 2015, together with 49 other PRC securities firms, we agreed to further contribute approximately RMB2.4 billion to the designated accounts at China Securities Finance. As of June 30, 2016, we contributed a total of RMB9.3 billion, which are accounted for as available-for-sale financial assets on our consolidated statements of financial position. In addition, on July 27, 2015, our shareholders approved a plan to expand the size of our A-share directional equity trading position to up to 50% of our Net Capital as of June 30, 2015, approximately RMB18.7 billion measured at cost, from a previous limit of 15% of our real-time Net Capital. Furthermore, we have undertaken not to reduce our A-share proprietary trading positions below our balance as of July 3, 2015 if the SSE Composite Index is below 4,500 points.

These stabilization measures expose us to additional market and other risks, and have adversely affected our business operations and results of operations since July 2015, principally including the following:

- we incurred investment losses in our long-only equity trading activities as we were unable to reduce our long-only trading positions or effectively hedge our exposures through short-selling to mitigate market risk in a highly volatile market. However, our investment performance was largely in line with the SSE Composite Index during the first half of 2016;
- there is no publicly available information regarding how our contributions to the designated accounts at China Securities Finance have been invested and when our contributions will be returned. We may incur losses from these contributions due to future disposal or impairment and our financial position may fluctuate as a result of revaluation;
- a 96.2% decrease in our income from equity return swaps in the first half of 2016, compared to the same period in 2015, primarily due to the temporary moratorium on financing-related equity return swaps imposed by the CSRC in November 2015; and
- our increased long-only equity trading position could reduce our Net Capital and make it more difficult for us to comply with the Net Capital-based risk indicators and other capital requirements in China. As of December 31, 2015 and June 30, 2016, we were in compliance with all capital adequacy, liquidity and risk control indicator requirements.

Our financial performance was affected by the stabilization measures and the market conditions. In particular, pre-tax segment profit of our investment and trading business decreased from RMB2,836.6 million in the first half of 2015 to RMB136.5 million in the same period in 2016. See "Financial Information—Factors Affecting Our Results of Operations—Stabilization Measures in the PRC Stock Market."

We adopted a series of risk management measures in response to these stabilization measures. In our long-only equity trading business, we focus on the stocks of companies with strong fundamentals and attractive valuations, as well as undervalued blue-chip ETFs. Our Risk Management Department implements specific risk management guidelines, which apply specialized risk indicators to our long-only trading activities in response to the stabilization measures, such as the maximum investment scale for a single stock. The guidelines also categorize our long-only equity securities portfolios into different approving requirement levels according to their risk profiles and require our proprietary trading departments to obtain approvals from managers up to our president. Our proprietary trading departments and Risk Management Department are jointly responsible for monitoring the implementation of such risk management measures on a daily basis, and are required to report on a regular basis to our Securities Investment Decision-Making Committee, which guides our proprietary trading departments in managing our risk exposure when conducting long-only trading activities. See "Business—Risk Management and Internal Control Measures in Our Major Business Lines—Investment and Trading Business." In addition, to diversify the revenue sources and investment strategies for our investment and trading business, we have expanded our proprietary trading activities to OTC options trading, exchange-traded option market-making and commodity derivatives trading.

As of the Latest Practicable Date, we were unable to predict the long-term impact of the foregoing measures on our operations. There is also no assurance that the PRC government will not introduce any additional measures to stabilize the stock market in the future.

Regulatory Environment

Our results of operations, financial condition and prospects are subject to regulatory developments in the PRC and economic measures undertaken by the PRC government. In particular, we believe that our ability to expand our business and broaden the scope of our product and service offerings has been, and will continue to be, materially affected by changes in the policies, laws and regulations governing the PRC securities industry, including the extent to which we can engage in certain businesses or adopt certain business models and fee structures. For example, in the second half of 2015, the CSRC imposed a temporary moratorium on financing-related equity return swaps which caused us to discontinue this service and resulted in a decrease in our revenue from the investment and trading business.

The regulatory regime of the PRC securities industry has been evolving and the CSRC and other regulatory authorities are committed to reforming the PRC securities industry with an objective of improving capital market activities and efficiency, broadening the scope of new products and services that securities firms can offer. In addition, since 2008, the CSRC has launched several pilot programs, such as direct investment, stock index futures, margin financing and securities lending, securities-based lending, Shanghai-Hong Kong Stock Connect and market making, as well as the NEEQ, to expand the products and services that securities firms can offer. The CSRC has also been encouraging securities firms to diversify their product and service offerings, and has issued specific guidelines on product and service innovation for securities firms.

In addition, the PRC government has also taken various measures to improve the capital efficiency and diversify the funding sources of PRC securities firms, including allowing PRC securities firms to issue short-term financing bills, structured notes, corporate bonds, subordinated bonds and perpetual bonds. We expect these regulatory reforms and governmental actions will continue to affect the PRC securities industry and our business, financial condition and results of operations.

Competition

The PRC securities industry is highly competitive and we face intense competition in all aspects of our business. We compete primarily with other full-service PRC securities firms, some of whom may offer a broader range of services, have greater financial resources or have larger customer bases.

We believe that the principal factors affecting competition include price, the types of products and services offered, transaction execution, experience and knowledge of staff and geographic coverage. Increased competition or an adverse change in our competitive position could lead to a reduction of market share and therefore a reduction of revenue and profit. Competition can also raise our costs of hiring and retaining the employees we need to effectively operate our business.

Meanwhile, the gradual deregulation of the PRC securities industry and the tendency towards mixed business operations in the PRC financial industry may attract new competitors to the securities industry, or allow our current competitors to expand the scope of their business into new business lines. According to a statement made by the CSRC on March 6, 2015, the CSRC is evaluating a proposal to open up the PRC securities industry to other financial institutions, such as commercial banks, without any details on when the new policy will be announced. We believe that allowing PRC commercial banks to enter the securities industry would intensify market competition, particularly in securities brokerage and equity underwriting, as traditional commercial banks generally have greater financial resources, wider branch networks and larger customer bases compared to securities firms. This policy change would also accelerate industry reform.

Pricing

The pricing of our products and services has been a principal factor affecting our business, financial condition and results of operations. In the PRC securities market, the pricing of our products and services, particularly in our securities brokerage business, has been largely driven by market competition.

Our brokerage fee and commission income accounted for a substantial portion of our total revenue and other income and was mainly influenced by commission rates and trading volume. In line with the intensified price competition in the securities brokerage business in China and the resulting industry trend of decreasing brokerage commission rates, our average brokerage commission rate has decreased over the past few years. In 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, our average brokerage commission rate was 7.7bps, 7.1bps, 6.4bps, 6.6bps and 5.3bps, respectively. Given that the historical fluctuation of our average brokerage commission rate within one year normally ranged between 0.5bps to 1bps, we include the following table showing a sensitivity analysis to illustrate the potential impact of the changes in our average securities brokerage commission rate on our revenue and other income, assuming all other variables remain constant, for the periods indicated:

	Changes in revenue and other income for the year ended December 31,			Changes in revenue and other income for the six months ended June 30,	
	2013	2014	2015	2015	2016
	(in millions of RMB)				
Changes in average securities brokerage commission rate					
Increase by 0.5bps	230.7	364.9	1,168.1	671.7	294.1
Decrease by 0.5bps	(230.7)	(364.9)	(1,168.1)	(671.7)	(294.1)
Increase by 1bps	461.4	729.7	2,336.3	1,343.3	588.1
Decrease by 1bps	(461.4)	(729.7)	(2,336.3)	(1,343.3)	(588.1)

To mitigate the pricing pressure from market competition, we intend to continue to improve our wealth management services to attract more affluent and high-net-worth customers who demand more customized and comprehensive financial products and services and are more willing to pay a higher commission rate.

Business Lines and Product Mix

Our business lines and products and services have different profit margins and future growth prospects and, as a result, any material changes in our product mix, whether due to changes in our growth strategies, market conditions, customer demand and/or other reasons, may affect our financial condition and results of operations. Our historical financial results were significantly affected by the revenue contribution and profit margin of our brokerage and wealth management business. As our products and services become more diverse, we seek to optimize our product mix by increasing the revenue contribution from our other business lines with relatively higher profit margin and significant growth potential, such as capital-based intermediary services and asset management business. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, fee and commission income from our securities and futures brokerage business accounted for 45.9%, 37.6%, 42.7%, 43.3% and 35.7% of our total revenue and other income, respectively, while interest income generated from our capital-based intermediary services accounted for 15.1%, 20.3%, 21.0%, 20.7% and 27.9% of our total revenue and other income, respectively, and fee and commission income from our asset management and fund management business accounted for 3.3%, 3.3%, 3.5%, 2.6% and 6.4% of our total revenue and other income, respectively.

As we also 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 engage in new markets.

Interest Rates

Our business and results of operations are also affected by changes in interest rates in China. The changes in interest rates affect the value of our financial assets and liabilities. An increase in interest rates could cause a decline in the fair value of fixed-income securities we invest in and adversely affect our average investment yield. A rise in interest rates could lower the ability or willingness of our corporate clients to raise funds from the debt markets, which could lower the income generated by our debt underwriting business. An increase in interest rates would increase the amount of interest income we would earn on floating-rate interest-earning assets and the amount of interest expenses we need to pay on floating-rate interest-bearing liabilities. Our interest-earning assets consist primarily of advances we provide to customers for our capital-based intermediary services, bank deposits, clearing settlement funds and financial assets held under resale agreements. We make interest payments on deposits we hold on behalf of our customers, corporate bonds, subordinated bonds, short-term financing bills and financial assets sold under repurchase agreements. These interest expenses are affected by the prevailing market interest rates. During periods of rising interest rates, our interest expenses and financing costs would generally increase, while interest income from our capital-based intermediary services would decrease during periods of decreasing interest rates. If the increase in the amount of interest expenses we need to pay is higher than the increase in the amount of interest income we earn, our business and results of operations may be adversely affected.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Accountants' Report in Appendix I to this prospectus sets forth certain significant accounting policies in note 3, which are important for understanding our financial condition and results of operations.

Some of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in note 3 of the Accountants' Report in Appendix I to this prospectus. In the application of our accounting policies, our management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Our estimates and underlying assumptions are reviewed by our management on an ongoing basis. See note 3 of the Accountants' Report in Appendix I to this prospectus.

PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Revenue and other income

Our revenue and other income primarily consists of fee and commission income, interest income and net investment gains.

Fee and commission income

Our fee and commission income mainly consists of income from the following activities:

(i) securities and futures brokerage;

(ii) fund custody and outsourcing services;

(iii) sales of financial products and investment advisory;

(iv) underwriting and sponsorship;

(v) financial advisory; and

(vi) investment management.

We generate fee and commission income in our securities brokerage business by trading stocks, bonds, funds, derivatives and futures on behalf of our clients. In addition, we also provide wealth management services and a variety of institutional client services, such as prime brokerage.

We generate underwriting and sponsorship fees and financial advisory fees in our investment banking business by providing equity underwriting and sponsorship, debt underwriting, financial advisory and OTC investment banking services.

We also generate asset management fees and performance fees in our investment management business primarily by providing asset management and direct investment services.

Interest income

Our interest income mainly includes: (i) interest income from capital-based intermediary services, including margin financing and securities lending, securities-backed lending and stock repurchases; (ii) interest income from exchanges and financial institutions; (iii) interest income from other financial assets held under resale agreements; and (iv) interest income from loans receivables, mainly from leveraged and structured financing business conducted by CMS International.

We enter into resale agreements with counterparties (such as banks and other financial institutions), under which we are entitled to receive interest income by purchasing financial assets (such as bonds and notes) from the counterparty and agreeing to resell such assets back to the counterparty at a predetermined price on the maturity date of the resale agreement.

Net investment gains

Our net investment gains primarily include investment gains or losses from: (i) our financial assets at fair value through profit or loss; (ii) our financial liabilities at fair value through profit or loss; (iii) our available-for-sale financial assets; and (iv) derivative financial instruments.

Our financial assets at fair value through profit or loss refer primarily to the following categories of assets:

- equity and fixed-income securities held for trading in our investment and trading business;
- our share in limited partnership funds established in our direct investment business; and
- our investments in treasury bonds and other financial products for treasury management purposes.

Our net investment gains from financial assets at fair value through profit or loss mainly consist of: (i) net realized gains or losses from disposal of these financial assets; (ii) changes in fair value of these financial assets; and (iii) dividends and interest income from these financial assets.

Our available-for-sale financial assets primarily refer to the following categories of assets:

- our investments in equity, debt securities and funds designated as available-for-sale in our investment and trading business;
- our contribution to designated accounts at China Securities Finance;
- our capital contributions to our collective asset management schemes; and
- our equity investments in unlisted companies.

Our net investment gains from available-for-sale financial assets mainly consist of (i) net realized gains or losses from disposal of these assets; and (ii) dividends and interest income from these financial assets.

Our net investment gains from derivatives, primarily commodity and financial futures, equity swaps, interest rate swaps and options, consist of: (i) net realized gains from disposal of these financial instruments; and (ii) changes in fair value of these financial instruments.

Our financial liabilities at fair value through profit or loss relate to: (i) interest payables to third party holders in our consolidated structured entities according to IFRS 10; and (ii) our short-selling activities.

Other income and gains, net

Our other income and gains, net primarily include rental income and certain non-recurring income, such as government grants and commission from tax withholding and remittance, which represents the commission received for withholding income tax on behalf of our employees. We receive rental income primarily from leasing our commercial properties in Shenzhen. We receive grants and subsidies from local governments in relation to our establishment of new branches and incorporation of subsidiaries.

Total expenses

Our total expenses primarily include: (i) staff costs; (ii) interest expenses; (iii) fee and commission expenses; (iv) depreciation and amortization expenses; (v) business tax and surcharges; and (vi) other operating expenses.

Staff costs

Our staff costs primarily include employee salaries, bonuses and allowances, contribution to retirement benefits and other social welfare.

Interest expenses

Our interest expenses primarily include: (i) interest expenses on accounts payable to brokerage clients; (ii) interest expenses on repurchase transactions; (iii) interest expenses on short-term debt instruments and long-term bonds; and (iv) interest expenses on our placements from banks and other financial institutions.

While we earn interest income on deposits we hold on behalf of our customers, we also pay interest expenses on such deposits to our customers with reference to prevailing benchmark interest rates announced by the PBOC.

In order to manage our working capital, we enter into repurchase agreements with counterparties (such as banks and other financial institutions), under which we incur interest expenses by selling our financial assets (such as bonds, notes and margin loans receivable) to the counterparties and agreeing to repurchase such assets at a predetermined price on the maturity date of the repurchase agreement.

Fee and commission expenses

Our fee and commission expenses primarily include expenses for the following:

- securities and futures brokerage business, primarily securities dealing expenses charged by the exchanges and other authorized institutions for using their transaction and settlement systems, as well as commissions paid to our brokerage agents;
- underwriting and sponsorship business, primarily commission expenses paid to other financial institutions for sub-underwriting the securities we underwrite, legal fees and consulting fees;
- asset management and fund management business, mainly including fees and commissions paid to banks and fees paid to research advisors; and
- financial advisory business, mainly including channel fees paid for investment funds, expenses for the purchase of research reports and financial advisory fees.

Depreciation and amortization expenses

Our depreciation and amortization relates primarily to: (i) depreciation of our property and equipment; and (ii) amortization of our leasehold improvements and deferred expenses.

Other operating expenses

Our other operating expenses include, among others, rental expenses, advertising and promotion expenses, IT expenses and other business development and general expenses.

Income tax expense

We are subject to income tax on a single-entity basis on profits arising in, or derived from, the jurisdictions in which members of our Group are domiciled and operate. During the Track Record Period, our Company and a majority of our PRC subsidiaries were subject to an EIT rate of 25.0% in accordance with the EIT law that became effective on January 1, 2008. Hong Kong profit tax has been provided at the rate of 16.5% on the estimated assessable profits during the Track Record Period. Our effective income tax rate was 15.6%, 21.9%, 19.8%, 21.4% and 21.4% for 2013, 2014 and 2015 and six months ended June 30, 2015 and 2016, respectively. As: (i) our dividend income from mutual funds and interest income from treasury bonds are not taxable; (ii) our share of results of associates is after-tax income; and (iii) profits generated by our subsidiaries in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5%, our effective tax rate was below the statutory EIT rate of 25.0% during the Track Record Period.

RESULTS OF OPERATIONS

The following table summarizes our results of operations for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions)				
Fee and commission income	4,447.0	7,290.5	19,317.4	10,487.8	5,003.4
Interest income	1,985.1	3,884.7	9,906.1	5,234.4	3,298.1
Net investment gains	1,269.8	2,538.1	5,681.1	4,737.2	386.6
Total revenue	**7,701.9**	**13,713.3**	**34,904.6**	**20,459.4**	**8,688.1**
Other income and gains	38.2	52.9	84.0	36.8	40.7
Total revenue and other income	**7,740.1**	**13,766.2**	**34,988.6**	**20,496.2**	**8,728.8**
Depreciation and amortization	(134.4)	(141.0)	(151.1)	(74.0)	(79.4)
Staff costs	(2,004.0)	(3,621.8)	(8,180.4)	(4,919.2)	(1,462.1)
Fee and commission expenses	(767.0)	(1,109.0)	(2,868.7)	(1,617.6)	(819.4)
Interest expenses	(1,146.6)	(1,974.4)	(7,285.3)	(3,296.7)	(3,019.4)
Business tax and surcharges	(354.0)	(588.4)	(1,663.8)	(957.3)	(357.1)
Other operating expenses	(948.6)	(1,028.6)	(1,528.3)	(613.7)	(565.2)
Impairment losses	(4.1)	(670.2)	(228.1)	4.4	79.0
Total expenses	**(5,358.7)**	**(9,133.4)**	**(21,905.7)**	**(11,474.1)**	**(6,223.6)**
Operating profit	**2,381.4**	**4,632.8**	**13,082.9**	**9,022.1**	**2,505.2**
Share of results of associates	269.0	339.1	551.1	309.1	339.5
Profit before income tax	**2,650.4**	**4,971.9**	**13,634.0**	**9,331.2**	**2,844.7**
Income tax expenses	(412.9)	(1,087.4)	(2,705.7)	(1,996.1)	(609.1)
Profit for the year/period	**2,237.5**	**3,884.5**	**10,928.3**	**7,335.1**	**2,235.6**

Revenue and other income

The following table summarizes our revenue and other income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions)				
Fee and commission income	4,447.0	7,290.5	19,317.4	10,487.8	5,003.4
Interest income	1,985.1	3,884.7	9,906.1	5,234.4	3,298.1
Net investment gains	1,269.8	2,538.1	5,681.1	4,737.2	386.6
Total revenue	**7,701.9**	**13,713.3**	**34,904.6**	**20,459.4**	**8,688.1**
Other income and gains	38.2	52.9	84.0	36.8	40.7
Total revenue and other income	**7,740.1**	**13,766.2**	**34,988.6**	**20,496.2**	**8,728.8**

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our total revenue and other income decreased by 57.4% to RMB8,728.8 million in the six months ended June 30, 2016 from RMB20,496.2 million in the same period in 2015, primarily due to revenue declines in our brokerage and wealth management, investment and trading, and investment management businesses.

Comparisons between 2015 and 2014

Our total revenue and other income increased significantly to RMB34,988.6 million in 2015, compared to RMB13,766.2 million in 2014. This was due to a strong revenue growth in our principal business segments.

Comparisons between 2014 and 2013

Our total revenue and other income increased by 77.9% to RMB13,766.2 million in 2014, compared to RMB7,740.1 million in 2013. This was due to the substantial increases in the revenue of our principal business segments.

Fee and commission income

The following table summarizes our fee and commission income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions)				
Securities and futures brokerage income	3,553.3	5,181.3	14,952.4	8,866.1	3,117.0
Underwriting and sponsorship income	420.1	1,431.6	2,423.4	889.1	961.8
Asset management and fund management income	255.1	448.6	1,214.6	529.5	558.3
Financial advisory income	192.5	191.8	426.5	102.3	162.6
Other income[(1)]	26.0	37.2	300.5	100.8	203.7
Total fee and commission income	**4,447.0**	**7,290.5**	**19,317.4**	**10,487.8**	**5,003.4**

(1) Other income primarily refers to the custodian and outsourcing fees, consultancy fee and other income received or receivable by us.

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our fee and commission income decreased by 52.3% to RMB5,003.4 million in the six months ended June 30, 2016 from RMB10,487.8 million in the same period in 2015. This was primarily as a result of a substantial decrease in our securities and futures brokerage income, which was partially offset by increases in our underwriting and sponsorship income, asset management and fund management income, financial advisory income and other income.

Our securities and futures brokerage income decreased by 64.8% to RMB3,117.0 million in the six months ended June 30, 2016 from RMB8,866.1 million in the same period in 2015, primarily due to decreases in our securities brokerage trading volume and brokerage commission rate. Due to the highly volatile market conditions and unfavorable A-share market, our brokerage trading volume of stocks and funds decreased by 60.1% to RMB4,979.1 billion in the six months ended June 30, 2016 from RMB12,480.1 billion in the same period in 2015. Our average securities brokerage commission rate decreased to 5.3bps in the six months ended June 30, 2016 from 6.6bps in the same period in 2015, driven largely by market competition.

Our underwriting and sponsorship income increased by 8.2% to RMB961.8 million in the six months ended June 30, 2016 from RMB889.1 million in the same period in 2015, primarily due to the increased amount of debt securities underwritten by us as a lead underwriter from RMB37.6 billion in the first half of 2015 to RMB157.9 billion in the first half of 2016, with an average fee rate of 0.5% and 0.4% during the same periods, respectively.

Our asset management and fund management income increased by 5.4% to RMB558.3 million in the six months ended June 30, 2016 from RMB529.5 million in the same period in 2015, primarily due to our increased AUM (principally an increase in AUM from our targeted asset management schemes) which totaled RMB517.5 billion as of June 30, 2016 compared to RMB282.7 billion as of June 30, 2015.

Our financial advisory income increased by 59.0% to RMB162.6 million in the six months ended June 30, 2016 from RMB102.3 million in the same period in 2015, primarily due to an increase in the number of NEEQ listings we recommended from 35 in the first half of 2015 to 70 in the first half of 2016.

Other income increased by 102.1% to RMB203.7 million in the six months ended June 30, 2016 from RMB100.8 million in the same period in 2015, primarily due to the rapid growth of our fund custody and outsourcing services. The aggregate financial assets under our fund custody increased from RMB268.0 billion as of June 30, 2015 to RMB449.3 billion as of June 30, 2016; and the aggregate financial assets using our outsourcing services increased from RMB197.5 billion as of June 30, 2015 to RMB396.1 billion as of June 30, 2016.

Comparisons between 2015 and 2014

Our fee and commission income increased significantly to RMB19,317.4 million in 2015 from RMB7,290.5 million in 2014. This was primarily as a result of substantial increases in our fee and commission income from securities brokerage, underwriting and sponsorship, asset management and financial advisory as well as fund custody and outsourcing services.

Our securities and futures brokerage income increased significantly to RMB14,952.4 million in 2015 from RMB5,181.3 million in 2014, primarily due to our significantly increased brokerage trading volume in 2015 as a result of a surge in trading activities in the A-share market. This was partially offset by a decrease in our average brokerage commission rate driven largely by market competition. Our brokerage trading volume of stocks and funds increased significantly to RMB22,049.8 billion in 2015 from RMB6,614.7 billion in 2014. Along with the decreasing commission rate across the industry, our average brokerage commission rate decreased from 7.2bps in the first half of 2014 to 7.0bps in the second half of 2014, and further decreased to 6.6bps in the first half of 2015, and 6.0bps in the second half of 2015.

Our underwriting and sponsorship income increased by 69.3% to RMB2,423.4 million in 2015 from RMB1,431.6 million in 2014, primarily due to the significantly increased number and value of debt and equity securities underwritten by us, especially the expansion of our follow-on offering and debt underwriting in China, partially offset by a decrease in the average underwriting fee rate. The aggregate value of follow-on offerings underwritten by us increased significantly from RMB11.0 billion in 2014 to RMB42.8 billion in 2015, while the average underwriting fee rate decreased from 1.5% in 2014 to 0.9% in 2015. The aggregate value of debt securities underwritten by us as a lead underwriter increased significantly from RMB59.0 billion in 2014 to RMB225.8 billion in 2015, while the overall average underwriting fee rate decreased from 0.6% in 2014 to 0.5% in 2015.

Our asset management and fund management income increased significantly to RMB1,214.6 million in 2015, from RMB448.6 million in 2014, primarily due to: (i) our significantly enlarged

AUM, which grew from RMB177.3 billion as of December 31, 2014 to RMB414.4 billion as of December 31, 2015, reflecting a general increase in market demand for our asset management services; and (ii) our increased performance fees, resulting from the strong performance of the A-share market and our asset management schemes in 2015.

Our financial advisory income increased significantly to RMB426.5 million in 2015 from RMB191.8 million in 2014, primarily due to an increase in the number of NEEQ listings recommended and private placements by us and the M&A advisory business of A-share listed companies in 2015. The number of companies recommended by us to list on the NEEQ increased from 38 in 2014 to 114 in 2015. The number of NEEQ private placements completed increased from nine in 2014 to 78 in 2015.

Other commission and fee income increased significantly to RMB300.5 million in 2015 from RMB37.2 million in 2014, primarily due to the continued growth of our fund custody and outsourcing services, which generated RMB246.8 million in 2015 compared to RMB15.7 million in 2014. As of December 31, 2015, the aggregate financial assets under our fund custody services increased to RMB332.7 billion from RMB54.9 billion as of December 31, 2014; the aggregate financial assets using our outsourcing services increased to RMB292.1 billion as of December 31, 2015 from RMB38.2 billion as of December 31, 2014.

Comparisons between 2014 and 2013

Our fee and commission income increased by 63.9% to RMB7,290.5 million in 2014, from RMB4,447.0 million in 2013. This was primarily as a result of increases in our fee and commission income from securities brokerage, underwriting and sponsorship, and asset management.

Our securities and futures brokerage income increased by 45.8% to RMB5,181.3 million in 2014 from RMB3,553.3 million in 2013. The significant increase was primarily due to our increased brokerage trading volume resulting from an improvement in the A-share market, especially a surge in trading activities since the second half of 2014. This was partially offset by a decrease in our average brokerage commission rate driven largely by market competition. Our brokerage trading volume of stocks and funds increased significantly to RMB6,614.7 billion in 2014 from RMB4,130.7 billion in 2013. Along with the decreasing commission rate across the industry, our average brokerage commission rate decreased from 7.7bps in 2013 to 7.1bps in 2014.

Our underwriting and sponsorship income increased significantly to RMB1,431.6 million in 2014 compared to RMB420.1 million in 2013, primarily due to the increased number and value of equity and debt securities underwritten by us. The growth of our IPO underwriting and sponsorship activities was mainly attributable to the resumption of A-share IPOs by the CSRC in early 2014. The total amount of IPO underwritten by us in 2014 was RMB8.2 billion, with a average underwriting fee rate of 5.6%. The aggregate value of follow-on offerings underwritten by us increased significantly from RMB5.6 billion in 2013 to RMB11.0 billion in 2014, with the average underwriting fee rate decreased from 2.1% in 2013 to 1.5% in 2014. The aggregate value of debt securities underwritten by us as a lead underwriter increased significantly from RMB28.2 billion in 2013 to RMB59.0 billion in 2014.

Our asset management and fund management income increased by 75.9% to RMB448.6 million in 2014 from RMB255.1 million in 2013, primarily due to a significant increase in our AUM which grew from RMB68.9 billion as of December 31, 2013 to RMB177.3 billion as of December 31, 2014, particularly driven by the introduction of "Daily Profit" in the second half of 2013, our money-market product in which our clients invest their idle cash in their brokerage accounts. The growth in demand for "Daily Profit" was also consistent with the surge of the A-share market in the fourth quarter of 2014.

Our other fee and commission income increased by 43.1% to RMB37.2 million in 2014 from RMB26.0 million in 2013, due to the development of our fund custody and outsourcing services. As of December 31, 2014, the aggregate financial assets under our fund custody services increased to RMB54.9 billion from RMB3.4 billion as of December 31, 2013; and the aggregate financial assets using our outsourcing services increased to RMB38.2 billion as of December 31, 2014 from RMB1.3 billion as of December 31, 2013.

Interest income

The following table summarizes our interest income for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions)				
Deposits with exchanges and financial institutions	698.1	870.7	2,416.3	925.9	850.9
Advances to customers and securities lending	1,092.1	2,566.9	6,704.3	3,909.1	2,004.7
Securities-backed lending and stock repurchases	88.7	316.8	691.9	338.9	430.3
Other financial assets held under resale agreements	27.0	10.1	50.9	30.1	7.1
Loans receivable	79.2	120.2	42.7	30.4	5.1
Total interest income	**1,985.1**	**3,884.7**	**9,906.1**	**5,234.4**	**3,298.1**

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our interest income decreased by 37.0% to RMB3,298.1 million in the six months ended June 30, 2016 from RMB5,234.4 million in the same period in 2015. This was primarily as a result of decreases in interest income from advances to customers and securities lending as well as deposits with exchanges and financial institutions.

In line with the reduced scale of our margin financing and securities lending business in the first half of 2016 as a result of less margin trading activities due to unfavorable A-share market environment, our interest income from advances to customers and securities lending business decreased by 48.7% to RMB2,004.7 million in the six months ended June 30, 2016 from RMB3,909.1 million in the same period in 2015. The balance of our margin loans and securities lent in China decreased by 59.7% from RMB112.8 billion as of June 30, 2015 to RMB45.8 billion as of June 30, 2016. In addition, the average margin loan interest rate and the securities lending interest rate decreased from 8.60% and 10.60%, respectively, as of June 30, 2015 to 8.35% and 10.35% as of June 30, 2016, respectively.

Interest income from deposits with exchanges and financial institutions decreased by 8.1% to RMB850.9 million for the six months ended June 30, 2016 from RMB925.9 million in the same period in 2015, due primarily to a decrease in the average balances of cash held on behalf of our brokerage customers.

Interest income from securities-backed lending and stock repurchases increased by 27.0% to RMB430.3 million in the six months ended June 30, 2016 from RMB338.9 million in the same period in 2015 as we continued to focus on developing such business and there was increased market demand for securities-backed lending, which provide our clients with a greater flexibility in using the borrowed funds as compared to margin financing. The aggregate balance of our securities-backed lending increased by 22.0% from RMB8,968.9 million as of June 30, 2015 to RMB10,942.1 million as of June 30, 2016.

Interest income from other financial assets held under resale agreements decreased by 76.4% to RMB7.1 million for the six months ended June 30, 2016 from RMB30.1 million in the same period in 2015, primarily due to a decrease in our investment in financial assets held under resale agreements.

Interest income from loans receivable decreased by 83.2% to RMB5.1 million for the six months ended June 30, 2016 from RMB30.4 million in the same period in 2015, primarily due to a decreased amount of leveraged loans conducted through CMS International.

Comparisons between 2015 and 2014

Our interest income increased significantly to RMB9,906.1 million in 2015 from RMB3,884.7 million in 2014. This was primarily as a result of the substantial growth of our capital-based intermediary services, particularly in the first half of 2015.

In line with the substantial growth in market demand for capital-based intermediary services in 2015 due to the strong performance of the A-share market especially in the first half of 2015, interest income from our advances to customers and securities lending business increased significantly to RMB6,704.3 million in 2015 from RMB2,566.9 million in 2014; while interest income from securities-backed lending and stock repurchases increased significantly to RMB691.9 million in 2015 from RMB316.8 million in 2014. The balance of our margin loans and securities lent in China increased from RMB57.9 billion as of December 31, 2014 to RMB62.9 billion as of December 31, 2015. The balance of our securities-backed lending and stock repurchases increased significantly from RMB6,801.8 million as of December 31, 2014 to RMB10,163.9 million as of December 31, 2015.

Interest income from deposits with exchange and financial institutions increased significantly to RMB2,416.3 million in 2015 from RMB870.7 million in 2014, primarily due to increases in cash balances held on behalf of our brokerage clients as a result of favorable market conditions and increased trading activities, as well as an increase in our cash balances.

Interest income from other financial assets held under resale agreements increased from RMB10.1 million in 2014 to RMB50.9 million in 2015, primarily due to our increased investment in other financial assets held under resale agreements as part of our liquidity management activities.

Interest income from loans receivable decreased from RMB120.2 million in 2014 to RMB42.7 million in 2015, primarily due to a decreased amount of leveraged loans conducted through CMS International.

Comparisons between 2014 and 2013

Our interest income increased by 95.7% to RMB3,884.7 million in 2014 from RMB1,985.1 million in 2013. This was primarily as a result of the substantial growth of our capital-based intermediary services and the market expansion as a whole.

In line with the substantial growth of our capital-based intermediary services and the market demand in 2014 resulting from an improvement in the A-share market, especially since the second half of 2014, interest income from our advances to customers and securities lending business increased significantly to RMB2,566.9 million in 2014 from RMB1,092.1 million in 2013; while interest income from securities-backed lending and stock repurchases increased significantly to RMB316.8 million in 2014 from RMB88.7 million in 2013. The balance of our margin loans and securities lent in China increased significantly from RMB19.8 billion as of December 31, 2013 to RMB57.9 billion as of December 31, 2014. The balance of our securities-backed lending and stock repurchases increased significantly from RMB2,700.5 million as of December 31, 2013 to RMB6,801.8 million as of December 31, 2014.

Interest income from deposits with exchange and financial institutions increased by 24.7% to RMB870.7 million in 2014 from RMB698.1 million in 2013, primarily due to an increase in cash balances held on behalf of our brokerage clients as a result of favorable market conditions and more active trading activities in 2014.

Interest income from other financial assets held under resale agreements decreased from RMB27.0 million in 2013 to RMB10.1 million in 2014, primarily due to a decrease in our investment in financial assets held under resale agreements as a result of the decreased bond resale agreements.

Interest income from loans receivable increased from RMB79.2 million in 2013 to RMB120.2 million in 2014, primarily due to an increased amount of leveraged loans conducted through CMS International.

Net investment gains

The following table summarizes our net investment gains for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions)				
Net realized (losses) gains from disposal of available-for-sale financial assets	(7.7)	132.4	341.8	434.7	356.8
Dividend and interest income from available-for-sale financial assets	238.8	409.9	709.3	280.1	508.1
Dividend and interest income from financial assets at fair value through profit or loss	1,290.0	1,286.9	3,206.9	1,276.2	1,278.4
Net realized (losses) gains from disposal of financial instruments at fair value through profit or loss					
—Net realized (losses) gains from disposal of financial assets at fair value through profit or loss	(213.0)	1,331.8	6,383.9	8,055.3	(269.6)
—Net realized (losses) gains from disposal of financial liabilities at fair value through profit or loss	(80.4)	(53.3)	56.5	(16.2)	150.3
Net realized gains (losses) from derivatives financial instruments	139.7	(1,689.6)	(4,867.1)	(7,898.0)	(222.2)
Unrealized fair value change of financial instruments at fair value through profit or loss					
—financial assets at fair value through profit or loss	(226.7)	2,505.7	(844.0)	3,822.3	(2,248.8)
—financial liabilities at fair value through profit or loss	10.1	29.8	14.3	4.5	(18.7)
Unrealized fair value change of derivatives financial instruments	119.0	(1,415.5)	679.5	(1,221.7)	852.3
Total net investment gains	**1,269.8**	**2,538.1**	**5,681.1**	**4,737.2**	**386.6**

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our net investment gains decreased by 91.8% to RMB386.6 million in the six months ended June 30, 2016 from RMB4,737.2 million in the same period in 2015. This was primarily as a result of the combined effects of the following: (i) change in net realized losses or gains from disposal of financial assets at fair value through profit or loss from a gain of RMB8,055.3 million to a loss of RMB269.6 million, and change in unrealized fair value change of financial instruments at fair value through profit or loss from a gain of RMB3,826.8 million to a loss of RMB2,267.5 million, primarily due to the unfavorable market conditions associated with the significant fluctuations on the A-share market since June 2015, and the fact that we were unable to reduce our long-only trading positions or conduct effective hedging transactions to mitigate market risk in a highly volatile market due to our participation in the government measures to stabilize the PRC stock market; and (ii) a RMB77.9 million decrease in net realized gains from disposal of available-for-sale financial assets, primarily due to a decrease in our equity investment returns.

These decreases were partially offset by the following:

- a decrease in net realized losses from derivative financial instruments from RMB7,898.0 million for the six months ended June 30, 2015 to RMB222.2 million for the six months ended June 30, 2016, primarily due to the decrease in the variable amount of income we paid to counterparties in equity return swaps as a result of the expiration of certain equity return swaps contracts and the general decline in A-share market during the six months ended June 30, 2016;
- change in unrealized fair value change of derivative financial instruments from a loss of RMB1,221.7 million for the six months ended June 30, 2015 to a gain of RMB852.3 million for the six months ended June 30, 2016 primarily due to the short positions we took in our market-neutral trading, and the decreased amount of variable income payable to counterparties in equity return swaps;
- an increase in dividend and interest income from available-for-sale financial assets from RMB280.1 million for the six months ended June 30, 2015 to RMB508.1 million for the six months ended June 30, 2016, primarily due to the increased interest income from our increased investment in fixed-income securities;
- change in net realized losses or gains from disposal of financial liabilities at fair value through profit or loss from a loss of RMB16.2 million for the six months ended June 30, 2015 to a gain of RMB150.3 million for the six months ended June 30, 2016, primarily due to an increase in net value of consolidated structured entities attributable to other investors; and
- an increase in our dividend and interest income from financial assets at fair value through profit or loss from RMB1,276.2 million for the six months ended June 30, 2015 to RMB1,278.4 million for the six months ended June 30, 2016, primarily due to the net effect of an increase in the interest income we received from debt securities and a decrease in the dividend income from funds.

Comparisons between 2015 and 2014

Our net investment gains increased significantly to RMB5,681.1 million in 2015 from RMB2,538.1 million in 2014. This was primarily as a result of the combination of the following:

- Significant increases in our net realized gains from disposal of financial assets at fair value through profit or loss from RMB1,331.8 million in 2014 to RMB6,383.9 million in 2015 and in our net realized gains from disposal of available-for-sale financial assets from RMB132.4 million in 2014 to RMB341.8 million in 2015 primarily due to an increase in our equity trading and fixed-income trading, driven by the favorable stock and debt market conditions in the first half of 2015;
- Significant increases in our dividend and interest income from financial assets at fair value through profit or loss from RMB1,286.9 million in 2014 to RMB3,206.9 million in 2015, and increases in our dividend and interest income from available-for-sale financial assets from RMB409.9 million in 2014 to RMB709.3 million in 2015, primarily due to the substantial increases in balances of our fixed-income and equity investments, reflecting favorable market conditions in China; and
- A recognition of gain of RMB56.5 million in our net realized gains from disposal of financial liabilities at fair value through profit or loss and unrealized gain on fair value through profit or loss of RMB14.3 million in 2015 primarily from the share of loss by other investors in relation to the consolidated structured entity. Whereas in 2014, the net loss of our net realized gains from disposal of financial liabilities at fair value through profit or loss and unrealized gain on fair value through profit or loss of RMB23.5 million was in relation to the short selling activities of CMS International.

These increases were partially offset by a significant increase in our net realized losses from derivatives financial instruments from RMB1,689.6 million in 2014 to RMB4,867.1 million in 2015 due primarily to: (a) the short positions we took in our market-neutral trading during a rising market in the first half of 2015 resulting in a loss on derivatives; and (b) the variable amount of income we paid to counterparties in equity return swaps, particularly in the first half of 2015.

- A recognition of loss of RMB844.0 million in our unrealized fair value change of financial assets at fair value through profit or loss in 2015 compared to a gain of RMB2,505.7 million in 2014 due primarily to our unrealized losses from long-only equity trading in the second half of 2015, reflecting the volatile and unfavorable stock market conditions in China during the period. This loss was partially offset by a recognition of gain of RMB679.5 million in our unrealized fair value change of derivatives financial instruments in 2015 compared to a loss of RMB1,415.5 million in 2014, due primarily to our holding of stock index futures.

Comparisons between 2014 and 2013

Our net investment gains increased by 99.9% to RMB2,538.1 million in 2014 compared to RMB1,269.8 million in 2013. This was primarily as a result of the combination of the following:

- compared to an unrealized fair value loss and net realized loss arising from financial assets at fair value through profit or loss in 2013, we had an RMB2,505.7 million of unrealized fair value gain on our financial assets at fair value through profit or loss in 2014 and RMB1,331.8 million of net realized gain from disposing of these financial assets, due primarily to an increase in our equity trading and fixed-income trading, reflecting the favorable securities markets in China, particularly the stock market, and our diversified quantitative hedging strategy;

- dividend and interest income from available-for-sale financial assets increased by 71.6% to RMB409.9 million in 2014 from RMB238.8 million in 2013, due primarily to an increase in size and investment yield of our fixed-income investments that were designated as available-for-sale financial assets; and
- compared to a net realized loss of RMB7.7 million in 2013, we had an RMB132.4 million net realized gain from disposal of available-for-sale financial assets in 2014, due to favorable performance of the securities market in China and significantly improved return on our equity securities that are classified as available-for-sale financial assets.

These increases were partly offset by a net realized loss of RMB1,689.6 million from disposal of derivative financial instruments and unrealized fair value loss of RMB1,415.5 million from derivative financial instruments in 2014, due to: (i) the short positions we took in our market-neutral trading during a rising market resulting in a loss on derivative financial instruments while we generated gains on our long positions, and (ii) the variable amount of income we paid to counterparties in equity return swaps.

- A net decrease in our net realized losses from disposal of financial liabilities of fair value through profit or loss and unrealized fair value change of financial liabilities at fair value through profit or loss from RMB70.3 million in 2013 to RMB23.5 million in 2014, due primarily to the decrease in the loss from short selling activities of CMS International.

Other income and gains

The following table summarizes our other income and gains for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
			(RMB in millions)		
Government grants(1)	2.3	15.5	37.8	3.7	29.8
Foreign exchange gains (losses), net	19.1	3.2	(37.2)	1.3	(10.5)
Rental income(2)	8.7	9.2	8.9	4.2	4.5
Gains on disposal of property and equipment, other intangible assets and other non-current assets(3)	0.3	0.2	1.2	0.2	0.4
Commission for tax withholding and remittance(1)	3.6	20.8	18.0	0.4	14.8
Others(4)	4.2	4.0	55.3	27.0	1.7
Total	**38.2**	**52.9**	**84.0**	**36.8**	**40.7**

(1) Commission for tax withholding and remittance and government grants are uncertain in nature and subject to a higher degree of fluctuation.
(2) We received rental income primarily from leasing our commercial properties in Shenzhen.
(3) This mainly represents gains from disposal of equipment beyond their useful lives.
(4) This mainly represents compensation received from litigations and breaches of employment contracts and restrictive covenants by our employees.

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our other income and gains increased by 10.6% to RMB40.7 million in the six months ended June 30, 2016 from RMB36.8 million in the same period in 2015. This was primarily as a result of an increase of RMB26.1 million in our receipt of government grants, primarily one-off grants from the Shanghai municipal government, in the first half of 2016 as compared to the same period in 2015, and an increase in the commission for tax withholding and remittance, primarily due to our receipt of commission for tax remittance from disposal of restricted shares, partially offset by a substantial decrease in others, which mainly represented one-off compensation received from legal proceedings, and foreign currency losses on Renminbi-denominated cash balances held by our Hong Kong subsidiaries as a result of the depreciation of Renminbi against Hong Kong dollars during the period.

Comparisons between 2015 and 2014

Our other income and gains increased by 58.8% to RMB84.0 million in 2015 from RMB52.9 million in 2014. This was primarily due to: (i) an aggregate of RMB45.2 million received in compensation from the resolution of commercial disputes and legal proceedings, primarily comprising a compensation of RMB36.3 million granted by a court decision as a result of the criminal prosecution of Li Liming as further disclosed in "Business—Legal and Regulatory—Regulatory Non-compliances." As of December 31, 2015, the aggregate net loss from such disputes were RMB18.0 million; (ii) an aggregate of RMB2.1 million received in compensation from our employees primarily as a result of our settlement of provident funds and social insurance contributions upon termination of employment contracts, as well as our employees' breach of non-competition clauses; and (iii) increased government grants, including primarily a one-time grant from the Shenzhen government of RMB20.0 million as we are a financial institution headquartered in Shenzhen. This increase was partly offset by foreign currency losses on Renminbi-denominated cash balances held by our Hong Kong subsidiaries as a result of the depreciation of Renminbi against Hong Kong dollars.

Comparisons between 2014 and 2013

Our other income and gains increased by 38.5% to RMB52.9 million in 2014 from RMB38.2 million in 2013. This was primarily due to the increased commission for tax withholding and remittance which reflected an increased amount of income tax withheld by us on behalf of our employees, and an increase in government grants. The foregoing increases were partially offset by a decrease in our foreign exchange gains on Renminbi-denominated cash balances held by our Hong Kong subsidiaries as a result of the depreciation of Renminbi against Hong Kong dollars.

Total expenses

The following table summarizes our total expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions)				
Depreciation and amortization	134.3	141.0	151.1	74.0	79.4
Staff costs	2,004.1	3,621.8	8,180.4	4,919.2	1,462.1
Fee and commission expenses	767.0	1,109.0	2,868.7	1,617.6	819.4
Interest expenses	1,146.6	1,974.4	7,285.3	3,296.7	3,019.4
Business tax and surcharges	354.0	588.4	1,663.8	957.3	357.1
Other operating expenses	948.6	1,028.6	1,528.3	613.7	565.2
Impairment losses	4.1	670.2	228.1	(4.4)	(79.0)
Total expenses	**5,358.7**	**9,133.4**	**21,905.7**	**11,474.1**	**6,223.6**

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our total expenses decreased by 45.8% to RMB6,223.6 million in the six months ended June 30, 2016 from RMB11,474.1 million in the same period in 2015. This was primarily due to decreases in our performance-based staff costs, fee and commission expenses and business tax and surcharges, reflecting our substantially reduced revenue in the first half of 2016, which was partially offset by an increase in our depreciation and amortization.

Comparisons between 2015 and 2014

Our total expenses increased significantly to RMB21,905.7 million in 2015 from RMB9,133.4 million in 2014. This was primarily due to our substantial business growth in 2015.

Comparisons between 2014 and 2013

Our total expenses increased by 70.4% to RMB9,133.4 million in 2014 from RMB5,358.7 million in 2013. This was primarily due to our substantial expansion in business in 2014.

Fee and commission expenses

The following table summarizes our fee and commission expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions)				
Securities and futures brokerage expenses	568.3	818.5	2,511.4	1,466.4	658.4
Underwriting and sponsorship expenses	154.0	229.0	217.8	91.4	129.4
Asset management and fund management expenses	19.2	21.5	72.5	35.0	13.6
Financial advisory expenses	25.5	40.0	67.0	24.8	16.1
Others	—	—	—	—	1.9
Total fee and commission expenses	**767.0**	**1,109.0**	**2,868.7**	**1,617.6**	**819.4**

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our fee and commission expenses decreased by 49.3% to RMB819.4 million in the six months ended June 30, 2016 from RMB1,617.6 million in the same period in 2015. This was primarily as a result of a decrease in our securities and futures brokerage expenses, which was largely in line with the decrease in our brokerage trading volume from RMB12,480.1 billion in the six months ended June 30, 2015 to RMB4,979.1 billion in the six months ended June 30, 2016. In addition, this was also as a result of a decrease in assets management and fund management expenses, primarily due to a decrease in amount of fees paid to research advisors. Such decreases were partially offset by an increase in our underwriting and sponsorship expenses due to the increased commission expenses paid to other financial institutions for sub-underwriting the securities we underwrote, which was in line with the increases in our underwriting amount and number of transactions underwritten during the period.

Comparisons between 2015 and 2014

Our fee and commission expenses increased significantly to RMB2,868.7 million in 2015 from RMB1,109.0 million in 2014. This was primarily due to: (i) the substantial increase in expenses incurred in our securities brokerage business, which is in line with the increase in our brokerage trading volume of stocks and funds from RMB6,614.7 billion in 2014 to RMB22,049.8 billion in 2015 as a result of favorable market conditions; (ii) the substantial increase in expenses incurred in our asset management and fund management primarily due to increases in amount of fees paid to research advisors and channel fees, which was in line with our increased AUM and performance fees collected from clients of funds managed by us; and (iii) an increase in financial advisory expenses in line with the growth of our M&A advisory business.

Comparisons between 2014 and 2013

Our fee and commission expenses increased by 44.6% to RMB1,109.0 million in 2014 from RMB767.0 million in 2013. This was primarily due to the increases in expenses incurred in our securities brokerage and underwriting and sponsorship businesses, which were in line with the increases in: (i) our brokerage trading volume of stocks and funds, which increased from RMB4,130.7 billion in 2013 to RMB6,614.7 billion in 2014; and (ii) our underwriting fees as a result of the resumption of A-share IPOs and the increase in our amount of follow-on offerings underwritten. This was also as a result of an increase in our financial advisory expenses in line with the growth of our M&A advisory business.

Interest expenses

The following table summarizes our interest expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
			(RMB in millions)		
Accounts payable to brokerage clients	101.3	114.1	333.9	145.3	123.4
Financial assets sold under repurchase agreements	266.6	789.1	2,784.2	1,460.5	998.4
Margin financing and securities lending	34.3	56.0	101.9	57.9	21.4
Placements from other financial institutions	12.5	20.6	44.9	38.6	9.7
Long-term bonds payable	406.6	491.6	2,130.4	760.3	1,359.4
Short-term financing bills payable	300.6	383.2	251.9	180.7	13.8
Short-term bonds payable	—	7.0	661.5	347.9	99.8
Principals of structured notes	—	4.4	816.4	261.7	339.5
Borrowings	15.7	37.0	92.4	43.8	52.9
Others(1)	9.0	71.4	67.8	—	1.1
Total interest expense	**1,146.6**	**1,974.4**	**7,285.3**	**3,296.7**	**3,019.4**

(1) This mainly represents interest expenses attributable to third-party investors in consolidated structured entities.

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our interest expenses decreased by 8.4% to RMB3,019.4 million in the six months ended June 30, 2016 from RMB3,296.7 million in the same period in 2015. This was primarily due to decreases in: (i) our interest expenses from financial assets sold under repurchase agreements as a result of our decreased margin loans receivable-backed repurchase transactions; (ii) our interest expenses from short-term debt instruments following our repayment of certain short-term financing bills and short-term corporate bonds when due in the first half of 2016, as a result of the decrease in demand of our capital-based intermediary services due to unfavorable A-share market during the period; (iii) our placements from other financial institutions as a result of a decrease in our interbank borrowings; and (iv) our accounts payable to brokerage clients as a result of a decrease in the average balances of cash held on behalf of our brokerage customers. These decreases were partially offset by the increases in interest expenses from long-term bonds payable and structured notes as a result of the increases in the average balance of our outstanding bonds and structured notes in the first half of 2015.

Comparisons between 2015 and 2014

Our interest expenses increased significantly to RMB7,285.3 million in 2015 from RMB1,974.4 million in 2014. This was primarily as a result of the increase in the average balance of interest-bearing financing instruments, including financial assets sold under repurchase agreements, bonds payable and structured notes. For more details, see "—Indebtedness."

In 2015, we incurred a significantly greater amount of interest expenses on financial assets sold under repurchase agreements as compared to 2014, primarily due to an increase in margin loans receivable-backed financing as one of the sources of funding for our capital-based intermediary services, particularly in the first half of 2015.

Comparisons between 2014 and 2013

Our interest expenses increased by 72.2% to RMB1,974.4 million in 2014 from RMB1,146.6 million in 2013. This was primarily as a result of the increases in the daily average balance of interest-bearing financing instruments, including financial assets sold under repurchase agreements, long-term bonds and short-term financing bills. For more details, see "—Indebtedness." Our total indebtedness increased from RMB20,356.1 million as of December 31, 2013 to RMB32,085.0 million as of December 31, 2014 to finance our working capital for business expansion.

In 2014, our interest expenses on financial assets sold under repurchase agreements were significantly increased, primarily due to our increased margin loans receivable-backed financing to fund our increased capital requirements for our capital-based intermediary services in 2014.

Staff costs

The following table summarizes our staff costs for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions)				
Salaries, bonus and allowances	1,671.0	3,242.5	7,571.5	4,667.3	1,158.4
Contributions to retirement benefits	115.8	128.9	233.1	106.0	137.3
Other social welfare	122.6	144.0	205.6	68.9	106.3
Others	94.7	106.4	170.2	77.0	60.1
Total	**2,004.1**	**3,621.8**	**8,180.4**	**4,919.2**	**1,462.1**

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our staff costs decreased by 70.3% to RMB1,462.1 million in the six months ended June 30, 2016 from RMB4,919.2 million in the same period in 2015. This was primarily as a result of the decrease in our performance-based staff costs that reflected our lower revenue and profit during the six months ended June 30, 2016, which was partially offset by increases in our contributions to retirement benefits and other social welfare due to increases in the basic salaries of our employees and our employee headcount.

Comparisons between 2015 and 2014

Our staff costs increased significantly to RMB8,180.4 million in 2015 from RMB3,621.8 million in 2014. This was primarily as a result of: (i) the increase in performance-based bonuses that reflected the rapid growth in our revenue and profit in 2015; and (ii) an increase in our employee salaries that reflected growth in the number of our employees from 7,463 as of December 31, 2014 to 10,146 as of December 31, 2015 as a result of our business expansion in 2015. In addition, this was also as a result of the increases in our contributions to retirement benefits, other social welfare and others due to the increases in our employee salaries and the number of our employees.

Comparisons between 2014 and 2013

Our staff costs increased by 80.7% to RMB3,621.8 million in 2014 compared to RMB2,004.1 million in 2013. This was primarily due to the increases in our employee salaries and performance-based bonuses that reflected the growth in our revenue and profit in 2014 and our commitment to attracting and retaining professional talents. In addition, this was also as a result of the increases in our contributions to retirement benefits, other social welfare and others due to the increases in our employee salaries and the number of our employees.

Depreciation and amortization

The following table summarizes our depreciation and amortization for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	**2014**	**2015**	**2015**	**2016**
				(unaudited)	
	(RMB in millions)				
Depreciation of property and equipment	74.8	77.2	84.5	40.5	44.0
Amortization of other non-current assets	55.9	60.2	63.3	31.8	33.8
Amortization of other intangible assets[(1)]	2.8	2.8	2.5	1.3	1.2
Depreciation of investment properties[(2)]	0.8	0.8	0.8	0.4	0.4
Total	**134.3**	**141.0**	**151.1**	**74.0**	**79.4**

(1) Other intangible assets mainly include our trading seats at stock exchanges, whose valuation remains stable.
(2) The valuation of properties remains unchanged.

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our depreciation and amortization expenses increased by 7.3% to RMB79.4 million in the six months ended June 30, 2016 from RMB74.0 million in the same period in 2015. This was primarily as a result of the increases in: (i) our depreciation of property and equipment; and (ii) amortization of leasehold improvements and deferred expenses, due to expansion of our branch network and upgrades and improvements of our IT infrastructures.

Comparisons between 2015 and 2014

Our depreciation and amortization increased slightly to RMB151.1 million in 2015 compared to RMB141.0 million in 2014. This was primarily due to the increases in: (i) our depreciation of property and equipment; and (ii) amortization of leasehold improvements and deferred expenses as a result of the expansion of our branch network and upgrades and improvements of our IT infrastructure in 2015.

Comparisons between 2014 and 2013

Our depreciation and amortization increased slightly by 5.0% to RMB141.0 million in 2014 compared to RMB134.3 million in 2013. This was primarily due to the increases in: (i) our depreciation of property and equipment; and (ii) amortization of leasehold improvements and deferred expenses as a result of the expansion of our branch network in 2014.

Business tax and surcharges

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our business tax and surcharges decreased by 62.7% to RMB357.1 million in the six months ended June 30, 2016 from RMB957.3 million in the same period in 2015, which was consistent with the decrease in our revenue and other income and also affected by the VAT tax reform which was intended to replace business tax with VAT starting from May 1, 2016.

Comparisons between 2015 and 2014

Our business tax and surcharges increased significantly to RMB1,663.8 million in 2015 compared to RMB588.4 million in 2014. This was consistent with the increase in our revenue and other income in 2015.

Comparisons between 2014 and 2013

Our business tax and surcharges increased by 66.2% to RMB588.4 million in 2014 compared to RMB354.0 million in 2013. This was consistent with the increase in our revenue and other income in 2014.

Other operating expenses

The following table summarizes our other operating expenses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	**2014**	**2015**	**2015**	**2016**
				(unaudited)	
			(RMB in millions)		
Operating lease rentals in respect of rented premises	205.4	230.9	288.2	130.7	159.9
General and administrative expenses	195.9	200.6	180.0	82.2	46.2
Data transmission expenses	116.5	110.7	131.4	48.8	57.6
IT expenses	80.5	103.8	130.6	47.7	45.5
Advertising and promotion expenses	108.6	101.2	234.9	71.1	71.7
Business travel expenses	61.7	76.0	134.1	44.0	54.2
Securities and futures investor protection funds	31.0	56.0	134.7	85.3	26.8
Membership subscription fee	33.4	39.4	103.0	49.7	41.9
Auditor's remuneration	1.8	2.4	2.5	—	—
Sundry expenses	113.8	107.6	188.9	54.2	61.4
Total	**948.6**	**1,028.6**	**1,528.3**	**613.7**	**565.2**

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our other operating expenses decreased by 7.9% to RMB565.2 million in the six months ended June 30, 2016 from RMB613.7 million in the same period in 2015. This was primarily due to decreases in our general and administrative expenses, primarily as a result of our effective cost control, and our securities and futures investor protection funds, as a result of the decrease in our revenue and other income, which were partially offset by increased rental expenses as a result of our expanded branch network.

Comparisons between 2015 and 2014

Our other operating expenses increased by 48.6% to RMB1,528.3 million in 2015 from RMB1,028.6 million in 2014. This was primarily due to increases in our advertising and promotion expenses, contribution to securities and futures investor protection funds, and exchange membership subscription fee, among others, driven by our business expansion in 2015. In particular, this was also due to: (i) an increase in operating lease rentals in respect of rented premises, as a result of the expansion of our securities branches; (ii) an increase in data transmission expenses, as a result of our increased trading volume; (iii) an increase in IT expenses, also as a result of the expansion of our securities branches; and (iv) business travel expenses, as a result of our business expansion.

Comparisons between 2014 and 2013

Our other operating expenses increased by 8.4% to RMB1,028.6 million in 2014 from RMB948.6 million in 2013. This was primarily due to increases in our operating lease rentals in respect of rental premises and IT expenses as a result of our establishment of 62 new branches in 2014. In addition, this was also due to: (i) an increase in business travel expenses, as a result of our business expansion; and (ii) an increase in securities and futures investor protection funds, as a result of our increased total revenue.

Impairment losses

The following table summarizes our impairment losses for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions)				
Allowance (reversal of allowance) for impairment loss in respect of accounts receivable, net[(1)]	4.1	2.8	(5.2)	(4.4)	(0.4)
(Reversal of allowance) allowance for impairment loss in respect of other receivables, net	—	(1.7)	—	—	—
Impairment loss in respect of interest in an associate	—	669.1	—	—	—
Impairment loss in respect of advances to customers	—	—	130.8	—	(31.8)
Impairment loss in respect of financial assets held under resale agreements	—	—	102.5	—	(46.8)
Total	**4.1**	**670.2**	**228.1**	**(4.4)**	**(79.0)**

(1) Mainly includes the allowances/reversals of the fee and commission income payable by our mutual fund and insurance company clients.

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our reversal of impairment losses increased to RMB79.0 million in the six months ended June 30, 2016 from RMB4.4 million in the same period in 2015, due to our increased recovery of certain previously impaired margin loans and securities-backed lending.

Comparisons between 2015 and 2014

We incurred impairment losses of RMB228.1 million in 2015 mainly from our margin financing and securities lending and securities-backed lending business due to the fluctuation of the PRC stock market in 2015. We did not incur any impairment loss from our equity interest in associates in 2015 as compared with an impairment loss of RMB669.1 million against our equity interest in Bosera Funds in 2014.

Comparisons between 2014 and 2013

Our impairment losses increased significantly to RMB670.2 million in 2014 from RMB4.1 million in 2013, primarily due to an impairment loss of RMB669.1 million against our equity interest in Bosera Funds in 2014. We have recognized an impairment loss in 2014 as a result of a decrease in valuation of Bosera Funds conducted by a third-party valuer. See note 24 of the Accountants' Report in Appendix I to this prospectus for details of the financial information of Bosera Funds and more details of the impairment loss.

Operating profit

Comparisons between six months ended June 30, 2016 and June 30, 2015

As a result of the foregoing, our operating profit decreased by 72.2% to RMB2,505.2 million in the six months ended June 30, 2016 from RMB9,022.1 million in the same period in 2015.

Comparisons between 2015 and 2014

As a result of the foregoing, our operating profit increased significantly to RMB13,082.9 million in 2015 from RMB4,632.8 million in 2014.

Comparisons between 2014 and 2013

As a result of the foregoing, our operating profit increased by 94.5% to RMB4,632.8 million in 2014 from RMB2,381.4 million in 2013.

Share of results of associates

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our share of results of associates increased by 9.9% to RMB339.6 million in the six months ended June 30, 2016 from RMB309.1 million in the same period in 2015. This was primarily as a result of the increased profits from Bosera Funds and China Merchants Fund in the six months ended June 30, 2016, primarily due to the increases in our associates' respective AUM. The AUM of China Merchants Fund increased from RMB247.1 billion as of June 30, 2015 to RMB328.8 billion as of June 30, 2016, while the AUM of Bosera Funds increased from RMB302.8 billion as of June 30, 2015 to RMB459.9 billion as of June 30, 2016.

Comparisons between 2015 and 2014

Our share of results of associates increased by 62.5% to RMB551.1 million in 2015 from RMB339.1 million in 2014. This was primarily as a result of the increased profits of our associates, primarily China Merchants Fund and Bosera Funds in 2015. See note 24 of the Accountants' Report in Appendix I to this prospectus for details of their respective financial information. The AUM of China Merchants Fund increased from RMB170.1 billion as of December 31, 2014 to RMB320.3 billion as of December 31, 2015 while the AUM of Bosera Funds increased from RMB236.4 billion as of December 31, 2014 to RMB397.9 billion as of December 31, 2015.

Comparisons between 2014 and 2013

Our share of results of associates increased by 26.1% to RMB339.1 million in 2014 from RMB269.0 million in 2013. This was primarily as a result of the increased profits of our associates, primarily China Merchants Fund and Bosera Funds in 2014. See note 24 of the Accountants' Report in Appendix I to this prospectus for details of their respective financial information. The AUM of China Merchants Fund increased from RMB88.5 billion as of December 31, 2013 to RMB170.1 billion as of December 31, 2014, while the AUM of Bosera Funds increased from RMB192.9 billion as of December 31, 2013 to RMB236.4 billion as of December 31, 2014.

Profit before income tax

Comparisons between six months ended June 30, 2016 and June 30, 2015

As a result of the foregoing, our profit before income tax decreased by 69.5% to RMB2,844.8 million in the six months ended June 30, 2016 from RMB9,331.2 million in the same period in 2015.

Comparisons between 2015 and 2014

As a result of the foregoing, our profit before income tax increased significantly to RMB13,634.0 million in 2015 from RMB4,971.9 million in 2014.

Comparisons between 2014 and 2013

As a result of the foregoing, our profit before income tax increased by 87.6% to RMB4,971.9 million in 2014, from RMB2,650.4 million in 2013.

Income tax expenses

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our income tax expense decreased by 69.5% to RMB609.2 million in the six months ended June 30, 2016 from RMB1,996.1 million in the same period in 2015. This was primarily as a result of the decrease in our taxable income in the six months ended June 30, 2016. Our effective income tax rate remained 21.4% in the six months ended June 30, 2015 and 2016.

Comparisons between 2015 and 2014

Our income tax expenses increased significantly to RMB2,705.7 million in 2015 from RMB1,087.4 million in 2014. This was primarily as a result of the increase in our taxable income in 2015. Our effective income tax rate decreased to 19.8% in 2015 from 21.9% in 2014, primarily due to an increase in our non-taxable revenue as a percentage of our total revenue and other income.

Comparisons between 2014 and 2013

Our income tax expenses increased significantly to RMB1,087.4 million in 2014 from RMB412.9 million in 2013. This was primarily as a result of the increase in our taxable income in 2014. Our effective income tax rate increased from 15.6% in 2013 to 21.9% in 2014, primarily due to: (i) an increase in our taxable revenue as a percentage of our total revenue and other income; and (ii) an increase of our non-deductible expense as a percentage of our total expense, primarily due to the impairment loss of RMB669.1 million against our equity interest in Bosera Funds in 2014, which were not tax deductible.

Profit and profit margins

The following table sets forth certain key indicators of our profitability for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB millions except percentage)				
Operating profit(1)	2,381.4	4,632.8	13,082.9	9,022.1	2,505.2
Operating margin(2)	30.8%	33.7%	37.4%	44.0%	28.7%
Adjusted operating margin(3)(4)	40.9%	43.4%	52.7%	57.9%	51.2%
Profit for the year/period	2,237.5	3,884.5	10,928.3	7,335.1	2,235.6
Net margin(5)	28.9%	28.2%	31.2%	35.8%(7)	25.6%(7)
Adjusted net margin(4)(6)	38.4%	36.4%	44.0%	47.1%(7)	45.7%(7)

(1) Operating profit = total revenue and other income – total expenses.
(2) Operating margin = operating profit/total revenue and other income.
(3) Adjusted operating margin = operating profit/(total revenue and other income – fee and commission expenses and interest expenses).
(4) Adjusted operating margin and adjusted net margin provide a meaningful indicator of results of operations that is more comparable to other listed securities firms in China due to different presentation requirements between PRC GAAP and IFRS.
(5) Net margin = profit for the year or period/total revenue and other income.
(6) Adjusted net margin = profit for the year or period/(total revenue and other income – fee and commission expenses and interest expenses.)
(7) These figures have been annualized to be comparable to prior years but are not indicative of the actual results.

Comparisons between six months ended June 30, 2016 and June 30, 2015

Our operating profit decreased by 72.2% to RMB2,505.2 million in the six months ended June 30, 2016 from RMB9,022.1 million in the same period in 2015, while our profit for the period decreased by 69.5% to RMB2,235.6 million in the six months ended June 30, 2016 from RMB7,335.1 million in the same period in 2015. This was primarily due to a substantial decline in the revenue of our brokerage and wealth management business and investment and trading business as a result of unfavorable market conditions.

Our operating margin and net margin decreased in the six months ended June 30, 2016 due to a decreased return from our equity and fixed-income investment and trading and the decrease in our margin financing and securities lending business which has a relatively higher profitability.

Comparisons between 2015 and 2014

Our profit for the year increased significantly to RMB10,928.3 million in 2015 from RMB3,884.5 million in 2014. This was due to the increases in the revenue of our principal business segments and the increase in our net margin.

Our operating margin and adjusted operating margin improved in 2015, primarily due to: (i) greater economies of scale of our brokerage business as a result of the surge in our brokerage trading volume; (ii) substantial increase in the investment gains of our investment and trading business; and (iii) rapid growth of our capital-based intermediary services with a relatively higher profitability. As a result, our net margin and adjusted net margin also increased in 2015.

Comparisons between 2014 and 2013

Our profit for the year increased by 73.6% to RMB3,884.5 million in 2014 from RMB2,237.5 million in 2013. This was primarily due to the increases in revenue and other income of most of our principal business segments.

Our operating margin and adjusted operating margin improved in 2014, primarily due to: (i) sustained expansion of our capital-based intermediary services with a relatively higher profitability; (ii) greater economies of scale of our brokerage business as a result of the surge in our brokerage trading volume; and (iii) improvements in our equity underwriting business in 2014. However, our net margin and adjusted net margin decreased in 2014, primarily due to the impairment loss against our equity interest in Bosera Funds.

SUMMARY SEGMENT RESULTS

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

We have four principal business segments: (i) brokerage and wealth management; (ii) investment banking; (iii) investment management; and (iv) investment and trading. The following discussions of our segment revenue and other income, segment expenses and segment profit before income tax include intersegment eliminations.

The following table sets forth our segment revenue and other income, segment expense, segment profit/(loss) before income tax and segment margin (which is calculated as the segment profit/(loss) before income tax divided by the segment revenue and other income) of each segment before intersegment eliminations for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions, except percentages)				
Brokerage and Wealth Management					
Segment revenue and other income	5,316.0	8,751.9	24,404.4	13,970.9	6,405.4
Segment expenses	(3,347.6)	(5,191.6)	(13,702.1)	(6,910.6)	(4,416.7)
Segment profit before income tax	1,968.4	3,560.3	10,702.3	7,060.3	1,988.7
Segment margin	37.0%	40.7%	43.9%	50.5%	31.0%
Investment Banking					
Segment revenue and other income	541.0	1,613.4	2,843.8	991.4	1,124.4
Segment expenses	(468.2)	(809.7)	(1,352.4)	(728.2)	(536.3)
Segment profit before income tax	72.8	803.7	1,491.4	263.2	588.1
Segment margin	13.5%	49.8%	52.4%	26.5%	52.3%
Investment Management					
Segment revenue and other income	437.0	918.6	1,313.3	723.5	413.3
Segment expenses	(174.3)	(310.7)	(610.4)	(287.3)	(244.6)
Segment profit before income tax	268.2	614.3	710.3	440.8	169.2
Segment margin	61.4%	66.9%	54.1%	60.9%	40.9%
Investment and Trading					
Segment revenue and other income	1,277.7	2,273.6	5,732.2	4,604.9	546.8
Segment expenses	(839.6)	(1,340.1)	(3,212.1)	(1,768.3)	(410.3)
Segment profit before income tax	438.1	933.5	2,520.1	2,836.6	136.5
Segment margin	34.3%	41.1%	44.0%	61.6%	25.0%
Others					
Segment revenue and other income	168.4	234.0	694.9	205.5	238.9
Segment expenses	(529.0)	(1,506.6)	(3,028.7)	(1,779.7)	(615.7)
Segment loss before income tax	(97.1)	(939.9)	(1,790.1)	(1,269.7)	(37.8)
Segment margin	(57.7)%	(401.7)%	(257.6)%	(617.9)%	(15.8)%

Brokerage and wealth management

Segment revenue and other income from our brokerage and wealth management business primarily consist of fee and commission income from securities and futures brokerage, as well as interest income from our capital-based intermediary services and from deposits we hold on behalf of brokerage clients. Segment expenses primarily consist of fee and commission expenses from securities and futures brokerage and interest expenses paid to our clients for deposits held by us, as well as costs of financing, staff costs, rental expenses, depreciation and amortization, business tax and surcharges and other operating expenses for this segment.

The following table sets forth selected information concerning our brokerage and wealth management business for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions, except percentages)				
Segment revenue and other income	5,316.0	8,751.9	24,404.4	13,970.9	6,405.4
Fee and commission income	3,579.2	5,243.8	15,252.9	8,966.9	3,320.7
Interest income	1,736.7	3,507.9	9,151.4	5,004.0	3,084.6
Other income and gains	0.1	0.2	0.1	—	0.1
Segment expenses	(3,347.6)	(5,191.6)	(13,702.1)	(6,910.6)	(4,416.7)
Profit before income tax	1,968.4	3,560.3	10,702.3	7,060.3	1,988.7
Segment margin	37.0%	40.7%	43.9%	50.5%	31.0%

Comparisons between six months ended June 30, 2016 and June 30, 2015

The segment profit before income tax of our brokerage and wealth management business decreased by 71.8% to RMB1,988.7 million in the six months ended June 30, 2016 from RMB7,060.3 million in the same period in 2015, primarily due to a 54.2% decrease in our segment revenue and other income from RMB13,970.9 million in the six months ended June 30, 2015 to RMB6,405.4 million in the same period in 2016:

- the decrease in our fee and commission income from securities brokerage business was due to our decreased brokerage trading volume resulting from the highly volatile market conditions and unfavorable A-share market in the first half of 2016 and a decrease in our average brokerage commission rate. Our brokerage trading volume of stocks and funds decreased by 60.1% to RMB4,979.1 billion in the six months ended June 30, 2016 from RMB12,480.1 billion in the same period in 2015. Our average securities brokerage commission rate decreased to 5.3bps in the six months ended June 30, 2016 from 6.6bps in the same period in 2015;
- the decrease in our interest income was due to the reduced scale of our margin financing and securities lending business. The balance of our margin loans and securities lent in China decreased from RMB112.8 billion as of June 30, 2015 to RMB45.8 billion as of June 30, 2016. The interest rate of our margin financing was 8.35% for the first half of 2016, compared to 8.60% for the same period in 2015; and the interest rate of our securities lending was 10.35% for the first half of 2016, compared to 10.60% for the same period in 2015; and
- a decrease in our segment expenses due to the decrease in the transaction volume of our brokerage transaction and decreased interest expenses due to our reduced indebtedness.

Segment margin of our brokerage and wealth management business decreased to 31.0% in the six months ended June 30, 2016 from 50.5% in the same period in 2015, due primarily to the reduced interest income from our capital-based intermediary services with relatively higher profitability.

Comparisons between 2015 and 2014

Segment profit before income tax of our brokerage and wealth management business increased significantly to RMB10,702.3 million in 2015 from RMB3,560.3 million in 2014, primarily due to the increases in our fee and commission income from securities brokerage and interest income from capital-based intermediary services, especially in the first half of 2015, partially offset by an increase in our segment expenses:

- The increase in our segment revenue from securities brokerage and wealth management business was primarily due to: (i) our significantly increased stocks and funds trading volume from RMB6,614.7 billion in 2014 to RMB22,049.8 billion in 2015, resulting from the strong performance of the A-share market; and (ii) an increase in our segment interest income from RMB3,507.9 million in 2014 to RMB9,151.4 million in 2015, primarily as a result of the rapid growth of our margin financing and securities lending business in the first half of 2015, reflecting the strong performance of the A-share market during the period. The balance of margin loans and securities lent in China increased from RMB57.9 billion as of December 31, 2014 to RMB112.8 billion as of June 30, 2015 and then decreased to RMB62.9 billion as of December 31, 2015.
- The significant increase in segment expense from RMB5,191.6 million in 2014 to RMB13,702.1 million in 2015 was primarily due to increases in: (i) fees, such as stock exchange fees and commissions resulting from an increase in stocks and funds trading volume, especially in the first half of 2015; (ii) interest expenses for our margin financing and securities lending business as a result of the increase in our borrowing to finance this business; and (iii) staff costs, which is in line with the increase in the revenue from this segment and increase in the number of headcount.

The segment margin of our brokerage and wealth management business increased to 43.9% in 2015, compared to 40.7% in 2014. This was primarily due to: (i) greater economies of scales as a result of the substantial increase in brokerage trading volume in 2015; and (ii) increased interest income from our capital-based intermediary services with relatively higher profitability.

Comparisons between 2014 and 2013

Segment profit before income tax of our brokerage and wealth management business increased by 80.9% to RMB3,560.3 million in 2014 from RMB1,968.4 million in 2013, primarily due to the increases in our fee and commission income from securities brokerage and interest income from capital-based intermediary services, partially offset by an increase in our segment expenses;

- The increase in our segment revenue from securities brokerage and wealth management business was primarily due to: (i) our significantly increased stocks and funds trading volume from RMB4,130.7 billion in 2013 to RMB6,614.7 billion in 2014, resulting from an improvement in the A-share market, especially a surge in trading activities since the second half of 2014; and (ii) the increase in our segment interest income from RMB1,736.7 million in 2013 to RMB3,507.9 million in 2014, primarily as a result of the sustained expansion of our margin financing and securities lending business. The balance of our margin loan and securities lent in China increased from RMB19.8 billion as of December 31, 2013 to RMB57.9 billion as of December 31, 2014.
- The segment expenses increased by 55.1% to RMB5,191.6 million in 2014, compared to RMB3,347.6 million in 2013, primarily due to increases in: (i) fees such as stock exchange

fees and commissions resulting from an increase in our stocks and funds trading volume in 2014, particularly in the second half of 2014; (ii) interest expenses for our margin financing and securities lending business as a result of the increase in our borrowing to finance this business; and (iii) staff costs which is consistent with the increase in the revenue from this segment and increase in the number of headcount.

The segment margin of our brokerage and wealth management business increased to 40.7% in 2014 from 37.0% in 2013. This was primarily because our revenue and other income from this segment consisted of a growing proportion of interest income from capital-based intermediary services with a relatively higher profitability.

Investment banking

Segment revenue and other income from our investment banking business consist primarily of underwriting and sponsorship fees, as well as financial advisory fees. Segment expenses consist primarily of staff costs and other operating expenses for this segment.

The following table sets forth selected information concerning our investment banking business for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions, except percentages)				
Segment revenue and other income	541.0	1,613.4	2,843.8	991.4	1,124.4
Fee and commission income	541.0	1,613.4	2,843.8	991.4	1,124.4
Segment expenses	(468.2)	(809.7)	(1,352.4)	(728.2)	(536.3)
Profit before income tax	72.8	803.7	1,491.4	263.2	588.1
Segment margin	13.5%	49.8%	52.4%	26.5%	52.3%

Comparisons between six months ended June 30, 2016 and June 30, 2015

Segment profit before income tax of our investment banking business increased by 123.4% to RMB588.1 million in the six months ended June 30, 2016 from RMB263.2 million in the same period in 2015, primarily due to:

- a 13.4% increase in our segment revenue and other income due to the increased number and amount of debt securities underwritten by us and the increased number of NEEQ listings recommended by us. The amount of debt securities underwritten by us as a lead underwriter increased from RMB37.6 billion in the first half of 2015 to RMB157.9 billion in the same period in 2016. The number of NEEQ listings we recommended increased from 35 in the first half of 2015 to 70 in the first half of 2016; and
- a 26.4% decrease in our segment expenses due to a decrease in our performance-based staff costs, reflecting a decrease in our overall profit.

As a result, the segment margin of our investment banking business increased to 52.3% in the six months ended June 30, 2016 from 26.5% in the same period in 2015.

Comparisons between 2015 and 2014

Segment profit before income tax of our investment banking business increased by 85.6% to RMB1,491.4 million in 2015 from RMB803.7 million in 2014, primarily due to:

- a 76.3% increase in our segment revenue and other income due to the increased number and value of equity and debt securities underwritten by us. In particular, the value of follow-on offerings underwritten by us increased significantly from RMB11.0 billion in 2014 to RMB42.8 billion in 2015, while the value of debt securities underwritten by us as a lead underwriter increased from RMB59.0 billion in 2014 to RMB225.8 billion in 2015; and
- a 67.0% increase in our segment expenses, primarily as a result of an increase in performance bonus which was in line with the growth of our investment banking business in 2015.

The segment margin of our investment banking business increased to 52.4% in 2015 compared to 49.8% in 2014, primarily due to an increase in the segment revenue and other income of this segment driven by a significant expansion of our equity refinancing, debt underwriting and M&A business.

Comparisons between 2014 and 2013

Segment profit before income tax of our investment banking business increased significantly to RMB803.7 million in 2014 from RMB72.8 million in 2013, primarily due to:

- a 198.2% increase in our segment revenue and other income driven by the increased number and value of equity and debt securities underwritten by us, particularly after the CSRC lifted the temporary moratorium on IPOs in 2014. The value of IPOs underwritten by us amounted to RMB8,224.2 million in 2014, while we did not underwrite any IPO in China in 2013; and
- a 72.9% increase in our segment expenses, primarily as a result of an increase in performance bonus which was in line with the growth of our equity underwriting business in 2014.

As a result, the segment margin of our investment banking business increased to 49.8% in 2014 from 13.5% in 2013.

Investment management

Segment revenue and other income from our investment management business consist primarily of management fees, performance fees and investment gains. Segment expenses consist primarily of staff costs, sales commission and other operating expenses, such as marketing expenses, for this segment.

The following table sets forth selected information concerning our investment management business for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions, except percentages)				
Segment revenue and other income	437.0	918.6	1,313.3	723.5	413.3
Fee and commission income	326.8	458.5	1,220.7	529.5	558.3
Interest income	91.1	187.6	114.9	46.9	8.0
Net investment gains	19.1	272.3	(22.3)	143.8	(153.0)
Other income and gains	—	0.2	—	3.3	—
Segment expenses	(174.3)	(310.7)	(610.4)	(287.3)	(244.6)
Profit before income tax	268.2	614.3	710.3	440.8	169.2
Segment margin	61.4%	66.9%	54.1%	60.9%	40.9%

Comparisons between six months ended June 30, 2016 and June 30, 2015

Segment profit before income tax of our investment management business decreased by 61.6% to RMB169.2 million in the six months ended June 30, 2016 from RMB440.8 million in the same period in 2015. This was primarily as a result of a 42.9% decrease in our segment revenue and other income from RMB723.5 million in the six months ended June 30, 2015 to RMB413.3 million in the same period in 2016, due primarily to an unrealized fair value loss from our investment in one of our private equity funds as a result of unfavorable market conditions, partially offset by an increase in our AUM from RMB282.7 billion as of June 30, 2015 to RMB517.5 billion as of June 30, 2016 and the resulting increase in our revenue from the asset management business.

As a result, the segment margin of our investment management business decreased to 40.9% in the six months ended June 30, 2016 from 60.9% in the same period in 2015.

Comparisons between 2015 and 2014

Segment profit before income tax of our investment management business increased by 15.6% to RMB710.3 million in 2015 from RMB614.3 million in 2014. This was primarily as a result of an increase in our segment revenue and other income, partially offset by an increase in our segment expenses:

- the 43.0% increase in our segment revenue and other income was primarily due to: (i) significant growth of our AUM from RMB177.3 billion as of December 31, 2014 to RMB414.4 billion as of December 31, 2015; and (ii) a substantial increase in our performance fees, which resulted from the enhanced performance of asset management schemes under our active management and the strong performance of the A-share market in the first half of 2015, partially offset by an unrealized loss in our direct investment business; and
- the 96.5% increase in our segment expenses was primarily due to the substantial increases in our staff costs and operating expense in our asset management business, which resulted from our increased segment revenue and other income.

As a result, the segment margin of our investment management business decreased to 54.1% in 2015, from 66.9% in 2014.

Comparisons between 2014 and 2013

Segment profit before income tax of our investment management business increased significantly to RMB614.3 million in 2014 from RMB268.2 million in 2013. This was primarily as a result of significant growth of our segment revenue and other income, partially offset by an increase in our segment expenses:

- the 110.2% increase in our segment revenue and other income was primarily due to: (i) significant growth of our AUM from RMB68.9 billion as of December 31, 2013 to RMB177.3 billion as of December 31, 2014, particularly the growth in the AUM of Daily Profits; (ii) more favorable market conditions in the A-share market, particularly in the second half of 2014 and our active management capabilities resulting in an increase in our performance fees; and (iii) an increase in investment gains of our direct investment business; and
- the 78.3% increase in our segment expenses was primarily due to an increase in our staff costs of our asset management business, which is consistent with our increased segment revenue and other income.

As a result, the segment margin of our investment management business increased to 66.9% in 2014 from 61.4% in 2013.

Investment and trading

Segment revenue and other income from our investment and trading business consist primarily of net gains from financial assets at fair value through profit or loss (including financial assets held for trading and derivatives) and net realized gains from available-for-sale financial assets. Segment expenses consist primarily of interest expenses and staff costs.

The following table sets forth selected information concerning our investment and trading business for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions, except percentages)				
Segment revenue and other income	1,277.7	2,273.6	5,732.2	4,604.9	546.8
—*Proprietary trading*	1,277.7	2,265.4	5,524.2	4,491.3	503.5
Interest income	27.0	6.9	28.8	11.5	7.2
Net investment gains	1,250.7	2,266.7	5,703.4	4,593.4	539.6
Segment expenses	(839.6)	(1,340.1)	(3,212.1)	(1,768.3)	(410.3)
Profit before income tax	438.1	933.5	2,520.1	2,836.6	136.5
—*Proprietary trading*	438.1	925.4	2,317.2	2,726.9	94.2
Segment margin	34.3%	41.1%	44.0%	61.6%	25.0%
—*Proprietary trading*	34.3%	40.8%	41.9%	60.7%	18.7%

Comparisons between six months ended June 30, 2016 and June 30, 2015

Segment profit of our investment and trading business decreased by 95.2% to RMB136.5 million in the six months ended June 30, 2016 from RMB2,836.6 million in the same period in 2015. This was primarily as a result of the following:

- an 88.1% decrease in our segment revenue and other income to RMB546.8 million in the six months ended June 30, 2016 from RMB4,604.9 million in the same period in 2015, primarily due to: (i) a substantial loss in our directional trading activities in the first half of 2016 in connection with our participation in the government measures to stabilize the PRC stock market, as we were unable to reduce our long-only trading positions or conduct effective hedging transactions in a highly volatile market; (ii) a 96.2% decrease in our income from equity return swaps in the first half of 2016, as the CSRC imposed a temporary moratorium on financing-related equity return swaps in the second half of 2015; and (iii) our inability to conduct market-neutral strategies to hedge market risks due to limitations on new investments in stock index futures; and
- a 76.8% decrease in our segment expenses to RMB410.3 million from RMB1,768.3 million in the six months ended June 30, 2015, primarily due to a decrease in our staff costs in this segment, primarily accrued bonuses.

As a result, the segment margin of our investment and trading business decreased to 25.0% in the six months ended June 30, 2016 from 61.6% in the same period in 2015.

Comparisons between 2015 and 2014

Segment profit before income tax of our investment and trading business increased significantly to RMB2,520.1 million in 2015 from RMB933.5 million in 2014. This was primarily as a result of the significant increase in our segment revenue and other income, which was partly offset by the increase in our segment expenses:

- a significant increase in our segment revenue and other income to RMB5,732.2 million in 2015 from RMB2,273.6 million in 2014, primarily due to: (i) an increase in our size and investment yield of fixed-income trading; (ii) an increase in the returns on our directional trading activities, driven by the strong performance of the A-share market, especially during the first half of 2015, but partially offset by unrealized loss on fair value change of financial assets at fair value through profit or loss due to the highly volatile and unfavorable A-share market conditions in the second half of 2015; (iii) increased gains from our market-neutral trading; and (iv) a significant increase in our trading of equity return swaps with counterparties; and
- a 139.7% increase in our segment expenses to RMB3,212.1 million in 2015 from RMB1,340.1 million in 2014, primarily due to our increased amount of debt financing resulting in increases in our interest expenses, as well as the increase in staff costs.

As a result, the segment margin of our investment and trading business increased to 44.0% in 2015 from 41.1% in 2014.

Comparisons between 2014 and 2013

Segment profit before income tax of our investment and trading business increased significantly to RMB933.5 million in 2014 from RMB438.1 million in 2013. This was primarily as a result of the following:

- a 77.9% increase in our segment revenue and other income to RMB2,273.6 million in 2014 from RMB1,277.7 million in 2013, primarily due to: (i) the favorable performance in the PRC stock market, particularly in the second half of 2014, which resulted in a significant increase in our long-only equity trading position and the associated investment gains; (ii) a significant increase in our trading of equity return swaps with counterparties; and (iii) an increase in our size and investment yield of fixed-income trading due to the favorable debt market in China; and
- a 59.6% increase in our segment expenses to RMB1,340.1 million in 2014 compared to RMB839.6 million in 2013, primarily due to our increased amount of debt financing in 2014, resulting in an increase in our interest expenses, as well as the increases in business tax and surcharges and staff costs.

As a result, the segment margin of our investment and trading business increased to 41.1% in 2014 compared to 34.3% in 2013.

Others

Segment revenue and income from others consist primarily of interest income on our bank balances, government grants, commission from tax withholding and remittance, and rental income. The segment expenses consist primarily of staff costs of our headquarters employees and administrative expenses. Segment profit before income tax also consists of share of results of two of our associates, China Merchants Fund and Bosera Funds.

The following table sets forth selected information concerning our others business for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in millions, except percentages)				
Segment revenue and other income	168.4	234.0	694.9	205.5	238.9
Interest income	130.3	182.4	611.0	172.0	198.3
Net investment gains	—	(0.9)	—	—	—
Other income and gains	38.1	52.5	83.9	33.5	40.6
Segment expenses	(529.0)	(1,506.6)	(3,028.7)	(1,779.7)	(615.7)
Loss before income tax	(97.1)	(939.9)	(1,790.1)	(1,269.7)	(37.8)
Segment margin	(57.7)%	(401.7)%	(257.6)%	(617.9)%	(15.8)%

Comparisons between six months ended June 30, 2016 and June 30, 2015

Segment losses from others segment decreased by 97.0% to RMB37.8 million in the six months ended June 30, 2016 from RMB1,269.7 million in the same period in 2015, primarily due to: (i) an increase in our interest income from our treasury activities; (ii) a decrease in the performance-based staff cost in our headquarters; and (iii) an increase in our share of results of associates, primarily China Merchants Fund and Bosera Funds as a result of the increases in their respective AUM. In particular, the AUM of China Merchants Fund increased from RMB247.1 billion as of June 30, 2015 to RMB328.8 billion as of June 30, 2016 while the AUM of Bosera Funds increased from RMB302.8 billion as of June 30, 2015 to RMB459.9 billion as of June 30, 2016.

Comparisons between 2015 and 2014

Segment losses from others segment increased by 90.5% to RMB1,790.1 million in 2015 from RMB939.9 million in 2014, primarily due to an increase in staff costs of our headquarters along with the growth of our business.

Comparisons between 2014 and 2013

Segment losses from others segment significantly increased to RMB939.9 million in 2014 compared to RMB97.1 million in 2013, primarily due to an increase in impairment losses associated with Bosera Funds and the increased staff costs of our headquarters along with the growth of our businesses.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Historically, we have funded our working capital and other capital requirements primarily from cash generated from our business operations. Since 2012, due to the more diverse financing channels and client needs, we have actively engaged in and significantly expanded our capital-based intermediary services, particularly margin financing and securities lending business, which are capital intensive, and therefore, we have relied on a diverse range of money-markets and capital-markets financing, including primarily:

- *Interbank borrowing*: we obtain short-term liquidity from the PRC interbank market, and as of June 30, 2016, the balance of our interbank borrowing was RMB1,600.0 million;
- *Placements from China Securities Finance*: we have access to financing from China Securities Finance for margin refinancing and, as of June 30, 2016, the balance of our placements from China Securities Finance was RMB0;
- *Repurchase transactions*: we contract to sell our financial assets (such as bonds, notes and margin loans receivable) to a counterparty (such as banks and other financial institutions) for a short-term financing and agree to repurchase such assets at a later date. As of June 30, 2016, the balance of our financial assets sold under repurchase agreements was RMB43,826.4 million;
- *Short-term debt instruments*: we manage our short-term liquidity by issuing short-term financing bills, corporate bonds and structured notes with a term not exceeding one year. As of June 30, 2016, the aggregate balance of our short-term debt instruments was RMB7,694.5 million;
- *Long-term bonds*: we finance our long-term business expansion by issuing corporate bonds, subordinated bonds and structured notes with a term exceeding one year. As of June 30, 2016, the aggregate balance of our long-term bonds was RMB50,463.1 million; and
- *Bank loans*: we obtain long-term loans from PRC commercial banks which are secured by our own properties, and we also obtain bank loans in Hong Kong to finance the working capital of our overseas business. As of June 30, 2016, the aggregate balance of our bank loans was RMB3,707.5 million.

As of June 30, 2016, we had aggregate cash and cash equivalents (excluding cash and cash equivalents managed by us under consolidated structured entities) of RMB10,491.0 million.

When determining the amount of capital and other resources to be allocated to each business line, we mainly take into account our growth strategy and business focus, the capital requirements and estimated return for each business and applicable regulatory requirements, such as those in relation to capital adequacy, liquidity and risk management.

After the Global Offering, we intend to finance our future capital requirements through the same sources of funding as discussed above, together with the net proceeds we expect to receive from the Global Offering and any follow-on equity offering we may conduct. We do not anticipate any changes to the availability of financing to fund our operations in the future, although there is no assurance that we will be able to access any financing on favorable terms or at all.

Taking into account the net proceeds from the Global Offering and the financial resources available to us, including cash and bank balances, repurchase transactions, and proceeds from short-term debt instruments, long-term bonds and bank loans, our Directors believe that we have sufficient working capital for our present requirements, that is at least 12 months from the date of this prospectus. After making reasonable inquiries to us about our working capital requirements, there is nothing that has caused the Joint Sponsors to disagree with our view.

The following discussion of liquidity and capital resources primarily focuses on our consolidated statements of cash flows, assets and liabilities, and indebtedness.

Cash Flows

The following table sets forth selected cash flow statement information for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB millions)				
Net cash used in operating activities	(13,488.8)	(3,939.4)	(29,572.8)	(63,243.8)	29,784.2
Net cash used in investing activities	(1,816.5)	(7,900.5)	(19,791.5)	1,678.9	(1,996.6)
Net cash generated from financing activities	15,702.0	17,395.6	50,954.0	70,169.7	(27,787.4)
Net increase in cash and cash equivalents	**396.7**	**5,555.7**	**1,589.7**	**8,604.8**	**0.2**
Cash and cash equivalents at the beginning of the year	2,706.5	2,967.8	8,538.7	8,538.7	10,554.6
Effect of foreign exchange rate changes	(135.4)	15.2	426.2	(3.4)	135.2
Cash and cash equivalents at the end of the year	**2,967.8**	**8,538.7**	**10,554.6**	**17,140.1**	**10,690.0**

Operating activities

Our cash from operating activities consists primarily of our fee and commission income, interest income and a substantial portion of our investment gains. Cash flow from operating activities reflects: (i) profit before income tax adjusted for non-cash and non-operating items, such as depreciation and amortization and impairment loss; (ii) the effects of movements in working capital, such as increase or decrease in advances to customers, financial assets at fair value through profit or loss, clearing settlement funds, and financial assets held under resale agreements and sold under repurchase agreements; and (iii) other cash items such as income tax paid.

Despite our negative operating cash flows in 2013, 2014 and 2015, we believe that we had strong ability to generate cash flows during the Track Record Period due to our operating profits and cash inflow arising from financing activities. Our operating cash flows before the changes in working capital amounted to RMB3,516.0 million, RMB5,755.6 million and RMB19,907.8 million, respectively, in 2013, 2014 and 2015. In addition, our net current assets increased from RMB31,024.3 million as of December 31, 2013 to RMB49,457.3 million as of December 31, 2014 and subsequently increased to RMB93,144.6 million in 2015, which demonstrated the sufficiency of our working capital during the Track Record Period.

In the six months ended June 30, 2016, we had net cash generated from operating activities of RMB29,784.2 million, resulting from our profit before income tax of RMB2,844.7 million and positive movements in working capital. Our positive movements in working capital primarily reflected: (i) a decrease of RMB17,717.4 million in advances to customers primarily due to our reduced margin financing and securities lending business; and (ii) a decrease in financial assets at fair value through profit or loss of RMB9,828.4 million, primarily due to our reduced investments in funds as a result of the volatile market conditions. These cash inflows were partially offset by a decrease of RMB2,400 million in placements from other financial institutions due to our lower short-term capital needs for capital-based intermediary services in the first half of 2016.

In the six months ended June 30, 2015, we had net cash used in operating activities of RMB63,243.8 million, resulting from our profit before income tax of RMB9,331.2 million and negative movements in working capital. Our negative movements in working capital primarily reflected: (i) an increase in advances to customers of RMB56,230.3 million as a result of the growth of our capital-based intermediary services; and (ii) an increase in financial assets at fair value through profit or loss of RMB15,431.4 million, primarily due to our decision to increase the size of our investment and trading portfolio.

In 2015, we had net cash used in operating activities of RMB29,572.8 million, resulting from our profit before income tax of RMB13,634.0 million and negative movements in working capital. Our negative movements in working capital primarily reflected: (i) a decrease of RMB6,185.5 million in financial assets sold under repurchase agreements as a result of our decreased margin loans receivable-backed financing in 2015; (ii) an increase in advances to customers of RMB5,925.0 million as a result of the sustained growth of our margin financing and securities lending business; (iii) an increase in financial assets at fair value through profit or loss of RMB25,455.5 million, primarily due to our decision to increase in the size of our investment and trading portfolio; and (iv) an increase in financial assets held under resale agreements of RMB6,892.5 million due to growth in repurchase transactions and securities-backed lending driven by increased market demand.

In 2014, we had net cash used in operating activities of RMB3,939.4 million, resulting from our profit before income tax of RMB4,971.9 million and negative movements in working capital. Our negative movements in working capital primarily reflected: (i) an increase in advances to customers of RMB38,507.9 million as a result of the sustained growth of our margin financing and securities lending business in 2014; (ii) an increase in financial assets at fair value through profit or loss of RMB18,192.9 million primarily due to the increase in our investment and trading business in 2014; and (iii) an increase in financial assets held under resale agreements of RMB4,678.3 million primarily due to a growth in our securities-backed lending in 2014 driven by increased market demand. These cash outflows were partially offset by: (i) an increase of RMB44,780.1 million in financial assets sold under repurchase agreements as a result of our increased margin loans receivable-backed financing to support our growing margin financing business in 2014; and (ii) an increase of RMB4,272.0 million in other payables and accruals due to the increase in the client deposits for engaging in the trading of equity return swaps with us.

In 2013, we had net cash used in operating activities of RMB13,488.8 million, resulting from our profit before income tax of RMB2,650.4 million and negative movements in working capital. Our negative movements in working capital primarily reflected: (i) an increase in advances to customers of RMB14,845.9 million as a result of the significant growth of our margin financing and securities lending business in response to substantial market demand 2013; (ii) a decrease of RMB9,764.9 million in financial assets sold under repurchase agreements due to our reduced size of fixed-income investment in 2013; and (iii) an increase in financial assets held under resale agreements of RMB2,649.5 million due to growth in securities-backed lending and stock repurchases in 2013. These cash outflows were partially offset by a decrease of RMB8,705.9 million in financial assets at fair value through profit or loss due to a decrease in fixed-income investment and trading.

Investing activities

Our cash outflows from investing activities consist primarily of our purchase of property and equipment, other intangible assets and other non-current assets, capital injection to associates and other investments, and purchase of available-for-sale financial assets. Our cash inflows from investing activities consist primarily of the proceeds from the disposal of property and equipment and intangible assets, disposal of available-for-sale financial assets and dividends and interest received from investment.

In the six months ended June 30, 2016, our net cash used in investing activities was RMB1,996.6 million primarily due to our purchases of available-for-sale financial assets of RMB2,463.8 million as a result of our purchase of certain available-for-sale financial assets.

In the six months ended June 30, 2015, our net cash generated from investing activities was RMB1,678.9 million primarily due to our disposal of available-for-sale financial assets of RMB1,471.7 million as a result of our disposal of certain available-for-sale financial assets.

In 2015, our net cash used in investing activities was RMB19,791.5 million, primarily due to: (i) purchases of available-for-sale financial assets of RMB20,215.2 million as a result of our increased size of equity and fixed-income investments; and (ii) purchases of property and equipment, other intangible assets and other non-current assets of RMB401.4 million. These cash outflows were partially offset by dividends and interest received from investment of RMB824.3 million.

In 2014, our net cash used in investing activities was RMB7,900.5 million, primarily due to: (i) purchases of available-for-sale financial assets, primarily equity and fixed-income securities, of RMB8,019.3 million; and (ii) purchases of property and equipment, other intangible assets and other non-current assets of RMB362.1 million, primarily for addition of the construction cost of the new headquarters building in Shenzhen. These cash outflows were partially offset by dividends and interest income received from investment of RMB480.1 million.

In 2013, our net cash used in investing activities was RMB1,816.5 million, primarily due to: (i) purchases of available-for-sale financial assets, primarily equity and fixed-income securities, of RMB1,629.3 million; (ii) our capital contribution of RMB318.4 million to an associate, China Merchants Fund; and (iii) purchases of property and equipment, other intangible assets and other non-current assets of RMB282.2 million, primarily for addition of the construction cost of the new headquarters building in Shenzhen. These cash outflows were partially offset by dividends and interest income received from investment of RMB412.9 million.

Financing activities

Financing activities primarily include issuance of new shares, short-term debt instruments and long-term bonds, the distribution of dividends to our shareholders and the payment of interests on our debt.

In the six months ended June 30, 2016, our net cash used in financing activities was RMB27,787.4 million, primarily due to repayment of the principal and interest of our long-term bonds and short-term debt instruments, totaling RMB26,425.2 million.

In the six months ended June 30, 2015, our net cash generated from financing activities was RMB70,169.7 million, primarily due to net proceeds received from issuance of long-term bonds and short-term debt instruments of RMB70,987.1 million, partially offset by our repayment of the principal and interest on long-term bonds and short-term debt instruments of RMB845.1 million.

In 2015, our net cash generated from financing activities was RMB50,954.0 million, primarily due to the net proceeds from issuance of various debt instruments of RMB56,308.6 million and total borrowings of RMB404.8 million to finance our working capital needs, which were partially offset by the dividends of RMB4,467.3 million paid to our shareholders.

In 2014, our net cash generated from financing activities was RMB17,395.6 million, primarily due to the net proceeds from our private placement of A Shares on the Shanghai Stock Exchange of RMB11,101.7 million, issuance of various debt instruments of RMB6,556.0 million and total borrowings of RMB1,562.9 million to finance our working capital needs.

In 2013, our net cash generated from financing activities was RMB15,702.0 million, primarily due to the proceeds from issuance of various debt instruments of RMB15,811.6 million to finance our working capital needs.

Assets and Liabilities

In order to ensure appropriate liquidity management and capital allocation, we dynamically monitor the size and composition of our balance sheet. The major portion of our balance sheet consists of current assets and liabilities, due to the liquid nature of our business.

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 June 30,	As of July 31,
	2013	2014	2015	2016	2016
					(unaudited)
	(RMB in millions)				
Current assets					
Advances to customers	20,087.3	58,595.2	64,389.3	46,568.3	47,803.9
Accounts receivable	739.8	1,412.0	3,033.0	3,654.7	3,677.0
Other receivables, prepayment and deposits	363.3	555.5	1,018.7	1,163.3	1,253.5
Available-for-sale financial assets	5,891.9	13,983.7	25,645.4	27,902.8	26,265.6
Loans receivable	109.9	564.2	287.1	182.2	181.1
Financial assets held under resale agreements	2,675.1	5,844.2	10,870.7	5,751.7	5,660.1
Financial assets at fair value through profit or loss(1)	15,480.0	36,121.7	62,826.5	50,576.0	43,485.1
Derivative financial assets	86.9	12.0	1,016.3	817.2	912.9
Deposit with exchanges and non-bank financial institutions	164.1	244.7	857.4	577.0	605.0
Clearing settlement funds	5,047.2	12,191.8	19,166.2	11,676.7	15,247.2
Cash and bank balances(2)	25,283.0	54,866.9	81,618.1	73,237.2	73,859.3
Total current assets	**75,928.5**	**184,391.9**	**270,728.7**	**222,107.1**	**218,950.7**
Current liabilities					
Borrowings	1,419.1	2,843.9	3,090.2	3,339.1	3,822.1
Short-term debt instruments	7,800.0	14,363.1	27,878.3	7,694.5	7,522.4
Placements from other financial institutions	1,000.0	4,600.0	4,000.0	1,600.0	800.0
Accounts payable to brokerage clients	26,718.5	57,694.2	88,749.0	74,043.5	78,047.0
Accrued staff costs	634.2	1,856.3	7,125.2	4,966.0	4,879.0
Other payables and accrued charges	1,329.3	6,484.7	9,349.5	6,411.6	6,941.0
Provision	8.5	0.1	0.1	0.1	—
Current tax liabilities	155.9	348.6	522.3	407.3	345.9
Other liabilities	696.7	844.6	545.8	—	—
Financial liabilities at fair value through profit or loss(3)	651.8	210.7	2,369.3	2,214.7	2,630.4
Derivative financial liabilities	131.8	849.9	1,866.4	977.8	1,170.4
Financial assets sold under repurchase agreements	4,358.4	44,838.5	32,088.0	41,826.4	34,683.0
Total current liabilities	**44,904.2**	**134,934.6**	**177,584.1**	**143,481.0**	**140,841.2**
Net current assets	**31,024.3**	**49,457.3**	**93,144.6**	**78,626.1**	**78,109.5**

(1) According to IFRS 10, effective from January 1, 2013, we have consolidated certain of our asset management schemes as structured entities, under which we act as the asset manager, into our balance sheet retrospectively since 2013. As of December 31, 2013, 2014, 2015 and June 30 and July 31, 2016, RMB0, RMB105.7 million, RMB2,499.0 million, RMB2,741.2 million and RMB385.3 million, respectively, of our financial assets at fair value through profit or loss were attributable to equity or fixed-income securities managed by us under consolidated structured entities.

(2) As of December 31, 2013, 2014, 2015 and June 30 and July 31, 2016, RMB6.1 million, RMB47.1 million, RMB568.9 million, RMB199.0 million and RMB142.8 million, respectively, of our cash and bank balances were attributable to cash or cash equivalents managed by us under consolidated structured entities.

(3) As of December 31, 2013, 2014, 2015 and June 30 and July 31, 2016, RMB0, RMB99.7 million, RMB1,218.8 million, RMB1,855.2 million and RMB1,855.7 million, respectively, of our financial liabilities at fair value through profit or loss were attributable to payables to interest holders of our consolidated structured entities.

Our current assets consist primarily of cash and bank balances (including cash held on behalf of brokerage clients), advances to customers, financial assets at fair value through profit or loss, available-for-sale financial assets and financial assets held under resale agreements, as well as clearing settlement funds (including customer clearing settlement funds). Our current liabilities include accounts payable to brokerage clients that are primarily repayable on our customers' demand, financial assets sold under repurchase agreements, short-term debt instruments and other payables and accruals. Our Directors confirm that we did not have any material default in payment of trade and non-trade payables during the Track Record Period.

We include various customer deposits as current assets, including cash held on behalf of brokerage clients and customer clearing settlement funds. We include accounts payable to brokerage clients as current liabilities. Customer deposits fluctuate based on our customers' trading activities, financial market conditions and other factors extrinsic to our business; consequently, although we earn interest income from these deposits, customer deposits tend not to be a meaningful indicator of our financial condition or results of operations. See "—Adjusted current assets and liabilities" below for information on our assets and liabilities excluding customer deposits in our brokerage business.

Our net current assets, the difference between total current assets and total current liabilities, remained positive during the Track Record Period and remained relatively stable as of July 31, 2016 as compared to June 30, 2016.

Our net current assets decreased by 15.6% to RMB78,626.1 million as of June 30, 2016 from RMB93,144.6 million as of December 31, 2015 because the decrease in our total current assets was greater than the decrease in our total current liabilities. The decrease in our total current assets was primarily due to: (i) an RMB17,821.0 million decrease in our advances to customers as a result of a lower demand for our margin financing and securities lending business; (ii) an RMB12,250.5 million decrease in our financial assets at fair value through profit or loss as a result of our reduced fixed-income and fund investments; (iii) an RMB8,380.9 million decrease in our cash and bank balances as we repaid a portion of our short-term debt instruments and cash deposits held for our brokerage clients; and (iv) an RMB199.1 million decrease in derivative financial assets primarily as a result of the decrease in the size of global commodities futures held for clients and for market making. The decrease in our total current liabilities was primarily due to: (i) an RMB22,583.8 million decrease in our short-term debt instruments and placements from other financial institutions as a result of our excess cash balances and lower demand for financing, in line with a lower market demand for capital-based intermediary services; (ii) an RMB14,705.5 million decrease in accounts payable to brokerage clients as a result of decrease in cash deposit of clients held by us; (iii) an RMB2,937.9 million decrease in other payables and accrued charges primarily as a result of a decrease in deposit from our clients in relation to our equity swaps; (iv) an RMB888.6 million decrease in derivative financial liabilities primarily as a result of a decrease in the balance of equity swaps as a result of the change of fair value and expiry of certain equity swap contracts; (v) an RMB545.8 million decrease in other liabilities primarily because certain consolidated structured entities were ceased to be consolidated by us due to loss of control or expiration of certain asset management schemes; and (vi) an RMB2,159.2 million decrease in accrued staff costs as a result of the decrease in accrual of performance-based bonus during the period and the payment of the performance-based bonus of 2015 in June 2016.

Our net current assets increased significantly to RMB93,144.6 million as of December 31, 2015 compared to RMB49,457.3 million as of December 31, 2014, primarily due to: (i) an RMB5,794.1 million increase in advances to customers; (ii) an RMB11,661.7 million increase in available-for-sale financial assets as a result of an increase in our fixed-income investments; (iii) an RMB26,704.8 million increase in financial assets at fair value through profit or loss as a result of an increase in the value of bonds and funds held by us; (iv) an RMB26,751.2 million increase in cash and bank balances; (v) an RMB1,004.3 million increase in derivative financial assets as a result of an increase in the size of global commodities futures held for clients and for market making; and (vi) an RMB463.2 million increase in other receivables, prepayment and deposits as a result of interest receivable from our capital-based intermediary services, which was partly offset by an RMB277.1 million decrease in loans receivable as a result of a decrease in the scale of the leveraged finance business of CMS International. The increase in our total current liabilities was primarily due to: (i) an RMB13,515.2 million increase in short-term debt instruments in 2015; (ii) an RMB31,054.8 million increase in accounts payable to brokerage clients as a result of the increase in cash deposit of clients held by us; (iii) an RMB5,268.9 million increase in accrued staff costs as a result of increase in accrued performance bonus which is in line with our increased revenue in 2015; (iv) an RMB2,864.8 million increase in other payables and accrued charges as a result of the increase in client deposits for equity swap; (v) an RMB1,016.5 million increase in derivative financial liabilities as a result of the increase in the size of global commodities futures held on behalf of clients and for market making; (vi) an RMB173.7 million increase in current tax liabilities which is consistent with our increased revenue in 2015, partially offset by an RMB12,750.5 million decrease in financial assets sold under repurchase agreements and an RMB298.8 million decrease in other liabilities as a result of the decrease in net value of consolidated structured entities attributable to other investors.

Our net current assets increased by 59.4% to RMB49,457.3 million as of December 31, 2014 compared to RMB31,024.3 million as of December 31, 2013 because the increase in our total current assets was greater than the increase in our total current liabilities. The increase in our total current assets was primarily due to: (i) an RMB38,507.9 million increase in advances to customers as a result of the continued growth of our margin financing and securities lending business in 2014; (ii) an RMB20,641.7 million increase in financial assets at fair value through profit or loss as a result of the growth in our investment and trading business and an increase in the amount of securities managed by us under consolidated structured entities; (iii) an RMB29,583.9 million increase in cash and bank balances; and (iv) an RMB8,091.8 million increase in available-for-sale financial assets. The increase in our total current liabilities was primarily due to: (i) an RMB40,480.1 million increase in financial assets sold under repurchase agreements as a result of increased margin loans receivable-backed financing and repurchase transactions to manage our liquidity; (ii) an RMB30,975.7 million increase in accounts payable to brokerage clients as a result of increase in cash deposit of clients held by us; (iii) an RMB6,563.1 million increase in short-term debt instruments; (iv) an increase of RMB5,155.4 million in other payables and accrued charges primarily as a result of an increase in deposit from customers in relation to equity swap; (v) an RMB1,222.1 million increase in accrued staff costs as a result of an increase in accrued performance bonus which is in line with our increased revenue in 2014; (vi) an RMB718.1 million increase in derivative financial liabilities as a result of the increase in the size of global commodities futures held on behalf of clients and for market making; (vii) an RMB192.7 million increase in current tax liabilities which is consistent with our increased revenue in 2014; and (viii) an RMB147.9 million increase in other liabilities as a result of an increase in net value of consolidated structured entities attributable to other investors.

Adjusted current assets and liabilities

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 a meaningful indicator of our financial condition or results of operations. We have therefore adjusted our assets and liabilities in the following table to exclude the effect of customer deposits:

	As of December 31,			As of June 30,	As of July 31,
	2013	2014	2015	2016	2016
					(unaudited)
	(RMB in millions, except for ratio)				
Adjusted current assets[(1)]	49,210.0	126,697.7	181,979.6	148,063.6	140,903.7
Adjusted current liabilities[(2)]	18,185.7	77,240.4	88,835.0	69,437.5	62,794.2
Adjusted net current assets[(3)]	31,024.3	49,457.3	93,144.6	78,626.1	78,109.5
Adjusted current ratio[(4)]	2.7 times	1.6 times	2.0 times	2.1 times	2.2 times

(1) Adjusted current assets equal to total current assets less accounts payable to brokerage clients, the latter representing the amount of deposits held by us on behalf of our brokerage clients.
(2) Adjusted current liabilities equal to total current liabilities less accounts payable to brokerage clients.
(3) Adjusted net current assets equal to adjusted current assets less adjusted current liabilities.
(4) Adjusted current ratio is calculated by dividing adjusted current assets by adjusted current liabilities.

We believe adjusted net current assets is a more meaningful indicator of our financial performance because it does not include the amount of deposits from brokerage customers, which, as discussed above, is largely unrelated to our financial performance but can cause large changes in our balance sheet.

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 June 30,
	2013	2014	2015	2016
	(RMB in millions)			
Non-current assets				
Property and equipment	1,087.0	1,298.0	1,518.5	1,580.6
Investment properties[(1)]	6.6	5.8	5.0	4.6
Goodwill[(2)]	9.7	9.7	9.7	9.7
Other intangible assets[(3)]	25.4	23.3	24.3	23.4
Interests in associates	4,853.5	4,455.4	4,897.8	5,067.2
Available-for-sale financial assets	525.8	894.3	10,097.3[(4)]	8,808.4
Loans receivable	846.0	90.7	—	—
Financial assets held under resale agreements	191.3	1,700.4	3,464.1	5,394.9
Deferred tax assets	225.4	370.1	726.2	2,101.8
Other non-current assets	160.6	168.4	184.0	166.9
Total non-current assets	**7,931.3**	**9,016.1**	**20,926.9**	**23,157.5**
Non-current liabilities				
Financial assets sold under repurchase agreements	—	4,300.0	10,865.0	2,000.0
Accrued staff costs	1,476.9	1,813.6	787.5	787.5
Deferred tax liabilities	31.3	359.7	446.3	151.5
Deferred income[(5)]	126.0	126.0	126.0	126.0
Long-term bonds payable	9,979.7	9,982.5	52,960.9	50,463.1
Borrowings	157.3	295.5	454.0	368.4
Total non-current liabilities	**11,771.2**	**16,877.3**	**65,639.7**	**53,896.5**

(1) Mainly represents our properties for leasing in Shenzhen.
(2) Mainly represents goodwill from our acquisition of China Merchants Futures.
(3) Mainly represents trading seats.
(4) Include our contribution to the special stabilization fund of China Securities Finance.
(5) Mainly represents a government subsidy from Shenzhen Municipal Finance Bureau towards the cost of building including construction in progress.

Our non-current assets consist primarily of property and equipment, interests in associates, available-for-sale financial assets (with a term over one year), and financial assets held under resale agreements (with a term over one year). Our property and equipment consist primarily of our headquarters building under construction and other office properties. Our available-for-sale financial assets primarily include our investments in equity securities and wealth management products, trust products, targeted asset management schemes and our contributions to designated accounts at China Securities Finance. Our interests in associates reflect mainly our investments in Bosera Funds and China Merchants Fund. Our financial assets held under resale agreements refer to balance for our securities-backed lending and stock repurchase services with a term of over one year. Our non-current liabilities consist primarily of long-term bonds payable and financial assets sold under repurchase agreements which mainly refer to margin loans receivable-backed repurchases with a term of over one year.

As of June 30, 2016, our non-current assets increased by 10.7% to RMB23,157.5 million from RMB20,926.9 million as of December 31, 2015, primarily due to an RMB1,930.8 million increase in our financial assets held under resale agreements as a result of increased balance of securities-backed lending with a term of over one year and an RMB1,375.6 million increase in deferred tax assets primarily due to the recognition of deferred tax assets during the six months ended June 30, 2016 in relation to certain staff cost accrued in 2015. Staff cost accrued in a financial year and paid before the relevant annual enterprise income tax filing day (normally in May of the following financial year) could be treated as tax deductible in the same financial year pursuant to the relevant PRC tax law. However, if such staff cost has not been paid by the relevant annual enterprise income tax filing day, then the relevant staff cost cannot be treated as tax deductible which leads to timing differences, and deferred tax assets may then be recognized. In 2015, we made certain staff cost accrual which was expected to be paid before the annual enterprise income tax filing day so that we did not recognize deferred tax assets as of December 31, 2015. However, certain staff cost accrued in 2015 had not been paid before the annual enterprise income tax filing day in May 2016 and deferred tax assets were recognized for the relevant staff cost during the six months ended June 30, 2016. As of June 30, 2016, our non-current liabilities decreased by 17.9% to RMB53,896.5 million from RMB65,639.7 million as of December 31, 2015, primarily due to: (i) an RMB8,865.0 million decrease in financial assets sold under repurchase agreements as a result of our decreased margin loans receivable-backed repurchase transactions in the first half of 2016; and (ii) an RMB2,497.8 million decrease in our long-term bonds payable as a result of the changes of certain long-term structured notes to short term.

Our non-current assets significantly increased to RMB20,926.9 million as of December 31, 2015 compared to RMB9,016.1 million as of December 31, 2014 primarily due to: (i) the significant increase in available-for-sale financial assets of RMB9,203.0 million primarily due to our contributions to designated accounts at China Securities Finance; (ii) an RMB1,763.7 million increase in financial assets held under resale agreements as a result of an increase in our securities-backed lending with a term over one year, and (iii) an RMB356.1 million increase in deferred tax assets primarily as a result of an increase in accrued staff cost which is not tax deductible. Our non-current liabilities increased significantly from RMB16,877.3 million as of December 31, 2014 to RMB65,639.7 million as of December 31, 2015 primarily due to: (i) an RMB42,978.4 million increase in long-term bonds payable (mainly subordinated bonds and corporate bonds) to finance our working capital; (ii) the increase of RMB6,565.0 million of financial assets sold under repurchase agreements to finance our working capital; (iii) an RMB1,026.1 million decrease in the non-current portion of accrued staff costs as a result of reclassification of certain non-current portion to current portion; and (iv) an RMB158.5 million increase in borrowings as a result of the increase in bank loans to finance the construction of our new headquarters building.

Our non-current assets increased by 13.7% to RMB9,016.1 million as of December 31, 2014 compared to RMB7,931.3 million as of December 31, 2013, primarily due to: (i) an RMB1,509.1 million increase in financial assets held under resale agreements as a result of an increased balance of securities-backed lending with a term over one year, reflecting the growth of our capital-based intermediary services; (ii) an RMB368.5 million increase in available-for-sale financial assets as a result of our increased private equity investments and minority equity investments in unlisted PRC companies; (iii) an RMB211.0 million increase in our property and equipment because of the construction of our new headquarters building in Shenzhen; and (iv) an RMB144.7 million increase in deferred tax assets primarily as a result of an increase in accrued staff cost which is not tax deductible, partially offset by: (i) a decrease of RMB398.0 million in interests in associates as a result of the impairment loss in our equity interest against Bosera Funds; and (ii) a decrease of RMB755.2 million in loans receivable. Our non-current liabilities increased by 43.4% from RMB11,771.2 million as of December 31, 2013 to RMB16,877.3 million as of December 31, 2014, primarily due to: (i) the increase of RMB4,300.0 million of financial assets sold under repurchase agreements as a result of our increased margin loans receivable-backed repurchase transactions; (ii) an RMB336.7 million increase in accrued staff costs as a result of the increase in accrual of performance bonus which is consistent with our increased revenue in 2014; (iii) an RMB328.4 million increase in deferred tax liabilities as a result of the unrealized gain of financial assets at fair value through profit or loss and derivatives financial instruments and fair value changes of available-for-sale financial assets; and (iv) an RMB138.2 million increase in borrowings as a result of the increase in bank loans to finance the construction of our new headquarters building.

Financial instruments

Our financial instruments mainly include financial assets at fair value through profit or loss, available-for-sale financial assets, financial assets held under resale agreements, financial liabilities at fair value through profit or loss, financial assets sold under repurchase agreement, derivative financial assets and derivative financial liabilities.

Our financial assets at fair value through profit or loss are mainly associated with our investment and trading, and investment management businesses. As of June 30, 2016, our financial assets at fair value through profit or loss amounted to RMB50,576.0 million, RMB46,786.3 million of which was attributable to our proprietary trading business, representing 92.5% of the total financial assets at fair value through profit or loss. Our financial assets at fair value through profit or loss attributable to our proprietary trading business primarily comprise our equity and debt securities held for proprietary trading in our investment and trading business, and the other financial assets at fair value through profit or loss primarily comprise our share in limited partnership funds established in our direct investment business, investments in treasury bonds and other financial products for treasury management purposes through our futures and asset management subsidiaries, and equity investments in unconsolidated structured entities.

Our available-for-sale financial assets are mainly associated with our investment and trading, and investment management businesses. As of June 30, 2016, our available-for-sale financial assets amounted to RMB36,711.1 million, RMB35,323.6 million of which was attributable to our proprietary trading business, representing 96.2% of the total available-for-sale financial assets. Our available-for-sale financial assets primarily comprise equity and debt securities as well as funds designated as available-for-sale in our investment and trading business, contribution to the designated accounts at China Securities Finance, investments in collective wealth management products and equity investments in unlisted companies.

Our financial assets held under resale agreements are mainly associated with our brokerage and wealth management, and investment and trading businesses. As of June 30, 2016, our financial assets held under resale agreements amounted to RMB11,146.6 million, of which RMB260.0 million was attributable to our proprietary trading business, representing 2.3% of the total financial assets held under resale agreements. Our financial assets held under resale agreements attributable to our proprietary trading business primarily comprise investments under repurchase agreement for purposes of liquidity management, and the other financial assets held under resale agreements primarily comprise the balance of securities-backed lending in our capital-based intermediary services.

Our financial liabilities at fair value through profit or loss are mainly associated with our investment management, and investment and trading businesses. As of June 30, 2016, our financial liabilities at fair value through profit or loss amounted to RMB2,214.7 million, of which RMB359.5 million was attributable to our proprietary trading business, representing 16.2% of the total financial liabilities at fair value through profit or loss. Our financial liabilities at fair value through profit or loss attributable to our proprietary trading business primarily comprise our short selling activities, and the other financial liabilities at fair value through profit or loss primarily comprise interests payable to third party holders in our consolidated structured entities under IFRS 10.

Our financial assets sold under repurchase agreement are mainly associated with our investment and trading, and brokerage and wealth management businesses. As of June 30, 2016, our financial assets sold under repurchase agreement amounted to RMB43,826.4 million, RMB25,761.4 million of which was attributable to our proprietary trading business, representing 58.8% of the total financial assets sold under repurchase agreement. Our financial assets sold under repurchase agreement attributable to our proprietary trading business primarily comprise the balance of financing for the trading of our debt securities investments, and the other financial assets sold under repurchase agreement primarily comprise our margin loans receivable-backed financing as a source of funding for our capital-based intermediary services.

Derivative financial instruments

Our derivative financial instruments are mainly associated with our proprietary trading in our investment and trading business. As of June 30, 2016, our derivative financial assets amounted to RMB817.2 million, and our derivative financial liabilities amounted to RMB977.8 million. Our derivative financial instruments mainly include commodity futures, equity return swaps and interest rate swaps. The table below sets forth our derivative financial assets and liabilities by asset type as of the dates indicated:

	As of December 31,						As of June 30,	
	2013 Assets	2013 Liabilities	2014 Assets	2014 Liabilities	2015 Assets	2015 Liabilities	2016 Assets	2016 Liabilities
	(RMB in millions)							
Interest derivative instrument	4.6	—	—	6.3	154.5	165.5	121.2	129.9
Equity derivative instrument	6.2	131.7	7.1	843.6	225.9	1,059.8	178.6	179.1
Other derivative instrument	76.1	0.1	4.9	—	635.9	641.1	517.4	668.8
Total	**86.9**	**131.8**	**12.0**	**849.9**	**1,016.3**	**1,866.4**	**817.2**	**977.8**

As of December 31, 2013, 2014 and 2015 and June 30, 2016, our net balance of derivative financial instruments was negative RMB44.9 million, negative RMB837.9 million, negative RMB850.1 million and negative RMB160.6 million, respectively. As of the same dates, our leverage ratio (calculated as assets of derivative financial instruments divided by the net balance of derivative financial instruments) was negative 193.5%, negative 1.4%, negative 119.6% and negative 508.8%, respectively.

INDEBTEDNESS

As of December 31, 2013, 2014 and 2015, our total indebtedness amounted to RMB20,356.1 million, RMB32,085.0 million and RMB88,383.4 million, respectively. As of July 31, 2016, the latest date for determining our indebtedness, our total indebtedness amounted to RMB62,978.9 million, including RMB800.0 million of placements from other financial institutions, RMB7,522.4 million of short-term debt instruments, RMB50,463.4 million of long-term bonds payable and RMB4,193.1 million of bank loans.

Placements from Other Financial Institutions

We have access to borrowings through the interbank market and China Securities Finance, which we refer to as placements from other financial institutions. As of June 30, 2016 and July 31, 2016, the balance of our placements from other financial institutions was RMB1,600.0 million and RMB800.0 million, respectively.

Interbank borrowing

We are a member of the interbank market in China and able to obtain interbank lending with a term within seven days to quickly replenish our short-term liquidity. As of June 30, 2016 and July 31, 2016, the balance of our interbank borrowing was RMB1,600.0 million and RMB800.0 million, respectively. We generally pay an interest rate on interbank borrowing based on the Shanghai Interbank Offered Rate which generally ranged between 2.1% and 7.1%.

Placements from China Securities Finance

We began to obtain financing from China Securities Finance in 2012 which can be used for margin financing and securities lending. As of June 30, 2016 and July 31, 2016, we did not have any placements from China Securities Finance.

According to the margin and securities refinancing agreement we entered into with China Securities Finance, we can borrow funds or securities of up to RMB3.5 billion for a term within 182 days. In return for the funds or securities borrowed from China Securities Finance, we agreed to place a 20% refundable deposit with China Securities Finance using a combination of cash and securities as collateral and pay an interest rate according to the rates determined by China Securities Finance, which generally range from 5.8% to 7.1% for different loan terms.

Short-term Debt Instruments

We manage our short-term liquidity by issuing financing bills, corporate bonds, and structured notes with a term not exceeding one year. The aggregate balance of our short-term debt instruments was RMB7,694.5 million as of June 30, 2016 and RMB7,522.4 million as of July 31, 2016.

Short-term financing bills

Subject to the approval from the PBOC, we can issue short-term financing bills in the national interbank bond market on a rolling basis. We use the net proceeds from our revolving issuances of short-term financing bills to primarily finance our liquidity.

As of December 31, 2015, we had RMB2,000.0 million of short-term financing bills outstanding in the national interbank bond market, which we fully repaid before July 31, 2016. Our short-term financing bills generally have a maturity of up to 91 days. The interest rates of our short-term financing bills are determined through the bidding system of China Central Depository & Clearing Co., Ltd. We have an issuer rating of AAA and a short-term financing bills rating of A-1 rated by Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. Our short-term financing bills are not subject to any material restrictive covenants and are unsecured.

The following table sets forth the range of interest rates of our short-term financing bills for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
Annual interest rates	4.00%–6.35%	4.16%–6.35%	2.75%–6.20%	3.05%

On August 27, 2015, we received a written notice from the PBOC that we may issue short-term financing bills with a total principal of up to RMB15,200 million within 12 months from the date of the notice.

Short-term corporate bonds

In October 2014, we obtained approval from the CSRC to issue short-term corporate bonds on a trial basis. In December 2014, we were accepted by the Shenzhen Stock Exchange upon filing to issue short-term corporate bonds not exceeding 60% of our Net Capital within one year. In February 2015, we were accepted by the Shanghai Stock Exchange upon filing to issue short-term corporate bonds of RMB15.0 billion with an effective term of one year. On December 22, 2014, we issued the first tranche of short-term corporate bonds with a principal amount of RMB4.0 billion. This tranche of short-term corporate bonds was unsecured and had a term of 88 days and an interest rate of 6.2% per year. In 2015, we issued four tranches of short-term corporate bonds with an aggregate principal amount of RMB15 billion. We used the net proceeds from the issues primarily to replenish our working capital. The table below sets forth a summary of our short-term corporate bonds issued during the Track Record Period:

	First Tranche	Second Tranche	Third Tranche	Fourth Tranche
Principal amount	RMB3.0 billion	RMB4.0 billion	RMB4.0 billion	RMB4.0 billion
Interest rate	5.30%	5.29%	5.34%	5.40%
Maturity date	January 13, 2016	July 20, 2015	March 10, 2016	April 1, 2016
Issuer rating	AAA	AAA	AAA	AAA
Bond rating	A-1	A-1	A-1	A-1
Rating agency	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd.			
Issue date	January 13, 2015	January 20, 2015	March 10, 2015	April 1, 2015
Offer price	100%	100%	100%	100%
Listing venue	Shenzhen Stock Exchange	Shenzhen Stock Exchange	Shanghai Stock Exchange	Shanghai Stock Exchange

As of June 30, 2016 and July 31, 2016, we did not have any outstanding short-term corporate bonds.

Structured notes

We issue both short-term and long-term structured notes to increase our working capital. See "—Structured Notes" below.

Long-term Bonds

We finance our long-term business expansion by issuing corporate bonds and subordinated bonds with a term exceeding one year. As of June 30, 2016 and July 31, 2016, the aggregate balance of our long-term bonds payable was RMB50,463.1 million and RMB50,463.4 million, respectively.

Corporate bonds

Subject to the approval from the CSRC, we issue corporate bonds, usually with a term between three to ten years, to investors in China. During the Track Record Period, we issued four tranches of corporate bonds with an aggregate principal amount of RMB15.5 billion which were all listed on the Shanghai Stock Exchange. We used the net proceeds from the issuance of corporate bonds primarily to replenish our working capital. As of July 31, 2016, the latest date for determining our indebtedness, the outstanding balance of corporate bonds issued by us amounted to RMB15.5 billion. The table below sets forth certain information on our outstanding corporate bonds:

	First Tranche	Second Tranche	Third Tranche	Fourth Tranche
Principal amount	RMB3.0 billion	RMB1.5 billion	RMB5.5 billion	RMB5.5 billion
Interest rate	4.45%	4.80%	5.15%	5.08%
Issue date	March 5, 2013	March 5, 2013	March 5, 2013	May 26, 2015
Maturity date	March 5, 2018	March 5, 2018	March 5, 2023	May 26, 2025
Issuer rating	AAA	AAA	AAA	AAA
Bond rating	AAA	AAA	AAA	AAA
Rating agency	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd.			
Offer price	100%	100%	100%	100%
Listing venue	Shanghai Stock Exchange			

Our long-term corporate bonds are not subject to any material restrictive covenants and are unsecured. We believe that our corporate bonds provide us with long-term external funds to support our business expansion.

Subordinated bonds

We may also issue debt securities in China that are subordinated to our other senior indebtedness, such as corporate bonds and bank loans, and only rank before our equity securities in case of liquidation. As part of the subordinated bonds are treated as our Net Capital, issuing subordinated bonds can help replenish our Net Capital.

In March and April of 2015, upon approval by our shareholders, we issued five tranches of subordinated bonds with an aggregate principal amount of RMB35.0 billion, including the following:

	First Tranche	Second Tranche	Third Tranche	Fourth Tranche	Fifth Tranche
Principal amount	RMB10.0 billion	RMB10.0 billion	RMB5.0 billion	RMB5.0 billion	RMB5.0 billion
Interest rate	5.48%	5.58%	5.60%	5.75%	5.57%
Issue date	March 19, 2015	March 24, 2015	April 13, 2015	April 13, 2015	April 24, 2015
Maturity date	March 19, 2018	March 24, 2020	April 13, 2018	April 13, 2018	October 24, 2017
Offer price	100%	100%	100%	100%	100%
Listing venue	Shanghai Stock Exchange				

In June 2015, our shareholders authorized us to issue additional subordinated bonds in China of up to RMB25.0 billion within two years. Whether we will issue any additional subordinated bonds during this period is subject to our capital needs and market conditions. As of July 31, 2016, the latest date for determining our indebtedness, the balance of our subordinated bonds was RMB35.0 billion. Our subordinated bonds are not subject to any material restrictive covenants and are unsecured.

Structured notes

We issue both short-term and long-term structured notes to fund our working capital. See "—Structured Notes" below.

Structured Notes

As part of our OTC sales and trading business, we issue marketable securities either with the payment of return linked to the performance of specific underlying assets or with a fixed return. As of June 30, 2016, the balance of our structured notes was RMB7,694.5 million, which decreased to RMB7,522.4 million as of July 31, 2016.

In a typical issue, we place structured notes in the OTC market to less than 200 qualified investors with a minimum purchase amount of either RMB50,000 or RMB1 million. Our structured notes generally have a term between 14 and 527 days and we pay a fixed annualized interest rate between 2.5% and 6.5%.

Bank Loans

In October 2012, we entered into a loan contract with China Merchants Bank for a loan facility of RMB700.0 million with a term of five years. Such loan was secured by our owned land. We agreed to pay an interest rate that benchmarks the prevailing PBOC benchmark interest rate at the time of loan drawdown (generally between 5.3% to 6.4%), and can solely use the loan for financing the construction of our headquarters building. As of June 30, 2016 and July 31, 2016, the latest date for determining our indebtedness, the balance of this bank loan was RMB368.4 million and RMB371.0 million, respectively. The remaining amount of the loan facility totaling RMB304.8 million was unutilized as of July 31, 2016.

We incurred bank loans through CMS International during the Track Record Period to finance our working capital overseas. As of June 30, 2016, our outstanding bank loans in Hong Kong were RMB3,339.1 million, which increased to RMB3,822.1 million as of July 31, 2016. We maintain credit facilities to finance our working capital. As of July 31, 2016, the latest date for determining our indebtedness, we had RMB8,576.8 million of unconditional credit facilities, RMB4,754.7 million of which was unutilized.

Our Directors have confirmed that there has not been any material increase in our indebtedness since July 31, 2016 to the date of this prospectus. As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to obtain future financing, nor was there any material default on our indebtedness or breaches of financial covenants during the Track Record Period and up to the Latest Practicable Date.

Apart from the foregoing, we did not have, as of July 31, 2016, any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities.

CAPITAL EXPENDITURES

Our capital expenditures primarily comprise expenditures for the purchase of property and equipment, intangible assets and other long-term assets. The following table sets forth our capital expenditures for the periods presented:

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	(RMB in millions)			
Purchase of property, equipment, other intangible assets and other non-current assets	297.6	356.6	412.2	123.0

In 2013, 2014 and 2015 and the six months ended June 30, 2016, our capital expenditures were primarily related to the construction of our new headquarters building in Shenzhen, expansion of our branch network across China and improvements of IT infrastructures. We funded these expenditures primarily with cash generated from our operations and bank loans.

We estimated that our capital expenditures for 2016 will be approximately RMB1,115.8 million, which we will use primarily for constructing our headquarters building and improving our IT infrastructure. We expect to fund these capital expenditures with a combination of cash generated from our operations and bank loans.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Capital commitments

The table below sets forth our capital commitments as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB in millions)			
Contracted but not provided for	341.6	249.3	170.7	239.5

We have funded and expect to continue to fund our capital commitments by cash generated from our operations and bank loans. During the Track Record Period, our capital commitments were mainly attributable to the construction of our new headquarters building in Shenzhen.

Operating lease commitments

We lease some of our office properties from third parties under non-cancellable operating leases. The following table sets forth our future minimum lease payments payable under non-cancellable operating leases as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB in millions)			
Within one year (inclusive)	156.7	207.7	234.6	229.3
One to two years (inclusive)	114.0	159.6	193.2	194.1
Two to three years (inclusive)	64.4	124.7	136.8	104.1
Over three years	118.5	206.5	389.8	366.2
Total	**453.6**	**698.5**	**954.4**	**893.7**

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, we expect 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.

Our Directors confirm that there has been no material change in our contingent liabilities since June 30, 2016 to the date of this prospectus.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the related party transactions set out in note 62 to the Accountants' Report in Appendix I to this prospectus was conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any outstanding off-balance sheet arrangements.

NET CAPITAL AND OTHER REGULATORY REQUIREMENTS

According to the Administrative Measures for the Risk Control Indicators of Securities Companies in the PRC, we have established a dynamic Net Capital monitoring mechanism to comply with statutory net capital requirements and other regulatory standards to maintain capital adequacy. In addition, we also need to maintain a minimum amount of net capital necessary to engage our securities brokerage, investment banking, trading and investment, asset management and margin financing and securities lending business. As of December 31, 2013, 2014 and 2015 and June 30, 2016, we were in compliance with all capital adequacy and risk control indicator requirements.

The following table sets forth our net capital and key regulatory risk control indicators that we prepared in accordance with PRC GAAP and relevant PRC regulatory requirements as of the dates indicated:

	As of December 31,			As of June 30,	Warning level(1)	Minimum/ Maximum level
	2013	2014	2015	2016		
Net Capital(2) *(RMB in billions)*	14.0	25.4	37.2	33.9	N/A	0.2
Net Capital/Total risk capital reserves(3)	761.6%	803.7%	728.2%	782.2%	120%	>100%
Net Capital/Net assets	53.2%	62.8%	80.3%	73.9%	48%	>40%
Net Capital/Total liabilities(4)	52.2%	29.0%	25.6%	29.7%	9.6%	>8%
Net asset/Total liabilities(4)	98.2%	46.2%	31.9%	40.2%	24%	>20%
Value of equity securities and derivatives held/Net Capital	48.2%	36.0%	57.4%	58.1%	80%	<100%
Value of fixed-income securities held/Net Capital	98.3%	117.5%	174.1%	172.7%	400%	<500%

(1) Warning ratios are set by the CSRC as follows, according to the Risk Control Indicator Measures: If the risk control indicator is required to stay above a certain level, then the warning ratio is 120% of the stipulated minimum requirement, and if the risk control indicator is required to stay below a certain level, then the warning ratio 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 "Regulatory Environment—Regulatory Environment of the PRC—Corporate Governance and Risk Control—Corporate Governance and Risk Control of Securities Companies" for an explanation of how total risk capital reserves are calculated.

(4) For purposes of calculating the risk control indicator, total liabilities do not include accounts payable to brokerage business clients.

In addition to the risk control indicators mentioned above, the Risk Control Indicator Measures require us to comply with the following requirements when we engage in proprietary trading: (i) the cost of holding one kind of equity securities should not exceed 30.0% of our Net Capital; and (ii) the market value of one kind of equity securities we hold should not exceed 5.0% of its total market value, except for that owing to underwriting activities or otherwise approved by the CSRC.

In addition, when conducting margin financing and securities lending business, we are required to comply with the following requirements: (i) the value of margin financing granted to a single customer should not exceed 5.0% of our Net Capital; (ii) the value of securities lent to a single customer should not exceed 5.0% of our Net Capital; and (iii) the market value of any single stock collateral should not exceed 20.0% of its total market capitalization. According to the "Management Measures on Margin Financing and Securities Lending of Securities Companies (《證券公司融資融券業務管理辦法》)" amended on July 1, 2015, our balance of margin loans and securities lent shall not be more than four times our Net Capital.

We closely monitor all risk control indicators when conducting our business, particularly the investment and trading business, as well as margin financing and securities lending business. In relation to all risk control indicators, we adopt an early warning and reporting mechanism in our risk management system that is more stringent than the regulatory warning levels to minimize compliance risk. We also conduct sensitivity analysis on these risk control indicators before we launch a new business or product, approve material capital expenditures, or declare dividends. We conduct regular stress testing to forecast our risk control indicators when facing extreme market or business environments. We typically have the options to replenish our Net Capital, scale down our operations or reduce our indebtedness to enhance our risk control indicators so as to maintain compliance with the regulatory requirements. During the Track Record Period, we have not had any non-compliance with these risk control indicators, nor have we received any warnings or penalties from the CSRC.

According to the Securities Association of China, we were required to maintain both our liquidity coverage ratio (ratio of high-quality liquid assets to forecast net cash outflow for the next 30 days) and net stable funding ratio (ratio of available amount of stable funding to required amount of stable funding) at not less than 100% by December 31, 2015. As of December 31, 2015, our liquidity coverage ratio and net stable funding ratio stood at 157.5% and 171.8%, respectively. As of June 30, 2016, our liquidity coverage ratio and net stable funding ratio were 255.7% and 176.9%, respectively. On September 22, 2014, the CSRC announced a new requirement that for PRC securities firms whose risk coverage ratio (ratio of Net Capital to risk capital reserves) is below 200%, or liquidity coverage ratio is below 120%, their leverage ratio (ratio of total assets (excluding customer deposits held on behalf of brokerage customers) to net assets) should be less than five times. As of June 30, 2016, our risk coverage ratio was 782.2% and our leverage ratio was 3.6 times. Failure to comply with these requirements may result in the CSRC and Securities Association of China imposing penalties on us, or limiting the scope of our business, or disciplinary action, which could, in turn, have a material and adverse effect on our financial condition and results of operations.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT FINANCIAL 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 66 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 credit risk, liquidity risk and market 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 analyses and the results of our risk measurement models are not, however, predictions of future events, and the actual results may be significantly different from the analyses and results of our risk measurement models due to events in the global economy or the markets where we operate, as well as other factors described below.

Credit risk

Our exposure to credit risk represents the potential economic loss that may arise from the failure of a debtor or counterparty to meet its obligations according to their commitment. We are primarily exposed to four types of credit risk: (i) risk arising from failure of customers to repay debts due to their default in businesses such as margin financing and securities lending, securities-backed lending and stock repurchase; (ii) risk of losses of principal and interest for investments in debt securities, trust products and other credit products due to default of the issuer or borrower; (iii) risk arising from failure of counterparty to meet its payment obligations in trading of OTC derivatives such as equity return swap, interest rate swap and OTC futures; and (iv) risk of losses arising from the default of customers in the businesses of brokerage trading of securities, futures and other financial products after settling the accounts for customers due to their insufficiency of funds on the settlement date.

In respect of margin financing and securities lending, securities-backed lending, stock repurchase business and other financing businesses, we have established a multi-faceted business approval management system and a comprehensive risk management system covering the whole process through client due diligence, credit extension, post-loan evaluation, approval of and dynamic adjustment to collaterals, mark-to-market system, forced liquidation and disposal on default.

For debt securities investment business, we have developed an internal credit rating mechanism to control risks of default and degradation of debt securities, as well as default of counterparties. We set the minimum rating requirements for various types of investments and counterparties through a business authorization system and minimize the loss arising from different types of investments and default of counterparties through the strategy of diversification.

For OTC derivatives trading business, we have formulated a set of management measures and rules in relation to the appropriateness of investors, client due diligence, credit extension to counterparties, conversion rate of securities, effective monitoring of gearing ratio, management of collaterals and follow-up on default of clients, in order to strengthen the management before, during and after trading.

For brokerage business, the securities trading for domestic customers of whom we are an agent are settled by margin in full. With regard to the trading of securities and other financial products for overseas customers, we have effectively controlled the relevant credit risk by strengthening the management over credit grant and customer deposits.

Market risk

Origin and management of market risk

Our market risks refer to the risks of loss resulting from adverse changes in the market. Securities held by us are derived from the proprietary investment, market-making business and other investment activities. Movement in securities holdings primarily arose from the relevant strategies of proprietary investment and market-making necessity. Our securities are measured at fair value which will fluctuate daily according to market factors and changes in the portfolios of the securities. Our market risks primarily include: (i) equity price risk, which arises from fluctuation in the price and volatility of equities such as stocks, equity portfolio and stock index futures; (ii) interest rate risk, which primarily arises from movements in the yield curve of fixed income investment, fluctuation in interest rates and credit spreads; (iii) commodity risk, which arises from the fluctuation in the spot price, future price and volatility of commodities; and (iv) exchange rate risk, which represents exposures arising from changes in the spot price, future price and volatility of foreign currency rates of securities held.

We collectively allocate the economic capital in accordance with the risk preference and risk tolerance indicators set by the Board. By considering the risk associated with each type of investment and interrelationship, we diversify the overall risk limitation to different business departments and business lines. The front-office business departments are responsible for market risk management. The person in charge and the investment manager carry out the risk management and control the market risk exposures to the securities held by us by means of their extensive experience and in-depth knowledge. They actively take measures to reduce or hedge against such risks when the exposures are high. Our Risk Management Department, which is independent from our business departments, is headed by the chief risk management officer, who uses professional risk management tools and methods for controlling, evaluating and managing different levels of market risk from investment strategy, business departments and business lines and our Company. The report is delivered on a daily, weekly, monthly or quarterly basis to the responsible officers of the business departments and business lines and operation management of the Company. When risk level is approaching or exceeds the threshold values, the Risk Management Department will warn relevant management officers in advance and discuss the situation with the respective business management officers. Depending on the opinions from the management and committee based on their review and approval, the business departments will be urged to take corresponding measures. The relevant monitoring personnel from the Risk Management Department will continuously cooperate and communicate directly with the respective business departments and business lines with regard to information on risk exposures, and discuss the status of risk portfolios and the losses in extreme situations.

Price risk

We adopt VaR as the risk evaluation tool for measuring the market risk of the entire securities investment portfolio which comprises various financial instruments. VaR analysis is a statistical technique that estimates the potential maximum losses that could occur on risk positions due to movements in interest rates, stock prices or currency rates over a specified time period and at a given level of confidence. See "Appendix I—Notes to the Financial Information."

Interest rate risk

For details of the maturity profile of our interest-bearing assets and liabilities, see "Appendix I—Notes to the Financial Information—66. Financial Risk Management—(3) Market Risk—(c) Interest rate risk."

Sensitivity analysis

We conduct sensitivity analysis on interest rates to measure the impact of a reasonably possible change in interest rates on our revenue and equity, assuming all other variables were held constant. Assuming a parallel change in market interest rate and without taking into account any possible risk management activities that may be taken by the management to reduce interest rate risks, our interest rate sensitivity analysis is as follows:

Sensitivity of revenue

	Year ended December 31,			Six months ended June 30,
	2013	**2014**	**2015**	**2016**
	(RMB in millions)			
Change in yield curve				
Increase by 100bps	(110.9)	(336.5)	(353.8)	(929.6)
Decrease by 100bps	111.7	338.0	355.9	931.9

Sensitivity of equity

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB in millions)			
Change in yield curve				
Increase by 100bps	(226.9)	(725.8)	(944.5)	(1,431.1)
Decrease by 100bps	228.1	728.6	948.7	1,435.8

Foreign exchange rate risk

Foreign exchange rate risk represents the adverse changes in our financial position and cash flows due to changes in foreign exchange rates. We conduct sensitivity analysis on foreign exchange rates to measure foreign exchange rate risks. The table below indicates the sensitivity analysis on exchange rate changes in currencies to which we have significant exposure, which calculates the impacts of a reasonably possible change in the exchange rate of a foreign currency against Renminbi on our revenue and equity, assuming all other variables were held constant. A negative amount reflects a potential decrease in our profit before tax or equity, and a positive amount reflects a potential increase in revenue or equity.

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	(RMB in millions)			
Change in exchange rate				
Depreciation of US$ by 3%	(27.2)	(31.1)	(65.2)	(90.3)
Depreciation of HK$ by 3%	(21.3)	6.4	10.2	29.0

The table above indicates the impacts on our revenue and equity of a depreciation of 3% in U.S. dollars and Hong Kong dollars against Renminbi. There will be an opposite impact with the same amount as shown in the above table if the above exchange rates appreciate by the same percentage.

Operational Risk

Our exposure to operational risk refers to the risk arising from imperfect internal procedures, manual operational errors and IT system failure, transaction errors and external events, among others. Operational risk events mainly include internal fraud, external fraud, employment policy and safety of working environment, customers, products and business activities, damage of physical assets, interruption of business operation and shutdown of IT system, execution, settlement and process management.

We seek to match our business scale, profitability and risk tolerance, and strictly manage our operational risk while striving for profits in order to carry out our businesses under sound management. In 2016, we further strengthened our operational risk control and established an operational risk management system based on the nature, scale and complexity of our business operation through the implementation on data collection tools in relation to the operational risk events and losses, in order to realize the whole process management that the operational risk could effectively identify, assess, monitor and report. In addition, through the operational risk self-examination process and manual update, external information systems access management, information technology self-examination process and data recovery tools, we have been employing key indicators of operational risk in our operational risk management in order to improve our ability to effective identify potential risk over the core business and key process operations, and to prevent potential risk on new business activities and processes.

Liquidity Risk

Our exposure to liquidity risk mainly arises from failure to obtain sufficient funds at reasonable costs and in a timely manner to repay due debts, perform other payment obligations and satisfy capital needs for normal business operation. If there are material and adverse changes in our operating condition in the future and we are not able to maintain our gearing ratio at a reasonable level, and our operational management experiences unusual changes, we may not be able to repay the principal of, or interest on, relevant debts in full when due.

In order to prevent liquidity risk, we have established high-quality current asset reserves and a minimum excess reserve quota system. We have formulated liquidity emergency management plans to store minimum excess reserve in the capital plan. We have reserved treasury bond, Central Bank bills and other high-liquid assets which can be liquidized at any time under extreme circumstances for unexpected expenses. In addition, we have actively developed management for financing gaps. By using management tools for cash flow gap, sensitivity analysis and stress testing, we can identify potential risks as early as possible to arrange financing and adjust the pace of fund usage for business purposes in advance to effectively manage the payment risk. We have also continuously expanded our financing channels and balanced the distribution of debt maturity, so as to avoid the payment risk caused by a single financing channel or servicing debts when due. In addition, we have established an internal risk reporting system to promptly monitor the liquidity risk in the operation of each business and at each branch. Moreover, we take measures to promote the safe, sound and sustainable operation of each business and each branch.

DIVIDEND POLICY

After the completion of the Global Offering, we may distribute dividends in the form of cash or by other means that we consider appropriate. Any proposed distribution of dividends shall be formulated by our Board and will be subject to our Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, capital adequacy ratio, payments by our subsidiaries of cash dividends to us, business prospects, statutory, regulatory and contractual restrictions on our declaration and payment of dividends and other factors that our Board may consider important.

According to the applicable PRC laws and our Articles of Association, we will pay dividends out of our profit after tax only after we have made the following allocations:

- recovery of accumulated losses, if any;
- allocations to the general risk reserve of not less than 10% of our profit after tax;
- allocations to the statutory reserve equivalent to 10% of our profit after tax, and, when the statutory reserve reaches and is maintained at or above 50% of our registered capital, no further allocations to this statutory reserve will be required;
- allocations to the transaction risk reserve of not less than 10% of our profit after tax; and

- allocations, if any, to a discretionary common reserve fund that are approved by our shareholders in a Shareholders' meeting.

Furthermore, as required by the CSRC, 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 our distributable profits. Our Articles of Association require us to distribute cash dividends (i) in any fiscal year in an amount equal to at least 10% of the annual distributable profits and (ii) in any three consecutive fiscal years in an amount equal to at least 30% of the average annual distributable profits in the same period, if there are no significant investment or capital expenditure plans.

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.

In 2013, 2014 and 2015 and the six months ended June 30, 2016, we distributed dividends of RMB661.9 million, RMB888.6 million, RMB4,466.5 million and RMB1,434.6 million, respectively, representing a dividend of RMB0.142, RMB0.153, RMB0.769 and RMB0.247 per share, respectively. At our shareholders' meeting in June 2015, it was resolved that our accumulated undistributed profits before the Global Offering would be shared among our existing shareholders and new shareholders. In order to balance the interests of existing shareholders and future holders of H Shares, the accumulated undistributed profit before the Offering and Listing will be attributable to our new and existing shareholders upon the completion of the Offering and Listing of H Shares in proportion to their shareholding. On September 13, 2016, our shareholders approved a cash dividend of RMB894.5 million payable to the holders of our A Shares. We expect to pay this dividend by September 29, 2016 with our own cash. Our historical dividends may not be indicative of future dividends payments.

DISTRIBUTABLE RESERVES

As of June 30, 2016, our Company had RMB11,708.9 million in retained profits, as determined under IFRS, available for distribution to our shareholders.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of our unaudited pro forma adjusted consolidated net tangible assets attributable to 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 June 30, 2016, based on our audited consolidated net assets attributable to the owners of our company as of June 30, 2016 as shown in the Accountants' Report, the text of which is set forth in Appendix I to this prospectus, and adjusted as follows:

	Consolidated net tangible assets attributable to owners of our company as of June 30, 2016[1]	Estimated net proceeds from the Global Offering[2][5]	Unaudited pro forma adjusted consolidated net tangible assets of the Group[3]	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB in millions	RMB in millions	RMB in millions	(RMB)[4]	(HK$)[5]
Based on Offer Price of HK$11.54 per H Share	47,779.6	8,553.3	56,332.9	8.41	9.77
Based on Offer Price of HK$12.78 per H Share	47,779.6	9,480.8	57,260.4	8.55	9.93

(1) The audited consolidated net tangible assets of our Group attributable to owners of the Company as of June 30, 2016 is compiled based on the consolidated net assets attributable to owners of the Company of RMB47,812.7 million less goodwill of RMB9.7 million and other intangible assets of RMB23.4 million as of June 30, 2016 as extracted from the Accountants' Report set out in Appendix I to this Prospectus.
(2) The estimated net proceeds from the Global Offering for the purpose of unaudited pro forma adjusted consolidated net tangible assets of the Group are based on the Offer Price of HK$11.54 (being the low-end of the proposed Offer Price range) and HK$12.78 per H Share (being the high-end of the proposed Offer Price range) and the assumption that there are 891,273,800 newly issued H Shares in the Global Offering, after deduction of the underwriting fees, other related expenses payable by the Company assuming that Over-allotment Option is not exercised.
(3) The unaudited pro forma adjusted consolidated net tangible assets of our Group do not take into account the financial results or other transactions of our Group subsequent to June 30, 2016.
(4) The unaudited pro forma adjusted consolidated net tangible assets per share are arrived on the basis of 6,699,409,329 shares in issue assuming that the Global Offering has been completed on June 30, 2016 and that the Over-allotment Option is not exercised.
(5) The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted net tangible assets per share are translated into Renminbi at the rate of RMB0.8608 to HK$1.00, being the exchange rate set by the People's Bank of China prevailing on September 19, 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.
(6) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company does not take into account a cash dividend of RMB894,452,871 declared by the Company to its A shareholders on September 13, 2016. Had the cash dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share would be RMB8.28 or HK$9.61 (assuming an Offer Price of HK$11.54 per share) and RMB8.41 or HK$9.77 (assuming an Offer Price of HK$12.78 per share), respectively.

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 reports with respect to our A Shares under the listing rules of the Shanghai Stock Exchange. These reports are prepared in conformity with PRC GAAP. Our quarterly financial information in both English and Chinese will also be released in Hong Kong simultaneously pursuant to Rule 13.10B of the Hong Kong Listing Rules subsequent to our Listing on the Hong Kong Stock Exchange. We will publish annual and semi-annual financial information under IFRS for H Share disclosure purpose and annual, semi-annual and quarterly financial information under PRC GAAP for A Share disclosure purpose simultaneously.

In addition, we are also required by the CSRC to announce selected unconsolidated unaudited monthly operating revenue and net profit and month-end net assets of our Company and its securities subsidiary CMS Asset Management, prepared in conformity with PRC GAAP, by way of an announcement published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn/) on a monthly basis. Our monthly selected unconsolidated financial data in both English and Chinese will also be released in Hong Kong simultaneously pursuant to Rule 13.10B of the Hong Kong Listing Rules subsequent to our Listing on the Hong Kong Stock Exchange.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial or trading position or prospects since June 30, 2016 (being the date of our latest audited financial statements) and there has been no event since June 30, 2016 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Global Offering. We estimate that our listing expenses will be approximately RMB312.6 million (assuming an Offer Price of HK$12.16 per H Share (being the mid-point of the indicative Offer Price range) and no exercise of the Over-allotment Option), of which approximately RMB285.1 million is directly attributable to the issue of our H Shares to the public and will be capitalized and amortized, and approximately RMB27.5 million has been or is expected to be expensed in 2016. Our Directors do not expect such expenses to materially impact our results of operations in 2016.

FUTURE PLANS

See "Business—Business Strategies" in this prospectus for a detailed discussion of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK$12.16 per H Share (being the mid-point of the stated range of the Offer Price of between HK$11.54 and HK$12.78 per H Share), we estimate that we will receive net proceeds of approximately HK$10,474.8 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering and assuming that the Over-allotment Option is not exercised. In line with our strategies, we intend to use our proceeds from the Global Offering for the purposes and in the amounts set forth below:

- Approximately 25%, or HK$2,618.7 million, for developing our brokerage and wealth management business to satisfy the increasing investment and financing needs of our clients, particularly by:
  - actively expanding our capital-based intermediary services, including margin financing and securities lending, and securities-backed lending for individual customers;
  - developing internet-based business platform and improving our trading and customer management systems; and
  - contributing additional capital to our futures subsidiary, China Merchants Futures.
- Approximately 25%, or HK$2,618.7 million, for expanding our institutional client services and investment and trading business and to invest in other financial products as approved by the PRC regulatory authorities, particularly by:
  - actively expanding our capital-based intermediary services, including margin financing and securities lending, and securities-backed lending for institutional clients;
  - expanding market-neutral trading, market-making, and other new types of trading strategies; and
  - actively developing prime brokerage business as well as fund custody and outsourcing services.
- Approximately 25% or HK$2,618.7 million, for expanding our overseas business by contributing additional capital to CMS International in order to support its business, in particular, leverage and structured financing, margin financing, and global commodities businesses.
- Approximately 20%, or HK$2,095.0 million, for contributing capital to our subsidiaries, such as CMS Asset Management and CMS Zhiyuan and associated companies, as well as establishing new subsidiaries for expanding our investment management business and enhancing our product development and active management capabilities.
- Approximately 5%, or HK$523.7 million, for working capital and general corporate purposes.

If the Offer Price is fixed at HK$12.78 per H Share, being the high-end of the Offer Price range stated in this prospectus and assuming that the Over-allotment Option is not exercised, the net proceeds will be increased by approximately HK$538.7 million. If the Offer Price is fixed at HK$11.54 per H Share, being the low-end of the Offer Price range stated in this prospectus and assuming that the Over-allotment Option is not exercised, the net proceeds will be reduced by approximately HK$538.7 million. To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes accordingly on a pro rata basis.

The additional net proceeds that we would receive if the Over-allotment Option were exercised in full would be (i) HK$1,665.7 million (assuming an Offer Price of HK$12.78 per H Share, being the high-end of the Offer Price range stated in this prospectus), (ii) HK$1,584.9 million (assuming an Offer Price of HK$12.16 per H Share, being the mid-point of the Offer Price range stated in this prospectus) and (iii) HK$1,504.1 million (assuming an Offer Price of HK$11.54 per H Share, being the low-end of the Offer Price range stated in this prospectus).

Additional net proceeds received due to the exercise of any Over-allotment Option will be used for the above purposes accordingly on a pro rata basis in the event that the Over-allotment Option is exercised.

If any part of our development plan does not proceed as planned for reasons such as changes in government policies that would render the development of any of our projects not viable, or the occurrence of force majeure events, we will carefully evaluate the situation and may reallocate the net proceeds from the Global Offering.

To the extent that the net proceeds of the Global Offering are not immediately used for the purposes described above and to the extent permitted by the relevant laws and regulations, we intend to use the net proceeds of the Global Offering for short-term investment in liquid asset classes in the PRC or Hong Kong.

We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with cornerstone investors (the "Cornerstone Investors", and each a "Cornerstone Investor"), pursuant to which the Cornerstone Investors have agreed to subscribe, or cause their designated entities to subscribe, at the Offer Price for certain number of our Offer Shares (the "Cornerstone Placing").

Assuming an Offer Price of HK$11.54, (being the low end of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 555,162,600, representing approximately (i) 62.29% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) 8.29% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$12.16 (being the mid-point of the Offer Price range set out in this prospectus), the total number of H Shares to be subscribed by the Cornerstone Investors would be 543,850,200, representing approximately (i) 61.02% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) 8.12% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$12.78 (being the high end of the Offer Price range set out in this prospectus), the total number of H Shares subscribed by the Cornerstone Investors would be 533,636,400, representing approximately (i) 59.87% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) 7.97% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The Cornerstone Placing will form part of the International Offering and none of such Cornerstone Investors will subscribe for any Offer Share under the Global Offering (other than and pursuant to their respective cornerstone investment agreements). The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid H Shares in issue upon completion of the Global Offering and will be counted towards the public float of our Company. Immediately following 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 Listing Rules). The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed "Structure of the Global Offering—The Hong Kong Public Offering" in this prospectus.

To the best knowledge of our Company, each of the Cornerstone Investors is an Independent Third Party and independent of other Cornerstone Investors (save as disclosed below), not our connected person and not an existing shareholder or close associates of our Group.

Details of the allocations to the Cornerstone Investors will be disclosed in the announcement of results of allocations in the Hong Kong Public Offering to be published on or around October 6, 2016.

CORNERSTONE INVESTORS

We have entered into cornerstone investment agreements with each of the following Cornerstone Investors:

Cornerstone Investor	Investment Amount / Number of H Shares to be subscribed for by the Cornerstone Investors	Based on the Offer Price of HK$12.16 (being the mid-point of the Offer Price range)			
		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)
PICC Life Insurance Company Limited	333,300,000 H Shares	4.98%	4.88%	34.00%	29.56%
Well Ease Limited	US$50 million	0.48%	0.47%	3.25%	2.83%
East Pacific (Holdings) Limited	US$50 million	0.48%	0.47%	3.25%	2.83%
China Life					
China Life Insurance (Group) Company	US$10 million	0.10%	0.09%	0.65%	0.57%
China Life Franklin Asset Management Co., Limited	US$20 million	0.19%	0.19%	1.30%	1.13%
China Reinsurance (Group) Corporation	US$30 million	0.29%	0.28%	1.95%	1.70%
Advance Data Services Limited	US$30 million	0.29%	0.28%	1.95%	1.70%
Fosun					
Peak Reinsurance Company Limited	US$15 million	0.14%	0.14%	0.98%	0.85%
Fosun Hani Securities Limited	US$10 million	0.10%	0.09%	0.65%	0.57%
Century Surety Company	US$5 million	0.05%	0.05%	0.33%	0.28%
Yingda International Trust Co., Ltd.	US$30 million	0.29%	0.28%	1.95%	1.70%
Caiyun International Investment Limited	US$30 million	0.29%	0.28%	1.95%	1.70%
Legit Value Limited	US$30 million	0.29%	0.28%	1.95%	1.70%
China South Industries Assets Management Co., Ltd.	US$20 million	0.19%	0.19%	1.30%	1.13%

We set out below a brief description of our Cornerstone Investors.

PICC Life

PICC Life Insurance Company Limited ("PICC Life") has agreed to subscribe for 333,300,000 Offer Shares at the Offer Price, representing (i) 37.40% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 4.98% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

PICC Life is a life insurance company approved by the State Council and the China Insurance Regulatory Commission. PICC Life was founded in November 2005 and is headquartered in Beijing.

PICC Life is a subsidiary of The People's Insurance Company (Group) of China Limited (listed on the Hong Kong Stock Exchange, stock code: 1339). PICC Life is principally engaged in life insurance, accident insurance and other insurance business. Its total assets as of December 31, 2015 amounted to RMB357.6 billion.

Well Ease Limited

Well Ease Limited has agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased with an aggregate amount of US$50 million at the Offer Price. Assuming the Offer Price of HK$11.54, being the low-end of the Offer Price range stated in this prospectus, the total number of H Shares that Well Ease Limited would subscribe for would be 33,615,600, representing (i) 3.77% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.50% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.16, being the mid-point of the Offer Price range stated in this prospectus, the total number of H Shares that Well Ease Limited would subscribe for would be 31,901,600, representing (i) 3.58% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.48% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.78, being the high-end of the Offer Price range stated in this prospectus, the total number of H Shares that Well Ease Limited would subscribe for would be 30,354,000, representing (i) 3.41% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.45% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Well Ease Limited is a company incorporated in the British Virgin Islands ("BVI"), which is wholly owned by Chow Tai Fook Nominee Limited and is ultimately controlled by Dato' Dr. Cheng Yu Tung's family. Its principal activity is investment holding.

East Pacific

East Pacific (Holdings) Limited ("East Pacific") has agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased with an aggregate amount of US$50 million at the Offer Price. Assuming the Offer Price of HK$11.54, being the low-end of the Offer Price range stated in this prospectus, the total number of H Shares that East Pacific would subscribe for would be 33,615,600, representing (i) 3.77% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.50% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.16, being the mid-point of the Offer Price range stated in this prospectus, the total number of H Shares that East Pacific would subscribe for would be 31,901,600, representing (i) 3.58% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.48% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.78, being the high-end of the Offer Price range stated in this prospectus, the total number of H Shares that East Pacific would subscribe for would be 30,354,000, representing (i) 3.41% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.45% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

East Pacific is a company incorporated in Hong Kong. Its principal business is investment holding and mainly invests in real estate, aviation, luxury hotel and property management.

China Life

China Life Insurance (Group) Company ("China Life Group") and China Life Franklin Asset Management Co., Limited ("China Life Franklin") (together "China Life") have, in their respective capacity as an investor, agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased with an amount of US$10 million and US$20 million at the Offer Price, respectively.

Assuming the Offer Price of HK$11.54, being the low-end of the Offer Price range stated in this prospectus, the total number of H Shares that China Life Group and China Life Franklin would in aggregate subscribe for would be 20,169,200, representing (i) 2.26% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.30% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.16, being the mid-point of the Offer Price range stated in this prospectus, the total number of H Shares that China Life Group and China Life Franklin would in aggregate subscribe for would be 19,140,800, representing (i) 2.15% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.29% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.78, being the high-end of the Offer Price range stated in this prospectus, the total number of H Shares that China Life Group and China Life Franklin would in aggregate subscribe for would be 18,212,400, representing (i) 2.04% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.27% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

China Life Group 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 Group and its subsidiaries constitute the largest business insurance group in the PRC with assets exceeding RMB3.0 trillion and are one of the largest institutional investors in the PRC capital markets.

China Life Franklin is incorporated in Hong Kong and is a joint venture between China Life Asset Management Company Limited, China Life Insurance (Overseas) Company Limited and Franklin Templeton Investments, the first two of which are subsidiaries of China Life Group. China Life Franklin is licensed to carry on type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO in Hong Kong.

China Re Group

China Reinsurance (Group) Corporation ("China Re Group") has agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased with an aggregate amount of US$30 million at the Offer Price. Assuming the Offer Price of HK$11.54, being the low-end of the Offer Price range stated in this prospectus, the total number of H Shares that China Re Group would subscribe for would be 20,169,400, representing (i) 2.26% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.30% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.16, being the mid-point of the Offer Price range stated in this prospectus, the total number of H Shares that China Re Group would subscribe for would be 19,141,000, representing (i) 2.15% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.29% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.78, being the high-end of the Offer Price range stated in this prospectus, the total number of H Shares that China Re Group would subscribe for would be 18,212,400, representing (i) 2.04% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.27% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

China Re Group was jointly incorporated by the MOF which holds 12.72% and Central Huijin Investment Ltd. which holds 71.56%. China Re Group provides comprehensive products and services including reinsurance, primary insurance, asset management and insurance brokerage, etc. China Re Group (stock code: 1508) was listed on the Main Board of the Hong Kong Stock Exchange on October 26, 2015.

Advance Data

Advance Data Services Limited ("Advance Data") has agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased with an aggregate amount of US$30 million at the Offer Price. Assuming the Offer Price of HK$11.54, being the low-end of the Offer Price range stated in this prospectus, the total number of H Shares that Advance Data would subscribe for would be 20,169,400, representing (i) 2.26% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.30% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.16, being the mid-point of the Offer Price range stated in this prospectus, the total number of H Shares that Advance Data would subscribe for would be 19,141,000, representing (i) 2.15% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.29% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.78, being the high-end of the Offer Price range stated in this prospectus, the total number of H Shares that Advance Data would subscribe for would be 18,212,400, representing (i) 2.04% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.27% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Advance Data is an investment holding company incorporated in the BVI. It is wholly-owned by Mr. Ma Huateng, who is the chairman and founder of Tencent Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 700). Tencent Holdings Limited, together with its subsidiaries, are principally engaged in the provision of Internet and mobile value-added services (VAS), online advertising services and eCommerce transactions services to users in the PRC.

Fosun

Peak Reinsurance Company Limited ("Peak Re"), Fosun Hani Securities Limited ("Fosun Hani Securities") and Century Surety Company ("Century Surety") have, in their respective capacity as an investor, agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased with an amount of US$15 million, US$10 million and US$5 million at the Offer Price, respectively.

Assuming the Offer Price of HK$11.54, being the low-end of the Offer Price range stated in this prospectus, the total number of H Shares that Peak Re, Fosun Hani Securities and Century Surety would in aggregate subscribe for would be 20,169,000, representing (i) 2.26% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.30% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.16, being the mid-point of the Offer Price range stated in this prospectus, the total number of H Shares that Peak Re, Fosun Hani Securities and Century Surety would in aggregate subscribe for would be 19,140,600, representing (i) 2.15% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.29% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.78, being the high-end of the Offer Price range stated in this prospectus, the total number of H Shares that Peak Re, Fosun Hani Securities and Century Surety would in aggregate subscribe for would be 18,212,400, representing (i) 2.04% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.27% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Each of Peak Re, Fosun Hani Securities and Century Surety is a subsidiary of Fosun International Limited ("Fosun"), which is a leading investment group taking roots in China with a global foothold. Fosun is listed on the Hong Kong Stock Exchange (stock code: 656).

Based in Hong Kong and authorized by the Office of the Commissioner of Insurance of Hong Kong, Peak Re obtained its general reinsurance license in December 2012. With shareholder funds of US$816.9 million as of August 31, 2016, Peak Re offers reinsurance services across Asia Pacific, EMEA and the Americas, tailor-made risk transfer and capital management solutions to best fit clients' needs. Peak Re is backed by Fosun and the International Finance Corporation, a member of the World Bank Group focusing on private sector development. The two shareholders have respectively invested 86.93% and 13.07% in Peak Re.

As a wholly-owned subsidiary of Fosun, Fosun Hani Securities is a registered securities broker with licenses in Hong Kong to deal in securities on behalf of retail customers and corporate customers. Fosun Hani Securities is licensed to carry on 4 types of regulated activities under the SFO in Hong Kong, namely type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management). Fosun Hani Securities is an important Hong Kong based integrated finance platform of Fosun.

As a wholly-owned subsidiary of Fosun, Meadowbrook Insurance Group, Inc. ("Meadowbrook") is a professional property and casualty insurer and an insurance administration services company focusing on niche markets. Meadowbrook is registered in Michigan, the United States. Meadowbrook markets and underwrites specialty property and casualty insurance programs and products on both an admitted and non-admitted basis through a broad and diverse network of independent retail agents, wholesalers, program administrators and general agencies that value service and have specialized knowledge and focused expertise. Century Surety is a wholly-owned subsidiary of Meadowbrook and is principally engaged in insurance business.

Yingda Trust

Yingda International Trust Co., Ltd. ("Yingda Trust") has agreed to subscribe for, through BOSH-Changsheng Fund-Yingda Trust Asset Management Scheme, being a QDII, such number of the Offer Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased with an aggregate amount of US$30 million at the Offer Price. Assuming the Offer Price of HK$11.54, being the low-end of the Offer Price range stated in this prospectus, the total number of H Shares that Yingda Trust would subscribe for would be 20,169,400, representing (i) 2.26% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.30% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.16, being the mid-point of the Offer Price range stated in this prospectus, the total number of H Shares that Yingda Trust would subscribe for would be 19,141,000, representing (i) 2.15% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.29% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.78, being the high-end of the Offer Price range stated in this prospectus, the total number of H Shares that Yingda Trust would subscribe for would be 18,212,400, representing (i) 2.04% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.27% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Yingda Trust, founded in March 1987, is a non-banking financial institution chartered by CBRC and directly subordinate to State Grid Corporation of China. For the past decades, Yingda Trust has grown into an established trust company with RMB235.8 billion asset under management at the end of 2015 and maintains a zero-default rate. It is well-known for years of dedication to clean energy financial service and strives to be a leader in the industry. Providing comprehensive financial services and solutions, Yingda Trust was awarded the "Most Innovative Trust Company" in 2014 and the "Most Influential Trust Company" in 2015, by Financial News, a publication under the PBOC. It is rated A in the latest preliminary evaluation and rating of trust companies by China Trustee Association.

Caiyun International

Caiyun International Investment Limited ("Caiyun International") has agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased with an aggregate amount of US$30 million at the Offer Price. Assuming the Offer Price of HK$11.54, being the low-end of the Offer Price range stated in this prospectus, the total number of H Shares that Caiyun International would subscribe for would be 20,169,400, representing (i) 2.26% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.30% of the Shares in issue immediately following the completion of the Global

Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.16, being the mid-point of the Offer Price range stated in this prospectus, the total number of H Shares that Caiyun International would subscribe for would be 19,141,000, representing (i) 2.15% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.29% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.78, being the high-end of the Offer Price range stated in this prospectus, the total number of H Shares that Caiyun International would subscribe for would be 18,212,400, representing (i) 2.04% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.27% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Caiyun International, incorporated in Hong Kong on July 8, 2015, is a wholly-owned subsidiary of Yunnan Metropolitan Construction Investment Group Co., Ltd. ("YMCI"). It was established for YMCI's investments in overseas projects and transactions.

YMCI, founded in 2005, is an investment and financing platform for urban development under the Yunnan SASAC and is wholly owned by the Yunnan SASAC. YMCI focuses on urban development as well as urban environment, and has played an important role in implementing the Yunnan provincial government's blueprint for urban planning and municipal construction. Over the years, YMCI has diversified its business portfolio to include leisure and tourism, healthcare, and other businesses.

Legit Value

Legit Value Limited ("Legit Value") has agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased with an aggregate amount of US$30 million at the Offer Price. Assuming the Offer Price of HK$11.54, being the low-end of the Offer Price range stated in this prospectus, the total number of H Shares that Legit Value would subscribe for would be 20,169,400, representing (i) 2.26% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.30% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.16, being the mid-point of the Offer Price range stated in this prospectus, the total number of H Shares that Legit Value would subscribe for would be 19,141,000, representing (i) 2.15% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.29% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.78, being the high-end of the Offer Price range stated in this prospectus, the total number of H Shares that Legit Value would subscribe for would be 18,212,400, representing (i) 2.04% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.27% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Legit Value is a BVI registered company wholly owned by Shenzhen Letv-China Bridge Capital Buyout Fund & Investment Management (Limited Partnership) ("Letv-China Bridge Capital"). Letv-China Bridge Capital is a joint venture established by Beijing Leshi Streaming Media Advertising Co., Ltd. (a wholly-owned subsidiary of Leshi Internet Information & Technology Corp., Beijing ("Leshi", a company listed on the Shenzhen Stock Exchange, stock code: 300104)) and Shenzhen

China Bridge Investment Fund Management Co., Ltd ("China Bridge Capital"). Leshi is a leading internet company in China, with operations encompassing, among others, internet videos, films and television programs production and distribution, intelligent terminals, application market, e-commerce and cloud computing. China Bridge Capital is a capital management corporation in China focusing on the provision of integrated merger and acquisition financial services, with a particular emphasis on global investment in emerging industries, fund management, transnational mergers and acquisitions and corporate restructuring.

South Industries Assets

China South Industries Assets Management Co., Ltd. ("South Industries Assets") has agreed to subscribe for, through Bank of Communications Schroder Fund Management Co., Ltd., being a QDII, such number of the Offer Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased with an aggregate amount of US$20 million at the Offer Price. Assuming the Offer Price of HK$11.54, being the low-end of the Offer Price range stated in this prospectus, the total number of H Shares that South Industries Assets would subscribe for would be 13,446,200, representing (i) 1.51% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.20% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.16, being the mid-point of the Offer Price range stated in this prospectus, the total number of H Shares that South Industries Assets would subscribe for would be 12,760,600, representing (i) 1.43% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.19% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming the Offer Price of HK$12.78, being the high-end of the Offer Price range stated in this prospectus, the total number of H Shares that South Industries Assets would subscribe for would be 12,141,600, representing (i) 1.36% of the Offer Shares, assuming that the Over-allotment Option is not exercised; and (ii) approximately 0.18% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

South Industries Assets is a company incorporated in the PRC on August 28, 2001 with a registered capital of RMB2 billion. The principal businesses of South Industries Assets are investment and information consulting. As a wholly-owned subsidiary of China South Industries Group Corporation ("China South Industries"), South Industries Assets serves as a platform for capital operation and industry-finance integration. China South Industries is a company incorporated in the PRC. As one of the Fortune Global 500 Companies, its principal businesses include manufacturing of vehicles, motorcycles and ordnance equipment.

CONDITIONS PRECEDENT

The subscription of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

(i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become unconditional by no later than the time and date as specified in those underwriting agreements (in accordance with their respective original terms, or as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties) and not having been terminated;

(ii) the Listing Committee of the Hong Kong Stock Exchange having granted the approval for the listing of, and permission to deal in, the H Shares and that such approval or permission has not been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange; and

(iii) the respective representations, warranties, undertakings and acknowledgements of the relevant Cornerstone Investor under the relevant cornerstone investment agreement are and will be accurate and true in all material respects and not misleading and there being no material breach of the relevant cornerstone investment agreement on the part of the relevant Cornerstone Investor.

RESTRICTIONS ON THE CORNERSTONE INVESTORS' INVESTMENT

Each Cornerstone Investor has agreed that without the prior written consent of our Company and CMSHK (and other party to the relevant cornerstone investment agreement, as applicable), it will not, whether directly or indirectly, at any time during the period of six months from the Listing Date, dispose of (as defined in the relevant cornerstone investment agreement) any of the H Shares purchased by it pursuant to the relevant cornerstone investment agreement and any shares or other securities of our Company which are derived therefrom (the "**Relevant Shares**").

Each Cornerstone Investor, except Peak Re, may transfer the Relevant Shares in certain limited circumstances as set out in the relevant cornerstone investment agreement, such as a transfer to a wholly-owned subsidiary of such Cornerstone Investor, provided that prior to such transfer, such wholly-owned subsidiary undertakes to be bound by such Cornerstone Investor's obligations under the relevant cornerstone investment agreement and be subject to the restrictions on disposal of the Relevant Shares imposed on such Cornerstone Investor.

HONG KONG UNDERWRITERS

Hong Kong Underwriters

China Merchants Securities (HK) Co., Limited

J.P. Morgan Securities (Asia Pacific) Limited

Morgan Stanley Asia Limited

Huatai Financial Holdings (Hong Kong) Limited

CMB International Capital Limited

Deutsche Bank AG, Hong Kong Branch

Mizuho Securities Asia Limited

GF Securities (Hong Kong) Brokerage Limited

China Everbright Securities (HK) Limited

Orient Securities (Hong Kong) Limited

China Securities (International) Corporate Finance Company Limited

Guotai Junan Securities (Hong Kong) Limited

Ping An of China Securities (Hong Kong) Company Limited

UBS AG Hong Kong Branch

ICBC International Securities Limited

ABCI Securities Company Limited

CCB International Capital Limited

BOCOM International Securities Limited

BOCI Asia Limited

UNDERWRITING

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 upon 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 44,564,000 Hong Kong Offer Shares and the International Offering of initially 846,709,800 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed "Structure of the Global Offering" in this prospectus as well as to the Over-allotment Option in the case of the International Offering.

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the 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 and to be converted from A Shares 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 execution and delivery of the International Underwriting Agreement and the obligations of the International Underwriters thereunder having become unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) shall, after consultation with the Company where practicable, be entitled by notice (orally or in writing) to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:

(a) there shall develop, occur, exist or come into effect:

  (i) any event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union or Japan (each a "**Relevant Jurisdiction**"); or

  (ii) any change, or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the equity securities, stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong

Kong dollar or an appreciation of the Renminbi against any foreign currencies in or affecting any Relevant Jurisdiction); or

(iii) any moratorium, suspension or restriction in or on trading in securities generally on the Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange or the Tokyo Stock Exchange; or

(iv) any general moratorium on commercial banking activities in any Relevant Jurisdiction declared by the relevant authorities, or any material disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any Relevant Jurisdiction; or

(v) any new law or regulation, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authority of) existing laws or regulations, in each case, in or affecting any Relevant Jurisdiction; or

(vi) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations, in any Relevant Jurisdiction, or any change or prospective change in taxation in any Relevant Jurisdiction adversely affecting an investment in the H Shares; or

(vii) any litigation or claim of any third party being threatened or instigated against any member of the Group; or

(viii) a Director being charged with an indictable offense or prohibited by operation of law or otherwise disqualified from taking part in the management or being a director of a company; or

(ix) an authority or a political body or organization in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or

(x) a material contravention by any member of the Group of the SSE Listing Rules, the PRC Company Law or applicable laws; or

(xi) a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the H Shares (including any additional H Shares that may be issued pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or

(xii) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group,

which, individually or in the aggregate, in the sole opinion of the Joint Representatives (1) has or will have or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, financial or trading position of the Group as a whole; or (2) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (3) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) makes or will make it impracticable to proceed with the delivery of the H Shares on the terms and in the manner contemplated by this prospectus, the Application Forms, the formal notice, the preliminary offering circular or the final offering circular; or

(b) there has come to the notice of the Joint Representatives:

(i) that any statement contained in any of this prospectus and the Application Forms (the "**Hong Kong Public Offering Documents**") and/or in any notices or announcements issued by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the Hong Kong Public Offering Documents and/or any notices or announcements issued by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions, when taken as a whole; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of the Hong Kong Public Offering Documents (including any supplement or amendment thereto); or

(iii) any material breach of any of the obligations of the Company under the Hong Kong Underwriting Agreement; or

(iv) any event, act or omission which gives or is likely to give rise to any liability of the Company as the indemnifying party pursuant to the Hong Kong Underwriting Agreement which liability has a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, financial or trading position of the Group as a whole; or

(v) any material adverse change, or any development involving a prospective material adverse change, in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, financial or trading position of the Group, taken as a whole; or

(vi) any material breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the representations, warranties, agreements and undertakings of the Company under the Hong Kong Underwriting Agreement; or

(vii) any of the Reporting Accountants, or any of the counsel or adviser of the Company (other than the Joint Sponsors) has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not issue any further Shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the date on which our securities first commence dealings on the Stock Exchange (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealings), except pursuant to the Global Offering, the Over-allotment Option or any of the circumstances provided under Rule 10.08 of the Listing Rules.

Undertakings by our Controlling Shareholder

Pursuant to Rule 10.07 of the Listing Rules, our Controlling Shareholder, has undertaken to the Stock Exchange and to us that, except pursuant to the Global Offering (including the Over-allotment Option), it will not, and shall procure that the relevant registered holder(s) (if any) will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

(a) in the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is six months from the Listing Date, 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 in respect of which it is shown by this prospectus to be the beneficial owner; or

(b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above 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 in respect of which it is shown by this prospectus to be the beneficial owner if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be our Controlling Shareholder.

Further, pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, our Controlling Shareholder has undertaken to the Stock Exchange and to us that, within the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

(a) when it pledges or charges any Shares beneficially owned by it in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and

(b) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform us of such indications.

We will inform the Stock Exchange as soon as we have been informed of the above matters, if any, by our Controlling Shareholder and disclose such matters as soon as possible after being so informed.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to each of the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on and including, the date that is six months after the Listing Date (the "**First Six-Month Period**"), we will not without the prior written consent of the Joint Sponsors and the Joint Representatives (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules (and only after the consent of any relevant PRC administrative, governmental or regulatory commission, board, body, authority, or any political body, stock exchange, or other non-governmental regulatory authority, or any court, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign or supranational (if so required) has been obtained):

(a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any equity securities of the Company, or any interest in any of the foregoing (including 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 such equity securities of the Company), or deposit any equity securities of the Company with a depositary in connection with the issue of depositary receipts; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any equity securities of the Company, or any interest in any of the foregoing (including 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 such equity securities of the Company); or

(c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or

(d) offer to or agree to or announce, or publicly disclose, any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of such equity securities of the Company, or in cash or otherwise (whether or not the issue of such equity securities by the Company will be completed within the First Six-Month Period), provided that the foregoing restrictions shall not apply to the issue of H Shares by the Company pursuant to the Global Offering (including any additional H Shares that may be issued pursuant to the exercise of the Over-allotment Option and any H Shares to be converted from A Shares and transferred to NSSF).

Indemnity

We have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company of the Hong Kong Underwriting Agreement.

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.

J.P. Morgan Securities (Asia Pacific) Limited is a Hong Kong Underwriter. As of the Latest Practicable Date, affiliates of J.P. Morgan Securities (Asia Pacific) Limited held approximately 0.002% of our Company's total issued share capital.

Morgan Stanley Asia Limited is a Hong Kong Underwriter. As of June 30, 2016, an affiliate of Morgan Stanley Asia Limited held approximately 0.04% of our Company's total issued share capital.

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 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 Listing Date 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 133,691,000 H Shares, representing no more than 15% 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 an underwriting commission of 1.5% of the aggregate Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. 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 and/or the relevant International Underwriters (but not the Hong Kong Underwriters). The underwriting commission was determined between our Company and the Hong Kong Underwriters after arm's length negotiations with reference to current market conditions. In addition, we may, in our sole and absolute discretion, pay to any or all Hong Kong Underwriters for its or their respective accounts an incentive fee up to 1.0% of the Offer Price for each Hong Kong Offer Share.

The aggregate commissions and fees (including the maximum discretionary incentive fee), together with Stock Exchange listing fees, SFC transaction levy and 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 RMB312.6 million (assuming (i) an Offer Price of HK$12.16 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus), and (ii) 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 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 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.

INDEPENDENCE OF THE JOINT SPONSORS

China Merchants Securities (HK) Co., Limited is a wholly-owned subsidiary of our Company and as such it is not independent of our Company. Each of J.P. Morgan Securities (Far East) Limited and Morgan Stanley Asia Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, fund 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 Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed "Structure of the Global Offering" in this prospectus. Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

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.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking, derivative and other services to us, our affiliates or our shareholders including cornerstone investors for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

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:

(a) the Hong Kong Public Offering of 44,564,000 H Shares (subject to adjustment as mentioned below) for subscription by the public in Hong Kong as described in the section headed "—The Hong Kong Public Offering" below; and

(b) the International Offering of an aggregate of 846,709,800 H Shares (subject to adjustment and the Over-allotment Option as mentioned below) to non-U.S. persons outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S and to persons within the United States or to U.S. persons in each case who are both QIBs and QPs in reliance on Rule 144A or any other available exemption from, or in transaction not subject to, registration under the U.S. Securities Act.

China Merchants Securities (HK) Co., Limited, J.P. Morgan Securities (Asia Pacific) Limited and Morgan Stanley Asia Limited are the Joint Representatives of the Global Offering.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both.

The Offer Shares initially available under the Global Offering represents approximately 13.3% of the enlarged share capital of our Company immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of H Shares Initially Offered

We are initially offering 44,564,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 5% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 0.7% of the enlarged share capital of our Company immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in the section headed "—Conditions of the Global Offering" below.

Allocation

Allocation of our H Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking into account of any reallocation referred to below) is to be divided into two pools for allocation purposes: Pool A and Pool B with any odd board lots being allocated to Pool A. Accordingly, the maximum number of Hong Kong Offer Shares initially in Pool A and Pool B will be 22,282,000 and 22,282,000, respectively. The Hong Kong Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, SFC transaction levy and the 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 Hong Kong Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable). Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Hong Kong 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 Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 22,282,000 Hong Kong Offer Shares (being 50% of the 44,564,000 Offer Shares initially available under the Hong Kong Public Offering) are liable to be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached. An application has been made to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules such that, provided the initial allocation of Offer Shares under the Hong Kong Public Offering shall not be less than 5% of the Global Offering, in the event of oversubscription, the Joint Representatives shall apply a clawback mechanism following the closing of the application lists on the following basis:

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 66,845,600 Offer Shares, representing approximately 7.5% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially

available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 89,127,600 Offer Shares, representing approximately 10% of the Offer Shares initially available under the Global Offering; and

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 178,254,800 Offer Shares, representing approximately 20% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate. In addition, the Joint Representatives may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint 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. If the International Offering is not fully subscribed, the Joint Representatives may decide in their absolute discretion to reallocate Offer Shares from the International Offering to the Hong Kong Public Offering.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$12.78 per Offer Share plus brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed "—Pricing and Allocation" below, is less than the maximum price of HK$12.78 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to Apply for the Hong Kong Offer Shares" in this prospectus.

THE INTERNATIONAL OFFERING

Number of Offer Shares Offered

The International Offering will consist of an initial offering of 846,709,800 Offer Shares, representing approximately 95% of the total number of Offer Shares initially available under the Global Offering.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of the Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the section headed "—Pricing and Allocation" 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 H Shares, and/or hold or sell its H Shares, after the listing of our H Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the H 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 its Shareholders as a whole.

The Joint Representatives (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

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 Listing Date 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 133,691,000 H Shares, representing no more than 15% 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. In the event that the Over-allotment Option is exercised, we will make an announcement.

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 newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements including those of Hong Kong. In Hong Kong, 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 its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the H 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, its affiliates or any person acting for it, to conduct any such stabilizing action. Such stabilizing action, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it and may be discontinued at any time, and is required to be brought to an end after a limited period.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, as amended, includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the H Shares, (ii) 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 reduction in the market price of the H Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Offer Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of the Offer Shares for the sole purpose of preventing or minimizing any reduction in the market price of the H Shares, (v) selling or agreeing to sell any Offer Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in paragraph (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in the H Shares;
- there is no certainty regarding the extent to which or the time or period for which the Stabilizing Manager, its affiliates or any person acting for it will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it and selling in the open market may have an adverse impact on the market price of the H Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilization period which will begin on the Listing Date, and is expected to expire on Sunday, October 30, 2016, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the H Shares and therefore the price of the H Shares, could fall;
- the price of the H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by the applicants for, or investors in, acquiring the Offer Shares.

Over-allocation

Following any over-allocation of Offer Shares in connection with the Global Offering, the Joint Representatives, their affiliates or any person acting on their behalf may cover such over-allocation by, among other methods, using H Shares purchased by the Stabilizing Manager, its affiliates or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or by a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of Offer Shares which can be over-allocated will not exceed the number of H Shares which may be sold pursuant to the exercise in full of the Over-allotment Option, being 133,691,000 H Shares, representing no more than 15% of the Offer Shares initially available under the Global Offering.

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed by agreement between our Company and the Joint Representatives (on behalf of the Hong Kong Underwriters) on the Price Determination Date, which is expected to be on or around Friday, September 30, 2016 and in any event no later than Saturday, October 1, 2016.

The Offer Price will not be more than HK$12.78 per Offer Share and is expected to be not less than HK$11.54 per Offer Share unless otherwise announced, as further explained below, no 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 our consent, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of our Company (www.newone.com.cn) and the website of the Stock Exchange (www.hkexnews.hk) an announcement/a supplemental prospectus (as appropriate) in connection with the reduction. Upon the issue of such announcement/supplemental prospectus (as appropriate), the revised number of Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon by our Company and the Joint Representatives (on behalf of the Hong Kong Underwriters), will be fixed within such revised Offer Price range. Applicants should note the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such announcement/supplemental prospectus (as appropriate) will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such announcement/supplemental prospectus (as appropriate) so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon between our Company and the Joint Representatives (on behalf of the Hong Kong Underwriters), will under no circumstances be set outside the Offer Price range stated in this prospectus. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

In the event of a reduction in the number of Offer Shares, the Joint Representatives may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 5% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Representatives.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of and results of allocations of Hong Kong Offer Shares under the Hong Kong Public Offering are expected to be announced on Thursday, October 6, 2016 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Company (www.newone.com.cn) and the website of the Stock Exchange (www.hkexnews.hk).

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Representatives (on behalf of the Hong Kong Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

The underwriting arrangements under the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed "Underwriting" in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptances of all applications for Offer Shares will be conditional on:

(a) the Listing Committee granting listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including any additional H Shares that may be issued pursuant to the exercise of the Over-allotment Option) and the H Shares to be converted from A Shares and transferred to NSSF and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the H Shares on the Stock Exchange;

(b) the Offer Price having been duly agreed between our Company and the Joint Representatives (on behalf of the Hong Kong Underwriters) on the Price Determination Date;

(c) the execution and delivery of the International Underwriting Agreement on the Price Determination Date; and

(d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed between our Company and the Joint Representatives (on behalf of the Hong Kong Underwriters) on or before Saturday, October 1, 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 Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Company (www.newone.com.cn) and the website of the Stock Exchange (www.hkexnews.hk) on the next day following such lapse. In such situation, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for the Hong Kong Offer Shares—14. Dispatch/ Collection of H Share Certificates and Refund Monies" in this prospectus. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

H Share certificates issued in respect of the Hong Kong Offer Shares will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional (including the Underwriting Agreements not having been terminated in accordance with their terms at any time prior to 8:00 a.m. on the Listing Date).

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, H Shares to be issued pursuant to the Global Offering (including any additional H Shares that may be issued pursuant to the exercise of the Over-allotment Option) and the H Shares to be converted from A Shares and transferred to NSSF.

H SHARES WILL BE ELIGIBLE FOR CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional 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.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, October 7, 2016, it is expected that dealings in the H Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, October 7, 2016. The H Shares will be traded in board lots of 200 H Shares. The stock code of the H Shares is 6099.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint 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 or are a person described in paragraph (h)(3) of Rule 902 of Regulation S, and are not a U.S. 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:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her 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 the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- are a Director or chief executive officer of our Company and/or any of its subsidiaries;

- are a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering;
- are an associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for or indicated an interest in any Offer Shares under 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 Tuesday, September 27, 2016 until 12:00 noon on Friday, September 30, 2016 from:

(i) the following addresses of the following Hong Kong Underwriters:

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

J.P. Morgan Securities (Asia Pacific) Limited
28/F, Chater House
8 Connaught Road Central
Central
Hong Kong

Morgan Stanley Asia Limited
46/F, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Huatai Financial Holdings (Hong Kong) Limited
Room 5808—12 The Center
99 Queen's Road Central
Hong Kong

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

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

Mizuho Securities Asia Limited
12/F, Chater House
8 Connaught Road Central
Hong Kong

GF Securities (Hong Kong) Brokerage Limited
29-30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

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

Orient Securities (Hong Kong) Limited
28-29/F, 100 Queen's Road Central
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

Ping An of China Securities (Hong Kong) Company Limited
28/F, 169 Electric Road
North Point
Hong Kong

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

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

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

(ii) or any of the following branches of the receiving banks:

(a) **Bank of China (Hong Kong) Limited**

District	Branch Name	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Connaught Road Central Branch	13-14 Connaught Road Central
	Chai Wan Branch	Block B, Walton Estate, 341-343 Chai Wan Road, Chai Wan
Kowloon	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
	Mei Foo Mount Sterling Mall Branch	Shop N47-49 Mount Sterling Mall, Mei Foo Sun Chuen
	East Point City Branch	Shop 101, East Point City, Tseung Kwan O
New Territories	Citywalk Branch	Shop 65, G/F, Citywalk, 1 Yeung Uk Road, Tsuen Wan
	Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun
	Tai Po Branch	68-70 Po Heung Street, Tai Po Market

(b) **Bank of Communications Co., Ltd. Hong Kong Branch**

District	Branch Name	Address
Hong Kong Island	Wanchai Sub-Branch	Shop B on G/F., Johnston Court, 32-34 Johnston Road

(c) **Standard Chartered Bank (Hong Kong) Limited**

District	Branch Name	Address
Hong Kong Island	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King’s Road, Quarry Bay
Kowloon	68 Nathan Road Branch	Basement, Shop B1, G/F and M/F Golden Crown Court, 66-70 Nathan Road, Tsimshatsui

(d) **Wing Lung Bank Limited**

District	Branch Name	Address
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Johnston Road Branch	118 Johnston Road
	Kennedy Town Branch	28 Catchick Street
	Aberdeen Branch	201 Aberdeen Main Road
Kowloon	Mongkok Branch	B/F Wing Lung Bank Centre, 636 Nathan Road
	Tsim Sha Tsui Branch	4 Carnarvon Road
New Territories	Sheung Shui Branch	128 San Fung Avenue

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, September 27, 2016 until 12:00 noon on Friday, September 30, 2016 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- 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 – CHINA MERCHANTS SECURITIES PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Tuesday, September 27, 2016 – 9:00 a.m. to 5:00 p.m.
- Wednesday, September 28, 2016 – 9:00 a.m. to 5:00 p.m.
- Thursday, September 29, 2016 – 9:00 a.m. to 5:00 p.m.
- Friday, September 30, 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 Friday, September 30, 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.

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 of our

Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Special Regulations 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 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, the 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;

(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 or any state securities law in the United States, or any securities regulatory authority of any other jurisdiction; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are (a) outside the United States (as defined in

Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S and (b) not a U.S. person;

(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 names 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 H Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in the section headed "How to Apply for the Hong Kong Offer Shares—14. Dispatch/ Collection of H Share Certificates and Refund Monies—Personal Collection" in this prospectus to collect the H 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.

Additional Instructions for YELLOW Application Forms

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in "—2. Who Can Apply" in this section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the White Form eIPO Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the White Form eIPO Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, September 27, 2016 until 11:30 a.m. on Friday, September 30, 2016 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, September 30, 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 more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK$2 for each "China Merchants Securities Co., Ltd." **White Form eIPO** application submitted via **www.eipo.com.hk** to support the funding of "Source of Dongjiang—Hong Kong Forest" project initiated by Friends of Earth (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 monies due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Representatives and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
- (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, our 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 H Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and 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 and 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 a 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 a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by 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 giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Special Regulations and the Articles of Association;
- agree with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the 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 shareholder of the Company and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving **electronic application instructions**):
  (a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;
  (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 the Company (for the Company itself and for the benefit of each shareholder of the Company) that H shares in the Company are freely transferable by their holders;
- authorize the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 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:

- Tuesday, September 27, 2016 – 9:00 a.m. to 8:30 p.m.[(1)]
- Wednesday, September 28, 2016 – 8:00 a.m. to 8:30 p.m.[(1)]
- Thursday, September 29, 2016 – 8:00 a.m. to 8:30 p.m.[(1)]
- Friday, September 30, 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 Tuesday, September 27, 2016 until 12:00 noon on Friday, September 30, 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 Friday, September 30, 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 Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, the H Share Registrar, the receiving banks, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and 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, our Directors, the Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers 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 Friday, September 30, 2016.

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 the **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Hong Kong Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 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 Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see "Structure of the Global Offering—Pricing and Allocation."

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 Friday, September 30, 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 Friday, September 30, 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 indications 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 Thursday, October 6, 2016 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at www.newone.com.cn and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at www.newone.com.cn and the Stock Exchange's website at www.hkexnews.hk by no later than 9:00 a.m. on Thursday, October 6, 2016;
- 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 Thursday, October 6, 2016 to 12:00 midnight on Wednesday, October 12, 2016;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, October 6, 2016 to Sunday, October 9, 2016; and
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, October 6, 2016 to Saturday, October 8, 2016 at all the receiving banks' designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

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 the 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 a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or 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 of the Stock Exchange 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 at **www.eipo.com.hk**;

- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Representatives believes or 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.

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$12.78 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "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 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 Thursday, October 6, 2016.

14. DISPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H 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 H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- H Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, H Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity

card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on or before Thursday, October 6, 2016. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

H Share certificates will only become valid at 8:00 a.m. on Friday, October 7, 2016 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of H Share certificates or the H 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 H 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 Thursday, October 6, 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 H Share certificate(s) personally within the time specified for collection, it/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 H Share certificate(s) will be sent to the address on the relevant Application Form on or before Thursday, October 6, 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 or more Hong Kong Offer Shares, 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 Thursday, October 6, 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 H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, October 6, 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 Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer 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 Thursday, October 6, 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 or more Hong Kong Offer Shares and your application is wholly or partially successful, you may collect your H 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 Thursday, October 6, 2016, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of H Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your H Share certificate(s) personally within the time specified for collection, it/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 H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, October 6, 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) on or before Thursday, October 6, 2016 by ordinary post at your own risk,

(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 H Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your H 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 Thursday, October 6, 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 Thursday, October 6, 2016. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, October 6, 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 Thursday, October 6, 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 Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, October 6, 2016.

15. ADMISSION OF THE H SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between

Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountants. SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus, it is prepared and addressed to the Directors and the Sponsor pursuant to the requirement of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountants" issued by the Hong Kong Institute of Certified Public Accountants.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One,
33 Hysan Avenue
Causeway Bay, Hong Kong

September 27, 2016

The Board of Directors
China Merchants Securities Co., Ltd.

China Merchants Securities (HK) Co., Limited

J.P. Morgan Securities (Far East) Limited

Morgan Stanley Asia Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information (the "Financial Information") regarding China Merchants Securities Co., Ltd. (招商證券股份有限公司) (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the three years ended December 31, 2013, 2014, 2015 and six months ended June 30, 2016 (the "Track Record Period") for inclusion in the prospectus of the Company dated September 27, 2016 (the "Prospectus") in connection with the initial listing of H Shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

On August 1, 1993, with the approval of People's Bank of China (Shenzhen branch) and Shenzhen Administration for Industry and Commerce, the Company was duly established as the Securities Department of China Merchants Bank (招商銀行證券業務部). On August 26, 1994, the Securities Department of China Merchants Bank changed its name to Shenzhen CMB Securities Company (深圳招銀證券公司). During the same year, Shenzhen CMB Securities Company further changed its name to CMB Securities Company (招銀證券公司) on September 28, 1994. On November 6, 1998, with the approval of People's Bank of China pursuant to the approval for the reformed structure on increase in capital by CMB Securities Company (招銀證券公司) (Yin Fu [1997] No. 529), China Securities Regulatory Commission ("CSRC") pursuant to the approval for the agreement for the reformed structure on increase in capital and change of name by CMB Securities Company (招銀證券公司) (Zheng Jian Ji Zi [1998] No. 27) and Shenzhen Administration for Industry and Commerce, CMB Securities Company reformed its structure and changed its name to Guotong Securities Limited Liability Company (國通證券有限責任公司) and then renamed as China Merchants Securities Co., Ltd. (招商證券股份有限公司) on June 28, 2002. On November 2, 2009, the Company listed its shares on the Shanghai Stock Exchange with the stock code 600999.

The Company and all subsidiaries have adopted December 31 as their financial year end dates. During the Track Record Period and as at the date of this report, the Company has direct or indirect interest in subsidiaries as set out in note 22 of this report.

The consolidated financial statements of the Group were prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the People's Republic of China (the "PRC Financial Statements") for the three years ended December 31, 2013, 2014, 2015 and six months ended June 30, 2016 were audited by ShineWing Certified Public Accountants LLP (信永中和會計師事務所(特殊普通合夥)) ("Shinewing PRC"), a firm of certified public accountants registered in the PRC. The statutory financial statements of the subsidiaries, directly or indirectly controlled by the Company, were audited by independent auditors as set out in note 22 of this report.

BASIS OF PREPARATION

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Group for the Track Record Period, in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements"). The Underlying Financial Statements were audited by Shinewing PRC in accordance with China Auditing Standards issued by Chinese Institute of Certified Public Accountants (the "CICPA") pursuant to separate terms of engagement with the Company.

The Financial Information of the Group for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements. No adjustments are deemed necessary to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Underlying Financial Statements and the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information, and to report our opinion to you.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

OPINION

In our opinion, for the purpose of this report, the Financial Information together with the notes thereon give a true and fair view of the financial position of the Group and the Company as at December 31, 2013, 2014, 2015 and June 30, 2016, and of the consolidated financial performance and consolidated cash flows of the Group for the Track Record Period.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

The consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the six months ended June 30, 2015 together with the notes thereon (the "June 2015 Financial Information") have been extracted from the Group's unaudited consolidated financial information for the same period, which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the June 2015 Financial Information in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by IASB. Our review of the June 2015 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical procedures and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International 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 June 2015 Financial Information.

Based on our review, nothing has come to our attention that causes us to believe that the June 2015 Financial Information is not prepared, in all material aspects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

A. FINANCIAL INFORMATION

Consolidated Statements of Profit or Loss

	Notes	Year ended December 31, 2013	2014	2015	Six months ended June 30, 2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue						
Fee and commission income	6	4,447,013	7,290,479	19,317,428	10,487,819	5,003,390
Interest income	7	1,985,114	3,884,702	9,906,061	5,234,384	3,298,067
Net investment gains	8	1,269,760	2,538,159	5,681,111	4,737,235	386,559
Total revenue		7,701,887	13,713,340	34,904,600	20,459,438	8,688,016
Other income and gains, net	9	38,178	52,840	83,968	36,728	40,740
Total revenue and other income		7,740,065	13,766,180	34,988,568	20,496,166	8,728,756
Depreciation and amortization	10	(134,354)	(140,981)	(151,133)	(73,987)	(79,414)
Staff costs	11	(2,004,052)	(3,621,809)	(8,180,358)	(4,919,174)	(1,462,058)
Fee and commission expenses	12	(766,968)	(1,108,990)	(2,868,697)	(1,617,575)	(819,411)
Interest expenses	13	(1,146,554)	(1,974,392)	(7,285,270)	(3,296,727)	(3,019,430)
Business tax and surcharges		(354,047)	(588,459)	(1,663,829)	(957,298)	(357,129)
Other operating expenses	14	(948,579)	(1,028,569)	(1,528,294)	(613,721)	(565,209)
Impairment losses, net	15	(4,146)	(670,212)	(228,098)	4,409	79,077
Total expenses		(5,358,700)	(9,133,412)	(21,905,679)	(11,474,073)	(6,223,574)
Operating profit		2,381,365	4,632,768	13,082,889	9,022,093	2,505,182
Share of results of associates		269,075	339,109	551,102	309,125	339,552
Profit before income tax		2,650,440	4,971,877	13,633,991	9,331,218	2,844,734
Income tax expenses	16	(412,985)	(1,087,357)	(2,705,737)	(1,996,090)	(609,160)
Profit for the year/ period		2,237,455	3,884,520	10,928,254	7,335,128	2,235,574
Attributable to:						
Owners of the Company		2,232,091	3,850,673	10,908,749	7,314,665	2,241,825
Non-controlling interests		5,364	33,847	19,505	20,463	(6,251)
		2,237,455	3,884,520	10,928,254	7,335,128	2,235,574
Earnings per share attributable to owners of the Company (Expressed in RMB Yuan per share)	17					
—Basic and diluted		0.48	0.72	1.88	1.26	0.39

A. FINANCIAL INFORMATION (Continued)

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit for the year / period	2,237,455	3,884,520	10,928,254	7,335,128	2,235,574
Other comprehensive income (expense)					
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale financial assets					
Net fair value changes during the year / period	(123,242)	353,178	357,577	612,297	(1,313,345)
Reclassification adjustment to profit or loss upon disposal	(31,741)	53,903	(40,966)	(3,925)	(538,733)
Income tax impact	36,232	(101,530)	(79,153)	(153,060)	465,065
Subtotal	(118,751)	305,551	237,458	455,312	(1,387,013)
Share of other comprehensive income (expense) of associates	1,723	2,144	6,352	3,666	(3,543)
Exchange differences arising on translating foreign operations	(59,511)	6,475	127,766	(613)	44,900
Other comprehensive (expense) income for the year / period, net of tax	(176,539)	314,170	371,576	458,365	(1,345,656)
Total comprehensive income for the year / period	2,060,916	4,198,690	11,299,830	7,793,493	889,918
Total comprehensive income for the year / period attributable to:					
Owners of the Company	2,055,552	4,164,843	11,280,325	7,773,030	896,169
Non-controlling interests	5,364	33,847	19,505	20,463	(6,251)
	2,060,916	4,198,690	11,299,830	7,793,493	889,918

A. FINANCIAL INFORMATION (Continued)

Consolidated Statements of Financial Position

	Notes	As at December 31,			As at June 30,
		2013	2014	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property and equipment	18	1,086,957	1,297,967	1,518,515	1,580,627
Investment properties	19	6,610	5,790	4,970	4,560
Goodwill	20	9,671	9,671	9,671	9,671
Other intangible assets	21	25,460	23,242	24,251	23,441
Interests in associates	24	4,853,461	4,455,435	4,897,814	5,067,223
Available-for-sale financial assets	26	525,807	894,314	10,097,292	8,808,364
Loan receivables	27	845,964	90,720	—	—
Financial assets held under resale agreements	28	191,330	1,700,432	3,464,071	5,394,926
Deferred tax assets	29	225,456	370,136	726,238	2,101,820
Other non-current assets	30	160,605	168,406	184,083	166,928
Total non-current assets		7,931,321	9,016,113	20,926,905	23,157,560
Current assets					
Advances to customers	31	20,087,285	58,595,165	64,389,342	46,568,290
Accounts receivable	32	739,866	1,412,035	3,033,050	3,654,692
Other receivables, prepayment and deposits	33	363,356	555,535	1,018,667	1,163,306
Available-for-sale financial assets	26	5,891,858	13,983,691	25,645,352	27,902,759
Loan receivables	27	109,875	564,188	287,060	182,199
Financial assets held under resale agreements	28	2,675,100	5,844,267	10,870,685	5,751,662
Financial assets at fair value through profit or loss	35	15,480,013	36,121,668	62,826,493	50,575,995
Derivative financial assets	36	86,916	12,015	1,016,347	817,196
Deposits with exchanges and non-bank financial institutions	37	164,068	244,680	857,442	576,999
Clearing settlement funds	38	5,047,161	12,191,801	19,166,188	11,676,726
Cash and bank balances	39	25,283,006	54,866,894	81,618,054	73,237,238
Total current assets		75,928,504	184,391,939	270,728,680	222,107,062
Total assets		83,859,825	193,408,052	291,655,585	245,264,622
Current liabilities					
Borrowings	41	1,419,145	2,843,876	3,090,227	3,339,139
Short-term debt instruments	42	7,800,000	14,363,147	27,878,320	7,694,480
Placements from other financial institutions	43	1,000,000	4,600,000	4,000,000	1,600,000
Accounts payable to brokerage clients	44	26,718,485	57,694,223	88,749,044	74,043,486
Accrued staff costs	45	634,202	1,856,345	7,125,211	4,966,032
Other payables and accrued charges	46	1,329,246	6,484,667	9,349,464	6,411,492
Provision	47	8,507	118	96	96
Current tax liabilities		155,928	348,589	522,287	407,334
Other liabilities	48	696,649	844,594	545,735	—
Financial liabilities at fair value through profit or loss	49	651,815	210,697	2,369,280	2,214,747
Derivative financial liabilities	36	131,818	849,865	1,866,372	977,758
Financial assets sold under repurchase agreements	50	4,358,448	44,838,516	32,088,027	41,826,428
Total current liabilities		44,904,243	134,934,637	177,584,063	143,480,992
Net current assets		31,024,261	49,457,302	93,144,617	78,626,070
Total assets less current liabilities		38,955,582	58,473,415	114,071,522	101,783,630

A. FINANCIAL INFORMATION (Continued)

Consolidated Statements of Financial Position (Continued)

	Notes	As at December 31, 2013	As at December 31, 2014	As at December 31, 2015	As at June 30, 2016
		RMB'000	RMB'000	RMB'000	RMB'000
Equity					
Share capital	51	4,661,100	5,808,136	5,808,136	5,808,136
Capital reserve		9,449,177	19,403,877	19,403,877	19,403,877
Investment revaluation reserve	52	(89,139)	218,556	462,366	(928,190)
Translation reserve		(239,675)	(233,200)	(105,434)	(60,534)
General reserves	53	5,948,941	7,071,819	10,117,807	10,117,807
Retained profits	54	7,428,912	9,268,062	12,664,367	13,471,582
Equity attributable to owners of the Company		27,159,316	41,537,250	48,351,119	47,812,678
Non-controlling interests		25,064	58,911	80,671	74,420
Total equity		27,184,380	41,596,161	48,431,790	47,887,098
Non-current liabilities					
Financial assets sold under repurchase agreements	50	—	4,300,000	10,865,000	2,000,000
Accrued staff costs	45	1,476,936	1,813,599	787,540	787,540
Deferred tax liabilities	29	31,298	359,673	446,349	151,494
Deferred income	55	126,000	126,000	126,000	126,000
Bonds payable	56	9,979,673	9,982,486	52,960,871	50,463,093
Borrowings	41	157,295	295,496	453,972	368,405
Total non-current liabilities		11,771,202	16,877,254	65,639,732	53,896,532
Total equity and non-current liabilities		38,955,582	58,473,415	114,071,522	101,783,630

A. FINANCIAL INFORMATION (Continued)

Statements of Financial Position

	Notes	As at December 31, 2013	As at December 31, 2014	As at December 31, 2015	As at June 30, 2016
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property and equipment	18	1,055,311	1,244,415	1,469,937	1,530,735
Investment properties	19	6,610	5,790	4,970	4,560
Other intangible assets	21	7,902	5,630	5,633	4,476
Investments in subsidiaries	22	3,028,019	3,558,019	4,508,019	5,208,019
Interests in associates	24	4,822,976	4,423,284	4,861,256	5,030,185
Available-for-sale financial assets	26	383,963	983,164	9,750,692	8,315,753
Financial assets held under resale agreements	28	191,330	1,700,432	3,464,071	5,394,926
Deferred tax assets	29	220,390	354,706	700,805	2,040,633
Other non-current assets	30	152,237	154,908	172,061	154,701
Total non-current assets		9,868,738	12,430,348	24,937,444	27,683,988
Current assets					
Advances to customers	31	19,459,068	56,850,715	62,619,481	45,427,085
Accounts receivable	32	129,080	276,095	591,375	441,766
Other receivables, prepayment and deposits	33	317,849	501,709	920,832	1,077,593
Amount due from a subsidiary	34	—	—	1,500,000	1,500,000
Available-for-sale financial assets	26	5,891,858	13,794,776	25,257,561	27,063,407
Financial assets held under resale agreements	28	1,905,190	4,806,101	10,323,700	5,751,662
Financial assets at fair value through profit or loss	35	13,022,686	31,735,043	54,030,551	41,244,593
Derivative financial assets	36	80,742	4,860	374,784	297,790
Deposits with exchanges and non-bank financial institutions	37	403,262	591,686	954,435	654,642
Clearing settlement funds	38	3,934,425	9,999,554	16,552,024	8,342,372
Cash and bank balances	39	20,171,145	46,249,156	71,602,634	62,212,176
Total current assets		65,315,305	164,809,695	244,727,377	194,013,086
Total assets		75,184,043	177,240,043	269,664,821	221,697,074
Current liabilities					
Short-term debt instruments	42	7,800,000	14,433,147	27,878,320	7,694,480
Placements from other financial institutions	43	1,000,000	4,600,000	4,000,000	1,600,000
Accounts payable to brokerage clients	44	21,896,323	48,801,710	78,135,079	61,726,524
Accrued staff costs	45	516,993	1,671,811	6,727,898	4,694,062
Other payables and accrued charges	46	1,176,688	4,375,432	6,545,078	3,751,718
Provision	47	8,507	118	96	96
Current tax liabilities		135,539	336,240	433,346	324,377
Financial liabilities at fair value through profit or loss	49	—	—	984,646	155,989
Derivative financial liabilities	36	131,475	849,865	1,225,418	304,633
Financial assets sold under repurchase agreements	50	4,358,448	44,838,516	32,088,027	41,826,428
Total current liabilities		37,023,973	119,906,839	158,017,908	122,078,307
Net current assets		28,291,332	44,902,856	86,709,469	71,934,779
Total assets less current liabilities		38,160,070	57,333,204	111,646,913	99,618,767

A. FINANCIAL INFORMATION (Continued)

Statements of Financial Position (Continued)

	Notes	As at December 31, 2013	As at December 31, 2014	As at December 31, 2015	As at June 30, 2016
		RMB'000	RMB'000	RMB'000	RMB'000
Equity					
Share capital	51	4,661,100	5,808,136	5,808,136	5,808,136
Capital reserve		9,449,177	19,403,877	19,403,876	19,403,877
Investment revaluation reserve	52	(130,273)	64,978	93,907	(1,185,738)
General reserves	53	5,948,941	7,071,819	10,117,807	10,117,807
Retained profits	54	6,478,102	8,209,506	10,850,355	11,708,902
Total equity		26,407,047	40,558,316	46,274,081	45,852,984
Non-current liabilities					
Financial assets sold under repurchase agreements	50	—	4,300,000	10,865,000	2,000,000
Accrued staff costs	45	1,476,936	1,813,599	787,540	787,540
Deferred tax liabilities	29	13,119	257,307	263,227	20,745
Deferred income	55	126,000	126,000	126,000	126,000
Bonds payable	56	9,979,673	9,982,486	52,960,871	50,463,093
Borrowings	41	157,295	295,496	370,194	368,405
Total non-current liabilities		11,753,023	16,774,888	65,372,832	53,765,783
Total equity and non-current liabilities		38,160,070	57,333,204	111,646,913	99,618,767

A. FINANCIAL INFORMATION (Continued)

Consolidated Statements of Changes in Equity

	Equity attributable to owners of the Company								
	Share capital	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Subtotal	Non-controlling interests	Total
	RMB'000 (Note 51)	RMB'000 (Note)	RMB'000 (Note 52)	RMB'000	RMB'000 (Note 53)	RMB'000 (Note 54)	RMB'000	RMB'000	RMB'000
At January 1, 2013	4,661,100	9,449,177	27,889	(180,164)	5,334,464	6,473,174	25,765,640	2,000	25,767,640
Profit for the year	—	—	—	—	—	2,232,091	2,232,091	5,364	2,237,455
Other comprehensive expense for the year	—	—	(117,028)	(59,511)	—	—	(176,539)	—	(176,539)
Total comprehensive (expense) income for the year	—	—	(117,028)	(59,511)	—	2,232,091	2,055,552	5,364	2,060,916
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	17,700	17,700
Appropriation to general reserve	—	—	—	—	614,477	(614,477)	—	—	—
Dividends recognized as distribution (note 57)	—	—	—	—	—	(661,876)	(661,876)	—	(661,876)
At December 31, 2013	4,661,100	9,449,177	(89,139)	(239,675)	5,948,941	7,428,912	27,159,316	25,064	27,184,380

A. FINANCIAL INFORMATION (Continued)

Consolidated Statements of Changes in Equity (Continued)

	Equity attributable to owners of the Company								
	Share capital	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Subtotal	Non-controlling interests	Total
	RMB'000 (Note 51)	RMB'000 (Note)	RMB'000 (Note 52)	RMB'000	RMB'000 (Note 53)	RMB'000 (Note 54)	RMB'000	RMB'000	RMB'000
At January 1, 2014	4,661,100	9,449,177	(89,139)	(239,675)	5,948,941	7,428,912	27,159,316	25,064	27,184,380
Profit for the year	—	—	—	—	—	3,850,673	3,850,673	33,847	3,884,520
Other comprehensive income for the year	—	—	307,695	6,475	—	—	314,170	—	314,170
Total comprehensive income for the year	—	—	307,695	6,475	—	3,850,673	4,164,843	33,847	4,198,690
Issuance of shares (note 51)	1,147,036	10,002,151	—	—	—	—	11,149,187	—	11,149,187
Transaction costs attributable to issue of shares	—	(47,451)	—	—	—	—	(47,451)	—	(47,451)
Appropriation to general reserve	—	—	—	—	1,122,878	(1,122,878)	—	—	—
Dividends recognized as distribution (note 57)	—	—	—	—	—	(888,645)	(888,645)	—	(888,645)
At December 31, 2014	5,808,136	19,403,877	218,556	(233,200)	7,071,819	9,268,062	41,537,250	58,911	41,596,161

A. FINANCIAL INFORMATION (Continued)

Consolidated Statements of Changes in Equity (Continued)

	Equity attributable to owners of the Company								
	Share capital	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Subtotal	Non-controlling interests	Total
	RMB'000 (Note 51)	RMB'000 (Note)	RMB'000 (Note 52)	RMB'000	RMB'000 (Note 53)	RMB'000 (Note 54)	RMB'000	RMB'000	RMB'000
At January 1, 2015	5,808,136	19,403,877	218,556	(233,200)	7,071,819	9,268,062	41,537,250	58,911	41,596,161
Profit for the year	—	—	—	—	—	10,908,749	10,908,749	19,505	10,928,254
Other comprehensive income for the year	—	—	243,810	127,766	—	—	371,576	—	371,576
Total comprehensive income for the year	—	—	243,810	127,766	—	10,908,749	11,280,325	19,505	11,299,830
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	3,107	3,107
Appropriation to general reserve	—	—	—	—	3,045,988	(3,045,988)	—	—	—
Dividends recognized as distribution (note 57)	—	—	—	—	—	(4,466,456)	(4,466,456)	(852)	(4,467,308)
At December 31, 2015	5,808,136	19,403,877	462,366	(105,434)	10,117,807	12,664,367	48,351,119	80,671	48,431,790

A. FINANCIAL INFORMATION (Continued)

Consolidated Statements of Changes in Equity (Continued)

	Equity attributable to owners of the Company								
	Share capital	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Subtotal	Non-controlling interests	Total
	RMB'000 (Note 51)	RMB'000 (Note)	RMB'000 (Note 52)	RMB'000	RMB'000 (Note 53)	RMB'000 (Note 54)	RMB'000	RMB'000	RMB'000
At January 1, 2016	5,808,136	19,403,877	462,366	(105,434)	10,117,807	12,664,367	48,351,119	80,671	48,431,790
Profit (loss) for the period	—	—	—	—	—	2,241,825	2,241,825	(6,251)	2,235,574
Other comprehensive (expenses) income for the period	—	—	(1,390,556)	44,900	—	—	(1,345,656)	—	(1,345,656)
Total comprehensive (expenses) income for the period	—	—	(1,390,556)	44,900	—	2,241,825	896,169	(6,251)	889,918
Dividends recognized as distribution (note 57)	—	—	—	—	—	(1,434,610)	(1,434,610)	—	(1,434,610)
At June 30, 2016	5,808,136	19,403,877	(928,190)	(60,534)	10,117,807	13,471,582	47,812,678	74,420	47,887,098

A. FINANCIAL INFORMATION (Continued)

Consolidated Statements of Changes in Equity (Continued)

	Equity attributable to owners of the Company								
	Share capital	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Subtotal	Non-controlling interests	Total
	RMB'000 (Note 51)	RMB'000 (Note)	RMB'000 (Note 52)	RMB'000	RMB'000 (Note 53)	RMB'000 (Note 54)	RMB'000	RMB'000	RMB'000
At January 1, 2015 (Audited)	5,808,136	19,403,877	218,556	(233,200)	7,071,819	9,268,062	41,537,250	58,911	41,596,161
Profit for the period	—	—	—	—	—	7,314,665	7,314,665	20,463	7,335,128
Other comprehensive income (expense) for the period	—	—	458,978	(613)	—	—	458,365	—	458,365
Total comprehensive income (expense) for the period	—	—	458,978	(613)	—	7,314,665	7,773,030	20,463	7,793,493
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	8,115	8,115
Dividends recognized as distribution (note 57)	—	—	—	—	—	(1,539,156)	(1,539,156)	—	(1,539,156)
At June 30, 2015 (Unaudited)	5,808,136	19,403,877	677,534	(233,813)	7,071,819	15,043,571	47,771,124	87,489	47,858,613

Note: Capital reserve mainly includes share premium arising from the issuance of new shares at price in excess of face value and difference between the consideration of acquisition of equity prices from non-controlling shareholders and the carrying amount of the proportionate net assets.

A. FINANCIAL INFORMATION (Continued)

Consolidated Statements of Cash Flows

	Note	Year ended December 31,			Six months ended June 30,	
		2013	2014	2015	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
OPERATING ACTIVITIES						
Profit before income tax		2,650,440	4,971,877	13,633,991	9,331,218	2,844,734
Adjustments for:						
Interest expenses		1,146,554	1,974,392	7,285,270	3,296,727	3,019,430
Share of results of associates		(269,075)	(339,109)	(551,102)	(309,125)	(339,552)
Depreciation and amortization		134,354	140,981	151,133	73,987	79,414
Impairment losses, net		4,146	670,212	228,098	(4,409)	(79,077)
Losses (gains) on disposal of property and equipment, other intangible assets and other non-current assets		2,264	2,780	24,145	(197)	(345)
Foreign exchange (gains) losses, net		(19,134)	(3,195)	37,163	(1,267)	10,544
Net realized losses (gains) from disposal of available-for-sale financial assets		7,687	(132,440)	(341,779)	(434,746)	(356,790)
Dividend income and interest income from available-for-sale financial assets		(238,850)	(409,946)	(709,273)	(280,116)	(508,122)
Unrealized fair value changes in financial instruments at fair value through profit or loss		216,596	(2,535,500)	829,737	(3,826,866)	2,267,539
Unrealized fair value change in derivatives financial instruments		(118,959)	1,415,539	(679,547)	1,221,769	(852,252)
Operating cash flows before movements in working capital		3,516,023	5,755,591	19,907,836	9,066,975	6,085,523
(Increase) decrease in advances to customers		(14,845,891)	(38,507,880)	(5,924,977)	(56,230,284)	17,717,378
(Increase) decrease in other current assets		(629,071)	(211,590)	(2,165,663)	(4,136,806)	375,943
(Increase) decrease in interest receivables		(183,340)	(162,926)	(489,248)	(463,673)	20,088
(Increase) decrease in financial assets held under resale agreements		(2,649,545)	(4,678,268)	(6,892,507)	(5,487,790)	3,235,068
Decrease (increase) in financial assets at fair value through profit or loss		8,705,920	(18,192,875)	(25,455,481)	(15,431,438)	9,828,426
Decrease (increase) in deposit with exchanges and non-bank financial institutions		354,054	(80,612)	(612,762)	(448,606)	280,443
(Increase) decrease in clearing settlement funds		(1,022,285)	(6,467,863)	(5,841,752)	(11,822,303)	7,084,960
Decrease (increase) in cash held on behalf of customers		4,169,594	(24,803,789)	(24,929,327)	(65,033,574)	8,136,279
(Decrease) increase in accounts payable to brokerage clients		(3,391,811)	30,975,738	31,054,821	75,842,929	(14,705,558)
Increase (decrease) in accrued staff costs		259,986	1,558,806	4,242,807	2,571,701	(2,159,179)
Increase (decrease) in other payables and accrued charges		1,896,210	4,271,988	356,700	4,561,513	(1,553,923)
(Decrease) increase in financial assets sold under repurchase agreements		(9,764,874)	44,780,068	(6,185,489)	10,123,957	873,401
Increase (decrease) in placements from other financial institutions		889,000	3,600,000	(600,000)	(3,600,000)	(2,400,000)
Increase (decrease) in provisions		8,507	(8,389)	(22)	—	—
Cash (used in)/generated from operations		(12,687,523)	(2,172,001)	(23,535,064)	(60,487,399)	32,818,849
Income taxes paid		(363,869)	(812,535)	(2,880,705)	(1,064,803)	(1,931,601)
Interest paid		(437,364)	(954,842)	(3,157,044)	(1,691,504)	(1,103,074)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		(13,488,756)	(3,939,378)	(29,572,813)	(63,243,706)	29,784,174

A. FINANCIAL INFORMATION (Continued)

Consolidated Statements of Cash Flows (Continued)

	Note	Year ended December 31,			Six months ended June 30,	
		2013	2014	2015	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
INVESTING ACTIVITIES						
Dividends and interest received from investment		412,911	480,076	824,348	324,766	591,422
Purchases of property and equipment and other intangible assets		(282,219)	(362,082)	(401,380)	(117,934)	(124,729)
Proceeds from disposal of property and equipment, other intangible assets and other non-current assets		529	743	704	367	460
Capital injection to an associate		(318,414)	—	—	—	—
Purchase or proceeds on disposal of available-for-sale financial assets, net		(1,629,337)	(8,019,277)	(20,215,167)	1,471,667	(2,463,767)
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		(1,816,530)	(7,900,540)	(19,791,495)	1,678,866	(1,996,614)
FINANCING ACTIVITIES						
Dividends paid to shareholders		(661,876)	(888,645)	(4,467,308)	(1,539,156)	(1,434,610)
Repayment of bonds and short-term debt instruments interest		(247,540)	(922,275)	(1,205,675)	(845,143)	(3,741,395)
Repayment of borrowings interest		(3,956)	(14,135)	(89,563)	(8,984)	(25,878)
Capital injection from non-controlling shareholders		17,700	—	3,107	8,115	—
Proceeds from issue of shares		—	11,101,736	—	—	—
Net proceeds (redemption) from bonds and short-term debt instruments		15,811,596	6,556,006	56,308,622	70,987,075	(22,683,840)
Net proceeds from borrowings		632,621	1,424,731	246,350	1,463,329	100,120
Net proceeds (repayment) from long-term borrowings		153,413	138,201	158,477	104,432	(1,789)
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		15,701,958	17,395,619	50,954,010	70,169,668	(27,787,392)
NET INCREASE IN CASH AND CASH EQUIVALENTS		396,672	5,555,701	1,589,702	8,604,828	168
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD		2,706,483	2,967,827	8,538,706	8,538,706	10,554,561
Effect of foreign exchange rate changes		(135,328)	15,178	426,153	(3,385)	135,305
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD	40	2,967,827	8,538,706	10,554,561	17,140,149	10,690,034

NOTES TO THE FINANCIAL INFORMATION

1 CORPORATE INFORMATION

The Group was formerly established as a securities department of China Merchants Bank. On August 1, 1993, with the approval of People's Bank of China (Shenzhen branch) and Shenzhen Administration for Industry and Commerce, the Group was duly established as the Securities Department of China Merchants Bank (招商銀行證券業務部). On August 26, 1994, the Securities Department of China Merchants Bank was renamed as Shenzhen CMB Securities Company (深圳招銀證券公司). On September 28,1994, Shenzhen CMB Securities Company (深圳招銀證券公司) further changed its name to CMB Securities Company (招銀證券公司). On November 6, 1998, with the approval of People's Bank of China and China Securities Regulatory Commission, CMB Securities Company (招銀證券公司) increased its share capital. Its shareholding structure was altered and renamed as Guotong Securities Limited Liability Company (國通證券有限責任公司).

Being approved by the Ministry of Finance of PRC pursuant to the approval from the Ministry of Finance of PRC for the issues on State-owned shares management by Guotong Securities Co., Ltd. (國通證券股份有限公司) (Cai Qi [2001] No. 723), the China Securities Regulatory Commission pursuant to the approval for the change to limited company by Guotong Securities Limited Liability Company (國通證券有限責任公司) (Zheng Jian Ji Gou Zi [2001] No. 285), the Municipal Government of Shenzhen pursuant to the approval for reform in shareholding structure reform by Guotong Securities Co., Ltd. (國通證券股份有限公司) (Shen Fu Gu [2001] No. 49), and being approved and registered with Shenzhen Administration for Industry and Commerce, Guotong Securities Limited Liability Company (國通證券有限責任公司) reformed its company structure and changed its name to Guotong Securities Co., Ltd. (國通證券股份有限公司) on December 26, 2001. On June 28, 2002, Guotong Securities Co., Ltd. (國通證券股份有限公司) was renamed as China Merchants Securities Co., Ltd. (招商證券股份有限公司).

On November 2, 2009, with the approval by China Securities Regulatory Commission ([2009] No. 1132), the Company launched its initial public offering of 358,546,141 A shares. On November 17, 2009, the Company started to be listed on the Shanghai Stock Exchange.

The Company's ultimate holding company is China Merchants Group Limited ("CMG"). CMG is a PRC enterprise regulated and directly managed by the State-Owned Assets Supervision and Administration Commission of the State Council and CMG is owned and controlled by the PRC Government.

As at June 30, 2016, the Company's registered capital was RMB 5,808,135,529 and the Company has a total of 5,808,135,529 issued shares of RMB 1 each.

The addresses of the registered office and the principal place of business of the Company are 38-45F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen, Guangdong, PRC. The Group and the Company are principally engaged in securities brokerage, securities financial advisory, financial advisory relating to securities trading and securities investment activities, securities underwriting and sponsorship, proprietary trading, asset management, margin financing and securities lending, securities investment fund distribution, intermediary services to future company, agency sale of financial products, insurance agency and securities investment management.

NOTES TO THE FINANCIAL INFORMATION (Continued)

1 CORPORATE INFORMATION (Continued)

The Financial Information is presented in Renminbi ("RMB"), which is the same as functional currency of the Company. All Financial Information presented in RMB has been rounded to the nearest thousand, except when otherwise indicated.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Financial Information set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS"s) and the related interpretations ("IFRICs"). The Group has consistently adopted all of the new and revised International Accounting Standards ("IASs"), IFRSs, amendments and "IFRICs" (herein collectively referred to as the "IFRSs") which are effective for the Group's financial year beginning on January 1, 2016 throughout the Track Record Period.

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

IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
IFRS 9	Financial Instruments[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[3]
Amendments to IAS 7	Disclosure Initiative[2]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses[2]
Amendments to IFRS 15	Clarification to IFRS 15[1]

1 Effective for annual periods beginning on or after January 1, 2018.
2 Effective for annual periods beginning on or after January 1, 2017.
3 Effective for annual periods beginning on or after January 1, 2019.
4 Effective for annual periods beginning on or after a date to be determined.

Except as described below, the application of the new and revised IFRSs will have no material impact on the Group's and Company's financial statements.

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 classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. 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.

NOTES TO THE FINANCIAL INFORMATION (Continued)

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 9 Financial instruments (Continued)

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

IFRS 15 Revenue from contracts with customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programs when it becomes effective. It also includes guidance on when to capitalize costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosed requirements.

NOTES TO THE FINANCIAL INFORMATION (Continued)

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 15 Revenue from contracts with customers (Continued)

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-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

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

The directors of the Company anticipate that the application of IFRS 15 in the future may have 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 a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value. At the commencement date of the lease, the lessee is required to recognize a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognized at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 *Property, Plant and Equipment*, while interest accrual on lease liability will be charged to profit or loss.

NOTES TO THE FINANCIAL INFORMATION (Continued)

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 16 Leases (Continued)

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 *Leases* and the related Interpretations when it becomes effective. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019 with early application permitted provided that the entity has applied IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

The total operating lease commitment of the Group in respect of leased premises with terms more than 12 months as at June 30, 2016 amounted to RMB893,731 thousand. 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 results but it is expected that certain portion of these lease commitments will be required to be recognized in the consolidated statement of financial position as right-of-use assets and lease liabilities.

3 SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved where the Company: (a) has power over the investee; (b) is exposed, or has rights, to variable returns from its involvement with the investee; and (c) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Investments in subsidiaries are stated at cost less accumulated impairment loss, if any, in the Group's statement of financial position. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or losses from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries (Continued)

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (a) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (b) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate.

Structured entities

The Group served as the manager of collective asset management schemes and funds. These collective asset management schemes and funds invest mainly in equities, debt securities cash and cash equivalents and securities-backed lending under resale agreement. The Group's percentage ownership in these structured entities can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such collective asset management schemes and funds, with control determined based on an analysis of the guidance in IFRS 10 Consolidated financial statements, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units in such collective asset management schemes and funds for cash. These are presented as "Third-party interests in consolidated collective asset management schemes" within other liabilities or "Financial liabilities at fair value through profit or loss" in the consolidated statement of financial position.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income taxes and IAS 19 Employee benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based payment at the acquisition date; and

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current assets held for sale and discontinued operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less accumulated impairment losses, if any.

Foreign currencies

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 "People's Bank of China", 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.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the Track Record Period. The resulting exchange differences are recognized 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 recognized in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which are recognized 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 reporting period. The equity items, excluding "retained earnings", are translated to RMB at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated to RMB at the rates that approximate the spot exchange rates. The resulting translation differences are recognized 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 recognized in shareholders' equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

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.

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 recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of associates is described below.

Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the Financial Information using the equity method of accounting, unless it is classified as held for sale. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates (Continued)

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal or partial disposal of the Group's interest in an associate in which the Group lost significant influence and discontinued the use of equity method, any retained interest that is within the scope of IAS 39 is measured at fair value on that date, the difference between the carrying amount of the associate at the date, and the proceeds from disposing of such interest (or partial interest) in the associate and the fair value of the retained interest is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in their comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related asset or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

When an investment in an associate is held by, or is held indirectly through, a group entity that is a venture capital organization and similar entities, the Group may elect to measure investments in those associates at fair value through profit or loss in accordance with IAS 39 Financial instruments: Recognition and measurement.

In the Company's statement of financial position, investments in associates 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).

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment and other non-current assets

Property and equipment including buildings and leasehold land (classified as finance leases) and other non-current assets including leasehold improvement and deferred expenses for use in the supply of services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation/ amortization and subsequent accumulated impairment losses, if any.

Depreciation/amortization is recognized so as to write off their costs, other than construction in progress, less their residual values over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation/amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress is carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories when completed and ready for intended use. Depreciation/amortization of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment and other non-current assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

If an item of property and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, the cost and accumulated depreciation of that item at the date of transfer are transferred to investment property for subsequent measurement and disclosure purposes.

The estimated residual value rates and useful lives of each class of property and equipment and other non-current assets are as follows:

Classes	Estimated residual value rates	Useful lives
Leasehold land and buildings	5%	30 - 50 years
Motor vehicles	5%	5 years
Electronic and communication equipment	5%	5 years
Office equipment	5%	5 years

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognized so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognized.

The estimated residual value rates and useful lives of investment properties are as follows:

Classes	Estimated residual value rates	Useful lives
Buildings	5%	30 - 50 years
Leasehold land	—	Over the term of the lease

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

The estimated useful lives of each class of intangible assets are as follows:

Classes	Useful lives
Trading rights (with finite life)	10 years
Others	5 years

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortization and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on non-financial assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, investment property, intangible assets with finite useful lives, interests in subsidiaries and other non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessee (Continued)

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property and equipment and investment properties.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

If the construction of qualifying assets have been suspend under abnormal circumstances, the corresponding capitalization of the borrowing cost should be stop accordingly.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants (Continued)

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Employee benefits

Salaries and allowances

Salaries and allowances are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized 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.

Contributions to retirement benefits scheme

The Group participates in Central Provident Fund ("CPF") Scheme for its employees in the PRC organized by the municipal governments of the relevant provinces. The Group also participates in the Mandatory Provident Fund Scheme (the "MPF Scheme") for its employees in Hong Kong under the Mandatory Provident Fund Scheme Ordinance. The Group also sets up annuity scheme for qualified employees. Annuity contributions are accrued based on a certain percentage of the participants' total salary when employees have rendered service entitling them to the contributions. The contribution is recognized in profit or loss.

Other social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the government of the PRC, including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a regular basis to these funds based on certain percentage of the employees' salaries and the contributions are recognized in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

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 respect of their services in the current and prior periods.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

(ii) Deferred tax

Deferred tax is recognized 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 recognized 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 and associates 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 reporting period, 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.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized 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 utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(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 judgments about future events. New information may become available that causes the Group to change its judgment 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.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

A financial asset or financial liability is recognized 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, 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 categorized as follows:

Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition).

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

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transaction costs that may occur on sale, and changes therein are recognized 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 recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Financial instruments (Continued)

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

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 recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale financial assets are recognized in profit or loss. Impairment losses are recognized in profit or loss.

Other fair value changes, other than impairment losses, are recognized in other comprehensive income and presented in the investment revaluation reserve within equity. When the investment is derecognized, 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 amortized cost using the effective interest method.

(ii) 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 Track Record Period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment losses are provided and recognized in profit or loss of the current period. 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 reorganization; 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.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(ii) Impairment of financial assets (Continued)

When accessing the impairment to financial assets on a collective basis, the Group is based on same assets or assets with similar credit risk characteristics and in accordance to the terms of the agreements, to use as an indicator to categories the assets by reflect the debtors' repayment ability when the debt is mature.

Advances to customers, accounts receivable and loan receivables

The Group reviews its advances to customers, accounts receivable and loan receivables to assess impairment on a periodic basis. When there is objective evidence of impairment loss for advance to customers, accounts receivable and loan receivables, the Group takes into consideration the estimation of future cash flows. Specifically, the Group reviews the value of the securities collateral received from the customers firstly on an individual basis, then on a collective basis in determining the impairment.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in other comprehensive income 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 amortization and the current fair value, less any impairment loss recognized 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 judgment. "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 for one year or longer, upon which impairment loss is recognized.

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 recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognized in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognized in profit or loss. Any impairment loss in respect of available-for-sale equity investments carried at cost should not be reversed.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Financial instruments (Continued)

(iii) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognized 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 recognize 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 derecognized 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 derecognized financial asset/(liability) and the consideration received and receivable, paid and payables are recognized in profit or loss and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in investments revaluation reserve is recognized in profit or loss.

(iv) 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 recognized amounts and the transactions are intended to be settled on a net basis, or by realizing the asset and settling the liability simultaneously.

(v) 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 recognized in equity. Considerations and transaction costs paid by the Group for repurchasing its own equity instruments are deducted from equity.

(vi) 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 recognized 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.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(vi) Derivative financial instruments (Continued)

All derivatives are recognized 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 recognized in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in profit or loss.

(vii) 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 recognized as amounts held under resale or sold under repurchase agreements in the consolidated 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 recognized in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortized over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(viii) 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 recognizes margin financing receivables as loans and receivables, and recognizes interest income using effective interest rate method. Securities lent are not derecognized when the risk and rewards are not transferred, and interest income is recognized using effective interest rate method.

Securities trading on behalf of margin financing or securities lending customers are accounted for as securities brokerage business.

(ix) Fair value measurement

When measuring fair value except for the Group's value in use of goodwill and interests in associates for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Financial instruments (Continued)

(ix) Fair value measurement (Continued)

In estimating the fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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.

If there is an active market for a financial asset or financial liability, the quoted market price without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, the quoted price is the current asking price. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the Track Record Period. Where other pricing models are used, inputs are based on market data at the end of the Track Record Period.

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.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents the amounts receivable for services provided in the normal course of business. Revenue is recognized 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. Brokerage commission income is recognized on a trade date basis when the relevant transactions are executed. Handling and settlement fee income arising from brokerage business is recognized when the related services are rendered;

ii. Underwriting and sponsors fees are recognized as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;

iii. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a timely basis using the effective interest method, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;

iv. Consultancy and financial advisory fee income is recognized when the relevant transactions have been arranged or the relevant services have been rendered;

v. Asset and fund management fee income is recognized when the services are provided and the Group is entitled to receive the income under the asset management agreement;

vi. Net investment gains

— Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably);

— Net realized gains or losses from disposal of available-for-sale financial assets, financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss and derivative financial instruments is recognized when the Group meets the relevant derecognition criteria. The difference between the carrying amount of the derecognized financial asset (liability) and the consideration received and receivable (paid or payable) is recognized in profit or loss, and any corresponding cumulative gain or loss that had been recognized in other comprehensive income and accumulated in investments revaluation reserve is recognized in profit or loss;

— Unrealized fair value change of financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss and derivative financial instruments represented the change in the fair values subsequent to the initial recognition and recognized in profit or loss; and

vii. Other income is recognized on an accrual basis.

Provision

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and the amount of the obligation can be reliably measured.

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision (Continued)

The amount recognized as provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organization, management requirements and internal reporting system. Each of the Group's operating segments represents a strategic business unit that offers services which are subject to risks and returns that are different from the other operating segments.

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. Financial performance is 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 position, financial performance and cash flows is available.

Intersegment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group and the Company include, but are not limited to:

- the Company's parent;
- the Company's subsidiaries;
- enterprises that are controlled by the Company's parent;
- investors that have joint control or exercise significant influence over the Group;

NOTES TO THE FINANCIAL INFORMATION (Continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

- enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Group;
- joint ventures of the Group, including subsidiaries of joint ventures;
- associates of the Group, including subsidiaries of associates;
- principal individual investors of the Group and close family members of such individuals;
- key management personnel of the Group and close family members of such individuals;
- key management personnel of the Company's parent;
- close family members of key management personnel of the Company's parent;
- other enterprises that are controlled or jointly controlled by the principal individual investors, key management personnel of the Group, and close family members of such individuals; and
- a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE FINANCIAL INFORMATION (Continued)

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and option pricing models. To the extent practical market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments. Details are set out in note 67 of this report.

Impairment of advances to customers, financial assets held under resale agreements and receivables

The Group reviews its advances to customers, financial assets held under resale agreements and receivables to assess impairment on a periodic basis. The Group shall be combined with customer credit status, mortgage securities, guarantee rate, solvency, willingness and other factors to make judgments when recognizing impairment loss. When there is objective evidence of impairment loss for advance to customers and receivables, the Group takes into consideration the estimation of future cash flows. Specifically, the Group reviews the value of the securities collateral received from the customers firstly on an individual basis, then on a collective basis in determining the impairment.

The policy for impairment allowances for advances to customers, financial assets held under resale agreements and receivables of the Group is based on the evaluation of probability of default, loss given default and exposure at default of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these financial assets, including the current creditworthiness, and the past collection history of each loan.

The amount of the impairment loss for receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

The methodology and assumptions used for estimating impairment loss are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Details are set out in notes 27, 31, 32 and 33 of this report.

NOTES TO THE FINANCIAL INFORMATION (Continued)

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Impairment of available-for-sale financial assets

The determination of whether available-for-sale financial assets are impaired requires significant judgment. For listed available-for-sale equity investments, funds and collective asset management schemes, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. The Group also takes into account other factors, such as the historical data on market volatility and the price of the specific investment, significant changes in technology, markets, economies or the law, as well as industry and sector performance and the financial information regarding the investee that provide evidence that the cost of the equity securities may not be recoverable. For available-for-sale debt instruments, trust investment, wealth management and targeted management products, the Group makes the judgments as to whether there is an objective evidence of impairment which indicates a measurable decrease in the estimated future cash flows of these debt instruments. This requires a significant level of management judgment which would affect the amount of impairment losses in profit or loss. Details are set out in note 26 of this report.

Impairment of non-financial assets

Non-financial assets including goodwill, interests in associates 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 judgments 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. Details are disclosed in notes 20 and 24 of this report.

Income taxes and deferred tax assets

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

Deferred tax assets is recognized in respect of timing differences between the carrying amount of assets for financial reporting purpose and the amounts used for taxation purposes.

The realization of a deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

NOTES TO THE FINANCIAL INFORMATION (Continued)

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Income taxes and deferred tax assets (Continued)

In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognized in profit or loss in that period. On the contrary, if sufficient profits or taxable temporary differences are not expected to be generated, deferred tax assets would be reversed in profit or loss in that period. Details of the tax losses and deductible temporary differences are disclosed in note 29 of this report. As those 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. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized and disclosures made in the consolidated financial statements.

Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For collective asset management schemes, investment funds and limited partnership where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration and credit enhancement creates exposure to variability of returns from the activities of the collective asset management schemes, investment funds and limited partnership that is of such significance that it indicates that the Group is a principal. The collective asset management schemes, investment funds and limited partnership are consolidated if the Group acts in the role of principal.

NOTES TO THE FINANCIAL INFORMATION (Continued)

5 TAXATION

The Group's main applicable taxes and tax rates are as follows;

Tax type	Tax basis	Tax rate
Profit tax	Based on taxable profits	15%, 16.5%, 25%
Business tax	Based on taxable revenue	5%
Value added tax	Based on taxable revenue	6%
City maintenance and construction tax	Based on business tax and value added tax accrued	7%
Education surcharge	Based on business tax and value added tax accrued	2%-3%

Under the Law of the PRC on EIT and implementation regulation of the EIT Law, the tax rate of the Company and its subsidiaries established in the PRC is 25% during the Track Record Period, except for as mentioned below.

Upon the approval of the *Regulation on the EIT Preferential Policies for the Development of Western China by Ganzhou City (Trial)* (「贛州市執行西部大開發企業所得稅優惠政策管理辦法（試行）」), from January 1, 2012 to December 31, 2020, the Company is subject to a tax rate of 15%. The subsidiaries of the Group incorporated in Ganzhou namely, Jiangxi Zhaolian Investment Management Co., Ltd., Ganzhou China Merchants Zhiyuan No. 1 Equity Investment Management Co., Ltd., Jiangxi Zhiyuan Development Investment Management Co., Ltd. and Ganzhou Zhaoyuan Investment Management Co., Ltd., are subject to the above preferential tax rate of 15% from January 1, 2012 to December 31, 2020.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Track Record Period. Tax arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

According to the Ministry of Finance, State Administration of Taxation issued "On the comprehensive business tax reform VAT pilot pushed notice" requirement (Cai Shui [2016] 36), from May 1, 2016, the nationwide fully open business tax levy value-added tax (hereinafter referred to as "camp changed by") pilot, in which the taxpayers of financial industry has also been included in the scope of the pilot. From May 2016, the Group's implemented this regulation, by the payment of business tax as VAT.

6 FEE AND COMMISSION INCOME

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Securities and futures brokerage business	3,553,284	5,181,250	14,952,431	8,866,134	3,116,952
Underwriting and sponsorship business	420,120	1,431,575	2,423,440	889,114	961,809
Asset management and fund management business	255,148	448,563	1,214,599	529,536	558,326
Financial advisory business	192,540	191,806	426,533	102,301	162,620
Others(1)	25,921	37,285	300,425	100,734	203,683
	4,447,013	7,290,479	19,317,428	10,487,819	5,003,390

(1) Others mainly comprise of custodian fee income and consultancy fee income received or receivable by the Group.

NOTES TO THE FINANCIAL INFORMATION (Continued)

7 INTEREST INCOME

Interest income, other than the investments interest income disclosed in note 8, is as follows:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Deposits with exchanges and financial institutions	698,074	870,655	2,416,291	925,912	850,929
Advances to customers and securities lending	1,092,065	2,566,920	6,704,276	3,909,054	2,004,728
Securities-backed lending and stock repurchase agreement	88,725	316,790	691,871	338,943	430,306
Other financial assets held under resale agreements	26,997	10,143	50,920	30,054	7,088
Loan receivable	79,253	120,194	42,703	30,421	5,016
	1,985,114	3,884,702	9,906,061	5,234,384	3,298,067

8 NET INVESTMENT GAINS

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net realized (losses) gains from disposal of available-for-sale financial assets	(7,687)	132,440	341,779	434,746	356,790
Dividend and interest income from available-for-sale financial assets	238,850	409,946	709,273	280,116	508,122
Dividend and interest income from financial assets at fair value through profit or loss	1,289,962	1,286,882	3,206,901	1,276,214	1,278,408
Net realized (losses) gains from disposal of financial assets at fair value through profit or loss	(212,967)	1,331,811	6,383,927	8,055,295	(269,561)
Net realized (losses) gains from disposal of financial liabilities at fair value through profit or loss	(80,436)	(53,294)	56,504	(16,200)	150,302
Net realized gains (losses) from derivatives financial instrument	139,675	(1,689,587)	(4,867,083)	(7,898,033)	(222,215)
Unrealized fair value change of financial instruments at fair value through profit or loss					
—Financial assets at fair value through profit or loss	(226,735)	2,505,749	(844,032)	3,822,338	(2,248,824)
—Financial liabilities at fair value through profit or loss	10,139	29,751	14,295	4,528	(18,715)
Unrealized fair value change of derivative financial instruments	118,959	(1,415,539)	679,547	(1,221,769)	852,252
	1,269,760	2,538,159	5,681,111	4,737,235	386,559

NOTES TO THE FINANCIAL INFORMATION (Continued)

9 OTHER INCOME AND GAINS, NET

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Government grants[1]	2,303	15,462	37,841	3,691	29,779
Foreign exchange gains (losses), net	19,134	3,195	(37,163)	1,267	(10,544)
Rental income	8,671	9,124	8,871	4,235	4,492
Gains on disposal of property and equipment, and other non-current assets	303	234	1,124	220	424
Commission from tax withholding and remitting	3,560	20,812	17,970	415	14,792
Others[2]	4,207	4,013	55,325	26,900	1,797
	38,178	52,840	83,968	36,728	40,740

(1) Government grants represent the unconditional grants received by the Group from local government.

(2) Others represent compensation received from litigation and breach of employee contract and restrictive covenants from the Group's employees.

10 DEPRECIATION AND AMORTIZATION

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Depreciation of property and equipment	74,793	77,232	84,483	40,490	44,028
Amortization of other non-current assets	55,932	60,156	63,334	31,812	33,819
Amortization of other intangible assets	2,809	2,773	2,496	1,275	1,157
Depreciation of investment properties	820	820	820	410	410
	134,354	140,981	151,133	73,987	79,414

11 STAFF COSTS

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries, bonus and allowances	1,671,025	3,242,440	7,571,476	4,667,285	1,158,431
Contributions to retirement benefits[1]	115,780	128,929	233,088	105,976	137,313
Other social welfare[2]	122,570	144,024	205,627	68,870	106,269
Others	94,677	106,416	170,167	77,043	60,045
	2,004,052	3,621,809	8,180,358	4,919,174	1,462,058

(1) The domestic employees of the Group in the PRC participate in state-managed retirement benefits plans, operated by the relevant municipal and provincial governments. According to the relevant regulations, the premiums and retirement benefit contributions borne by the Group are calculated and paid to the relevant labor and social welfare authorities on a regular basis. These retirement benefits plans are defined contribution plans and contributions to the plans are expensed as incurred. In addition to the above retirement benefits plans, the Group also provides annuity schemes for certain qualified employees in the PRC. The employees' and the Group's contributions for the annuity schemes are calculated based on certain percentage of employees' salaries and recognized in profit or loss as expense. These annuity schemes are defined contribution plans.

The Group also operates the Mandatory Provident Fund Scheme for all qualified employees in Hong Kong. The Group contributes certain percentage of relevant payroll costs to the scheme, and the contribution is matched by employees but subject to a maximum amount for each employee. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

NOTES TO THE FINANCIAL INFORMATION (Continued)

11 STAFF COSTS (Continued)

(2) The domestic employees of the Group in the PRC participate in state-managed social welfare plans, including social pension insurance, health care insurance, housing funds and other social welfare contributions, operated by the relevant municipal and provincial governments. These social welfare plans are defined contribution plans and contributions to the plans are recognized as expense as incurred.

12 FEE AND COMMISSION EXPENSES

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Securities and futures brokerage business	568,257	818,453	2,511,417	1,466,369	658,427
Underwriting and sponsorship business	153,970	229,017	217,810	91,435	129,400
Asset management and fund management business	19,204	21,488	72,482	34,956	13,585
Financial advisory business	25,537	40,032	66,988	24,815	16,122
Others	—	—	—	—	1,877
	766,968	1,108,990	2,868,697	1,617,575	819,411

13 INTEREST EXPENSES

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Accounts payable to brokerage clients	101,325	114,136	333,910	145,266	123,392
Financial assets sold under repurchase agreements	266,587	789,149	2,784,179	1,460,530	998,441
Margin financing and securities leading securities	34,258	56,031	101,935	57,899	21,408
Placements from other financial institutions	12,500	20,636	44,902	38,636	9,659
Long-term bonds payable	406,627	491,588	2,130,433	760,277	1,359,420
Short-term financing bills payables	300,610	383,236	251,869	180,719	13,801
Short-term bond payables	—	6,985	661,494	347,901	99,781
Principal of structured notes	—	4,362	816,407	261,693	339,540
Borrowings	15,725	36,957	92,378	43,806	52,897
Others	8,922	71,312	67,763	—	1,091
	1,146,554	1,974,392	7,285,270	3,296,727	3,019,430

NOTES TO THE FINANCIAL INFORMATION (Continued)

14 OTHER OPERATING EXPENSES

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Operating lease rentals in respect of rented premises	205,392	230,909	288,216	130,700	159,884
General and administrative expenses	195,851	200,588	180,012	82,166	46,232
Data transmission expenses	116,547	110,710	131,377	48,830	57,609
IT expenses	80,541	103,777	130,663	47,662	45,494
Advertising and promotion expenses	108,567	101,247	234,864	71,122	71,736
Business travel expenses	61,726	75,997	134,122	43,955	54,217
Securities and futures investor protection funds	30,973	56,041	134,725	85,314	26,807
Membership subscription fee	33,389	39,390	102,969	49,717	41,858
Auditor's remuneration	1,800	2,360	2,450	—	—
Sundry expenses[1]	113,793	107,550	188,896	54,255	61,372
	948,579	1,028,569	1,528,294	613,721	565,209

1) Included in sundry expenses, there are amounts of RMB2,567 thousand, RMB3,014 thousand, RMB25,269 thousand and RMB 79 thousand which represent the loss on disposal of property, plant and equipment for the years ended December 31, 2013, 2014, 2015 and six months ended June 30, 2015 and 2016, respectively.

15 IMPAIRMENT LOSSES, NET

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Allowance (reversal of allowance) for impairment loss in respect of accounts receivable, net (note 32)	4,147	2,771	(5,152)	(4,409)	(405)
Reversal of allowance for impairment loss in respect of other receivables, net (note 33)	(1)	(1,709)	—	—	—
Impairment loss in respect of interest in an associate (note 24)	—	669,150	—	—	—
Impairment loss (reversal of impairment) in respect of advances to customers (note 31)	—	—	130,800	—	(31,772)
Impairment loss (reversal of impairment) in respect of financial assets held under resale agreements (note 28)	—	—	102,450	—	(46,900)
	4,146	670,212	228,098	(4,409)	(79,077)

NOTES TO THE FINANCIAL INFORMATION (Continued)

16 INCOME TAX EXPENSES

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current tax:					
—PRC Enterprise Income Tax ("EIT")	525,233	999,695	3,041,920	1,503,155	1,813,410
—Hong Kong Profits Tax	6,549	7,097	22,282	12,568	175
	531,782	1,006,792	3,064,202	1,515,723	1,813,585
Adjustment in respect of prior years:					
—EIT	(4,310)	5,325	(9,886)	(9,886)	1,661
—Hong Kong Profits Tax	(1,305)	(6,921)	—	—	(695)
	(5,615)	(1,596)	(9,886)	(9,886)	966
Deferred taxation					
—Origination and reversal of temporary differences (note 29)	(113,182)	82,161	(348,579)	490,253	(1,205,391)
	412,985	1,087,357	2,705,737	1,996,090	609,160

The reconciliation between the income tax expense at the statutory tax rate of 25% and the effective tax rate is as follows:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax	2,650,440	4,971,877	13,633,991	9,331,218	2,844,734
Tax at the income tax rate of 25%	662,610	1,242,969	3,408,498	2,332,805	711,184
Tax effect of share of result of associates	(67,269)	(84,777)	(137,776)	(77,281)	(84,888)
Tax effect of expenses not deductible for tax purpose (note)	69,931	121,778	110,854	34,901	107,239
Tax effect of income that are not taxable	(241,742)	(182,936)	(631,316)	(238,450)	(165,651)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(4,020)	(3,729)	(23,178)	(24,264)	12,197
Tax effect of the losses not recognized	—	—	4,656	425	28,822
Utilization of tax losses previously not recognized	(910)	(4,352)	(16,164)	(22,160)	(642)
Adjustment in respect of prior years	(5,615)	(1,596)	(9,886)	(9,886)	966
Others	—	—	49	—	(67)
Tax charge for the year / period	412,985	1,087,357	2,705,737	1,996,090	609,160

Note: For the year ended December 31, 2014, the Company has made an impairment of RMB669,150 thousand on an interest in an associate.

As at December 31, 2013, 2014, 2015 and June 30, 2016, the estimated unused tax losses for the Group's subsidiaries were approximately RMB172,686 thousand, RMB146,310 thousand, RMB68,041 thousand and RMB238,829 thousand respectively, no deferred tax asset had been recognized in relation to such item in the consolidated statement of financial position due to the unpredictability of future profit streams of the subsidiaries. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax assets may arise, which would be recognized in the consolidated statement of profit or loss and other comprehensive income for the period in which such recognition takes place.

NOTES TO THE FINANCIAL INFORMATION (Continued)

17 EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share attributable to owners of the Company is as follows:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
				(Unaudited)	
Earnings for the purpose of basic earnings per share:					
Profit for the year / period attributable to owners of the Company (RMB'000)	2,232,091	3,850,673	10,908,749	7,314,665	2,241,825
Number of shares:					
Weighted average number of shares in issue (in thousands)	4,661,100	5,330,204	5,808,136	5,808,136	5,808,136
Earnings per share:					
Earnings per share (RMB)	0.48	0.72	1.88	1.26	0.39

For the years ended December 31, 2013, 2014, 2015 and six months ended June 30, 2015 and 2016, there were no potential ordinary shares in issue, thus no diluted earnings per share is presented.

NOTES TO THE FINANCIAL INFORMATION (Continued)

18 PROPERTY AND EQUIPMENT

The Group

	Leasehold land and buildings	Motor vehicles	Electronic and communication equipment	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
As at January 1, 2013	296,418	48,849	330,492	57,057	574,355	1,307,171
Additions	4,433	2,954	50,475	6,362	180,718	244,942
Disposals	—	(3,725)	(53,099)	(7,168)	—	(63,992)
Transfer to other non-current assets (note 30)	—	—	—	—	(16,737)	(16,737)
Exchange realignment	—	(53)	(768)	(851)	—	(1,672)
As at December 31, 2013	300,851	48,025	327,100	55,400	738,336	1,469,712
Accumulated depreciation and impairment						
As at January 1, 2013	123,309	31,350	181,910	33,336	—	369,905
Charge for the year	9,390	5,757	52,119	7,527	—	74,793
Disposals	—	(3,578)	(50,377)	(6,911)	—	(60,866)
Exchange realignment	—	(12)	(519)	(546)	—	(1,077)
As at December 31, 2013	132,699	33,517	183,133	33,406	—	382,755
Carrying values						
As at December 31, 2013	168,152	14,508	143,967	21,994	738,336	1,086,957
Cost						
As at January 1, 2014	300,851	48,025	327,100	55,400	738,336	1,469,712
Additions	1,601	13,868	56,422	26,603	221,764	320,258
Disposals	—	(5,024)	(35,406)	(2,388)	—	(42,818)
Transfer to other non-current assets (note 30)	—	—	—	—	(29,686)	(29,686)
Exchange realignment	—	7	113	117	—	237
As at December 31, 2014	302,452	56,876	348,229	79,732	930,414	1,717,703
Accumulated depreciation and impairment						
As at January 1, 2014	132,699	33,517	183,133	33,406	—	382,755
Charge for the year	9,560	5,265	52,265	10,142	—	77,232
Disposals	—	(4,782)	(33,344)	(2,278)	—	(40,404)
Exchange realignment	—	4	84	65	—	153
As at December 31, 2014	142,259	34,004	202,138	41,335	—	419,736
Carrying values						
As at December 31, 2014	160,193	22,872	146,091	38,397	930,414	1,297,967

NOTES TO THE FINANCIAL INFORMATION (Continued)

18 PROPERTY AND EQUIPMENT (Continued)

The Group

	Leasehold land and buildings	Motor vehicles	Electronic and communication equipment	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
As at January 1, 2015	302,452	56,876	348,229	79,732	930,414	1,717,703
Additions	57,040	10,782	119,763	5,829	174,841	368,255
Disposals	—	(4,978)	(91,287)	(12,504)	—	(108,769)
Transfer to other non-current assets (note 30)	—	—	—	—	(38,279)	(38,279)
Exchange realignment	—	137	2,372	2,789	234	5,532
As at December 31, 2015	359,492	62,817	379,077	75,846	1,067,210	1,944,442
Accumulated depreciation and impairment						
As at January 1, 2015	142,259	34,004	202,138	41,335	—	419,736
Charge for the year	9,578	6,428	54,754	13,723	—	84,483
Disposals	—	(4,553)	(69,297)	(7,394)	—	(81,244)
Exchange realignment	—	79	1,510	1,363	—	2,952
As at December 31, 2015	151,837	35,958	189,105	49,027	—	425,927
Carrying values						
As at December 31, 2015	207,655	26,859	189,972	26,819	1,067,210	1,518,515
Cost						
As at January 1, 2016	359,492	62,817	379,077	75,846	1,067,210	1,944,442
Additions	—	3,104	24,775	1,765	87,256	116,900
Disposals	—	(3,527)	(2,122)	—	—	(5,649)
Transfer to other non-current assets (note 30)	—	—	—	—	(9,979)	(9,979)
Exchange realignment	—	60	844	1,045	109	2,058
As at June 30, 2016	359,492	62,454	402,574	78,656	1,144,596	2,047,772
Accumulated depreciation and impairment						
As at January 1, 2016	151,837	35,958	189,105	49,027	—	425,927
Charge for the period	5,759	3,922	28,943	5,404	—	44,028
Disposals	—	(2,752)	(1,467)	—	—	(4,219)
Exchange realignment	—	38	665	706	—	1,409
As at June 30, 2016	157,596	37,166	217,246	55,137	—	467,145
Carrying values						
As at June 30, 2016	201,896	25,288	185,328	23,519	1,144,596	1,580,627

NOTES TO THE FINANCIAL INFORMATION (Continued)

18 PROPERTY AND EQUIPMENT (Continued)

The Company

	Leasehold land and buildings	Motor vehicles	Electronic and communication equipment	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
As at January 1, 2013	296,418	46,229	295,779	28,562	574,355	1,241,343
Additions	3,738	2,440	36,973	3,441	178,093	224,685
Disposals	—	(3,725)	(49,138)	(2,116)	—	(54,979)
Transfer to other non-current assets (note 30)	—	—	—	—	(15,586)	(15,586)
As at December 31, 2013	300,156	44,944	283,614	29,887	736,862	1,395,463
Accumulated depreciation and impairment						
As at January 1, 2013	123,309	30,943	158,942	15,089	—	328,283
Charge for the year	9,387	5,209	45,364	3,618	—	63,578
Disposals	—	(3,578)	(46,451)	(1,680)	—	(51,709)
As at December 31, 2013	132,696	32,574	157,855	17,027	—	340,152
Carrying values						
As at December 31, 2013	167,460	12,370	125,759	12,860	736,862	1,055,311
Cost						
As at January 1, 2014	300,156	44,944	283,614	29,887	736,862	1,395,463
Additions	925	13,228	42,764	6,422	219,371	282,710
Disposals	—	(5,024)	(34,732)	(2,388)	—	(42,144)
Transfer to other non-current assets (note 30)	—	—	—	—	(29,586)	(29,586)
As at December 31, 2014	301,081	53,148	291,646	33,921	926,647	1,606,443
Accumulated depreciation and impairment						
As at January 1, 2014	132,696	32,574	157,855	17,027	—	340,152
Charge for the year	9,527	4,540	43,369	4,179	—	61,615
Disposals	—	(4,782)	(32,679)	(2,278)	—	(39,739)
As at December 31, 2014	142,223	32,332	168,545	18,928	—	362,028
Carrying values						
As at December 31, 2014	158,858	20,816	123,101	14,993	926,647	1,244,415

NOTES TO THE FINANCIAL INFORMATION (Continued)

18 PROPERTY AND EQUIPMENT (Continued)

The Company

	Leasehold land and buildings	Motor vehicles	Electronic and communication equipment	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
As at January 1, 2015	301,081	53,148	291,646	33,921	926,647	1,606,443
Additions	57,039	9,851	108,697	1,678	161,681	338,946
Disposals	—	(4,723)	(83,474)	(11,786)	—	(99,983)
Transfer to other non-current assets (note 30)	—	—	—	—	(26,538)	(26,538)
As at December 31, 2015	358,120	58,276	316,869	23,813	1,061,790	1,818,868
Accumulated depreciation and impairment						
As at January 1, 2015	142,223	32,332	168,545	18,928	—	362,028
Charge for the year	9,533	5,554	43,489	4,546	—	63,122
Disposals	—	(4,488)	(64,076)	(7,655)	—	(76,219)
As at December 31, 2015	151,756	33,398	147,958	15,819	—	348,931
Carrying values						
As at December 31, 2015	206,364	24,878	168,911	7,994	1,061,790	1,469,937
Cost						
As at January 1, 2016	358,120	58,276	316,869	23,813	1,061,790	1,818,868
Additions	—	2,307	19,267	468	81,207	103,249
Disposals	—	(3,047)	(2,118)	—	—	(5,165)
Transfer to other non-current assets (note 30)	—	—	—	—	(7,381)	(7,381)
As at June 30, 2016	358,120	57,536	334,018	24,281	1,135,616	1,909,571
Accumulated depreciation and impairment						
As at January 1, 2016	151,756	33,398	147,958	15,819	—	348,931
Charge for the period	5,738	3,338	23,512	1,327	—	33,915
Disposals	—	(2,268)	(1,742)	—	—	(4,010)
As at June 30, 2016	157,494	34,468	169,728	17,146	—	378,836
Carrying values						
As at June 30, 2016	200,626	23,068	164,290	7,135	1,135,616	1,530,735

As at December 31, 2013, 2014, 2015 and June 30, 2016, included in leasehold land and buildings, there are carrying values of RMB5,014 thousand, RMB5,610 thousand, RMB9,460 thousand and RMB9,149 thousand respectively, for which the Group and the Company have yet to obtain the relevant land and building certificates. The directors of the Company considered that these will not significant impact on the financial information for Track Record Period.

As at December 31, 2013, 2014, 2015 and June 30, 2016, included in construction in progress, there are leasehold land used for construction of China Merchants Securities building with carrying values of RMB420,000 thousand have been pledged as security for borrowing.

NOTES TO THE FINANCIAL INFORMATION (Continued)

18 PROPERTY AND EQUIPMENT (Continued)

As the lease payments included in the Group and the Company's leasehold land and buildings cannot be allocated reliably between the land and buildings, the entire leases are classified as finance lease and accounted for as property and equipment.

The leasehold land and buildings of the Group and the Company are situated in the PRC and held under medium-term lease.

19 INVESTMENT PROPERTIES

The Group and the Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At beginning and end of the year / period	25,890	25,890	25,890	25,890
Accumulated depreciation and impairment				
At beginning of the year / period	18,460	19,280	20,100	20,920
Charge for the year / period	820	820	820	410
At end of the year / period	19,280	20,100	20,920	21,330
Carrying values				
At end of the year / period	6,610	5,790	4,970	4,560

The fair value of the Group's and the Company's investment properties as at December 31, 2013, 2014, 2015 and June 30, 2016 was approximately RMB42,400 thousand, RMB44,210 thousand, RMB43,452 thousand and RMB43,500 thousand. The fair value has been arrived at based on a valuation carried out by DTZ Limited as at December 31, 2013, 2014 and 2015 and June 30, 2016, independent valuer not connected with the Group. The fair value was determined by the directors of the Company by reference to recent market prices for similar properties in same or similar conditions, and adjusted to reflect the condition of the Group's and Company's investment properties, including property age and floor level, etc.

The carrying values of Group and Company's investment properties included the leasehold interest in land as the leasehold payments cannot be allocated reliably between the land and building elements, as such the entire lease is accounted for as investment properties. The Group's and Company's investment properties are situated on land in the PRC under medium-term lease.

NOTES TO THE FINANCIAL INFORMATION (Continued)

20 GOODWILL

The Group

	As at December 31, 2013	As at December 31, 2014	As at December 31, 2015	As at June 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At beginning and end of the year/ period				
Unit A—Shanghai securities brokerage branch	4,500	4,500	4,500	4,500
Unit B—Jutian securities brokerage branch	18,367	18,367	18,367	18,367
Unit C—China Merchants Futures Co., Limited	9,671	9,671	9,671	9,671
	32,538	32,538	32,538	32,538
Accumulated impairment losses				
At beginning and end of the year/ period				
Unit A—Shanghai securities brokerage branch	4,500	4,500	4,500	4,500
Unit B—Jutian securities brokerage branch	18,367	18,367	18,367	18,367
Unit C—China Merchants Futures Co., Limited	—	—	—	—
	22,867	22,867	22,867	22,867
Carrying values				
At beginning and end of the year/ period				
Unit A—Shanghai securities brokerage branch	—	—	—	—
Unit B—Jutian securities brokerage branch	—	—	—	—
Unit C—China Merchants Futures Co., Limited	9,671	9,671	9,671	9,671
	9,671	9,671	9,671	9,671

The Company

	As at December 31, 2013	As at December 31, 2014	As at December 31, 2015	As at June 30, 2016
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At beginning and end of the year / period				
Unit A—Shanghai securities brokerage branch	4,500	4,500	4,500	4,500
Unit B—Jutian securities brokerage branch	18,367	18,367	18,367	18,367
	22,867	22,867	22,867	22,867
Accumulated impairment losses				
At beginning and end of the year / period				
Unit A—Shanghai securities brokerage branch	4,500	4,500	4,500	4,500
Unit B—Jutian securities brokerage branch	18,367	18,367	18,367	18,367
	22,867	22,867	22,867	22,867
Carrying values				
At beginning and end of the year / period				
Unit A—Shanghai securities brokerage branch	—	—	—	—
Unit B—Jutian securities brokerage branch	—	—	—	—
	—	—	—	—

Impairment test

For the purpose of impairment testing, goodwill has been allocated into three individual cash generating units ("CGUs"), including Shanghai securities brokerage branch ("Unit A"), Jutian securities brokerage branch ("Unit B") and China Merchants Futures Co., Limited ("Unit C") acquired by the Company.

NOTES TO THE FINANCIAL INFORMATION (Continued)

20 GOODWILL (Continued)

Impairment test (Continued)

Units A and B are the securities brokerage branches acquired, the acquisition cost exceeds the fair value of net identifiable assets. As the CGU no longer generated future cash flows, Units A and B were fully impaired.

The directors of the Company had performed impairment testing on the goodwill acquired from Unit C as at December 31, 2013, 2014, 2015 and June 30, 2016. As the fair value of the CGU of China Merchants Futures Co., Limited exceeded its carrying amount, therefore no impairment was recognized.

The recoverable amounts of the CGUs have been determined on the basis of value-in-use calculation. The calculation used cash flow projections based on financial budgets approved by management covering a five-year period and a pre-tax discount rate of 10-14%, which reflected specific risks related to the CGU. Cash flows beyond the five-year period are extrapolated using an estimated annual growth rate based on industry growth forecasts. Management determined the budgeted gross margin based on past performance and its expectations on the market development; and a long-term growth rate of 3-5%, which does not exceed the long-term average growth rate for the business in the country in which the CGU operates. The discount rates used are the CGUs' specific weighted average cost of capital, adjusted for the risks of the specific CGUs.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of the CGUs to exceed its recoverable amount.

21 OTHER INTANGIBLE ASSETS

The Group

	Trading rights	Membership and others	Total
	RMB'000	RMB'000	RMB'000
Cost			
As at January 1, 2013	61,421	1,603	63,024
Additions	16,040	—	16,040
Exchange realignment	(39)	(6)	(45)
As at December 31, 2013	77,422	1,597	79,019
Accumulated amortization and impairment			
As at January 1, 2013	50,588	203	50,791
Charge for the year	2,809	—	2,809
Exchange realignment	(35)	(6)	(41)
As at December 31, 2013	53,362	197	53,559
Carrying values			
As at December 31, 2013	24,060	1,400	25,460

NOTES TO THE FINANCIAL INFORMATION (Continued)

21 OTHER INTANGIBLE ASSETS (Continued)

The Group

	Trading rights	Membership and others	Total
	RMB'000	RMB'000	RMB'000
Cost			
As at January 1, 2014	77,422	1,597	79,019
Additions	500	—	500
Exchange realignment	58	1	59
As at December 31, 2014	77,980	1,598	79,578
Accumulated amortization and impairment			
As at January 1, 2014	53,362	197	53,559
Charge for the year	2,773	—	2,773
Exchange realignment	3	1	4
As at December 31, 2014	56,138	198	56,336
Carrying values			
As at December 31, 2014	21,842	1,400	23,242
Cost			
As at January 1, 2015	77,980	1,598	79,578
Additions	2,500	—	2,500
Exchange realignment	1,077	11	1,088
As at December 31, 2015	81,557	1,609	83,166
Accumulated amortization and impairment			
As at January 1, 2015	56,138	198	56,336
Charge for the year	2,496	—	2,496
Exchange realignment	72	11	83
As at December 31, 2015	58,706	209	58,915
Carrying values			
As at December 31, 2015	22,851	1,400	24,251
Cost			
As at January 1, 2016	81,557	1,609	83,166
Exchange realignment	372	4	376
As at June 30, 2016	81,929	1,613	83,542
Accumulated amortization and impairment			
As at January 1, 2016	58,706	209	58,915
Charge for the period	1,157	—	1,157
Exchange realignment	25	4	29
As at June 30, 2016	59,888	213	60,101
Carrying values			
As at June 30, 2016	22,041	1,400	23,441

NOTES TO THE FINANCIAL INFORMATION (Continued)

21 OTHER INTANGIBLE ASSETS (Continued)

The Company

	Trading rights
	RMB'000
Cost	
As at January 1, 2013 and December 31, 2013	60,124
Accumulated amortization and impairment	
As at January 1, 2013	49,413
Charge for the year	2,809
As at December 31, 2013	52,222
Carrying value	
As at December 31, 2013	7,902
Cost	
As at January 1, 2014	60,124
Additions	500
As at December 31, 2014	60,624
Accumulated amortization and impairment	
As at January 1, 2014	52,222
Charge for the year	2,772
As at December 31, 2014	54,994
Carrying value	
As at December 31, 2014	5,630
Cost	
As at January 1, 2015	60,624
Additions	2,500
As at December 31, 2015	63,124
Accumulated amortization and impairment	
As at January 1, 2015	54,994
Charge for the year	2,497
As at December 31, 2015	57,491
Carrying value	
As at December 31, 2015	5,633
Cost	
As at January 1, 2016 and June 30, 2016	63,124
Accumulated amortization and impairment	
As at January 1, 2016	57,491
Charge for the period	1,157
As at June 30, 2016	58,648
Carrying value	
As at June 30, 2016	4,476

Trading rights mainly comprise the trading rights in Shanghai Stock Exchange, Shenzhen Stock Exchange, The Stock Exchange of Hong Kong Limited (the "HKEX"), the Hong Kong Futures Exchange Limited (the "HKFE") and CME Group Inc. (the "CME"). These rights allow the Group to trade securities and futures contracts on or through these exchanges.

Membership and others held by the Group mainly comprises the membership with indefinite useful lives for the purposes of futures business in Futures Exchange.

NOTES TO THE FINANCIAL INFORMATION (Continued)

22 INVESTMENTS IN SUBSIDIARIES

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost	3,028,019	3,558,019	4,508,019	5,208,019

NOTES TO THE FINANCIAL INFORMATION (Continued)

22 INVESTMENTS IN SUBSIDIARIES (Continued)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares hold is ordinary unless otherwise stated.

Name of subsidiary	Place of incorporation/ establishment /date of establishment	Proportion ownership interest held by the Group: December 31, 2013	2014	2015	June 30, 2016	Issued and fully paid share capital	Principal Activities	Auditors/ GAAP
China Merchants Securities International Company Limited[1]	HK July 14, 1999	100%	100%	100%	100%	HK$ 1,803,627,390	Investment holding	Shinewing HK[2] HKFRSs
China Merchants Securities (HK) Co., Limited	HK October 4, 1986	100%	100%	100%	100%	HK$ 3,500,000,000	Securities brokerage	Shinewing HK[2] HKFRSs
China Merchants Futures (HK) Co., Limited	HK January 19, 2001	100%	100%	100%	100%	HK$ 200,000,000	Futures brokerage	Shinewing HK[2] HKFRSs
China Merchants Securities Investment Management (HK) Co., Limited	HK September 18, 2006	100%	100%	100%	100%	HK$ 400,000,000	Investment holding	Shinewing HK[2] HKFRSs
CMS Capital (HK) Co., Limited	HK August 1, 2003	100%	100%	100%	100%	HK$ 5,000,000	Assets management	Shinewing HK[2] HKFRSs
CMS Asset Management (HK) Co., Limited	HK August 13, 2008	100%	100%	100%	100%	HK$ 10,000,000	Assets management	Shinewing HK[2] HKFRSs
China Merchants Futures Co., Ltd.[1]	PRC January 4, 1993	100%	100%	100%	100%	RMB 630,000,000	Futures brokerage	Shinewing PRC[2] PRC GAAP
China Merchants Zhiyuan Capital Investment Co., Ltd.[1]	PRC August 28, 2009	100%	100%	100%	100%	RMB 1,700,000,000	Investment holding	Shinewing PRC[2] PRC GAAP
Shenzhen China Merchants Zhiyuan Consultancy Services Co., Ltd.	PRC July 25, 2011	100%	100%	100%	100%	RMB 3,000,000	Consulting services	Shinewing PRC[2] PRC GAAP
Shenzhen Yuansheng Investment Management Co., Ltd.	PRC December 20, 2012	60%	60%	60%	60%	RMB 5,000,000	Investment management	Shinewing PRC[2] PRC GAAP
Beijing Zhiyuan Lixin Investment Management Co., Ltd.	PRC April 23, 2013	100%	100%	100%	100%	RMB 10,000,000	Investment management	Shinewing PRC[2] PRC GAAP
Shenzhen China Merchants Zhiyuan Equity Investment and Funds Management Co., Ltd.	PRC May 29, 2013	70%	70%	70%	70%	RMB 15,000,000	Investment management	Shinewing PRC[2] PRC GAAP
Ganzhou China Merchants Zhiyuan No. 1 Equity Investment Management Co., Ltd.	PRC June 7, 2013	70%	70%	100%	100%	RMB 10,000,000	Investment management	Shinewing PRC[2] PRC GAAP
Jiangxi Zhaolian Investment Management Co., Ltd.[4]	PRC July 10, 2013	51%	51%	—	—	RMB 10,000,000	Investment management	Shinewing PRC[2] PRC GAAP
Jiangxi Zhiyuan Development Investment Management Co., Ltd.	PRC July 2, 2013	51%	51%	51%	51%	RMB 10,000,000	Investment management	Shinewing PRC[2] PRC GAAP
Ganzhou Zhaoyuan Investment Management Co., Ltd	PRC October 14, 2013	100%	100%	100%	100%	RMB 10,000,000	Investment management	Shinewing PRC[2] PRC GAAP
Ganzhou Zhaorui Investment Management Co., Ltd.[4]	PRC November 6, 2013	51%	51%	—	—	RMB 10,000,000	Investment management	Shinewing PRC[2] PRC GAAP
Anhui China Merchants Innovative Investment Management Co., Ltd.	PRC March 4, 2015	—	—	100%	100%	RMB 25,000,000	Investment management	Shinewing PRC[2] PRC GAAP

NOTES TO THE FINANCIAL INFORMATION (Continued)

22 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment /date of establishment	Proportion ownership interest held by the Group: December 31, 2013	December 31, 2014	December 31, 2015	June 30, 2016	Issued and fully paid share capital	Principal Activities	Auditors/ GAAP
Shenzhen Zhiyuan Business Development and Funds Investment Management Co., Ltd.	PRC January 23, 2015	—	—	53.85%	53.85%	RMB 10,000,000	Investment management	Shinewing PRC(2) PRC GAAP
Qingdao Guoxin China Merchants and Business Development Investment Management Co., Ltd.	PRC February 6, 2015	—	—	65%	65%	RMB 10,000,000	Investment management	Shinewing PRC(2) PRC GAAP
Shenzhen China Merchants Business Development Investment Co., Ltd	PRC June 24, 2015	—	—	100%	100%	RMB 5,000,000	Investment management	Shinewing PRC(2) PRC GAAP
Shenyang China Merchants Business and Development Investment Management Co., Ltd	PRC July 10, 2015	—	—	70%	70%	RMB 4,000,000	Investment management	Shinewing PRC(2) PRC GAAP
China Merchants Securities Investment Co., Ltd.(1)	PRC December 2, 2013	100%	100%	100%	100%	RMB 300,000,000	Investment holding	Shinewing PRC(2) PRC GAAP
China Merchants Securities Asset Management Co., Ltd.(1)	PRC April 3, 2015	—	—	100%	100%	RMB 1,000,000,000	Assets management	Shinewing PRC(2) PRC GAAP
China Merchants Securities (UK) Limited	UK October 25, 2013	100%	100%	100%	100%	US$ 22,000,000	Futures brokerage	Deloitte UK(2) IFRSs
Qingdao China Merchants Zhiyuan Investment Management Co., Ltd.	PRC January 12, 2016	—	—	—	100%	RMB 10,000,000	Venture capital, investment in fund and financial assets	Shinewing PRC(2) PRC GAAP
Anhui Zhiyuan Smart City Fund Management Co., Ltd.	PRC February 4, 2016	—	—	—	100%	RMB 4,500,000	Equity fund management, investment advisory service, investment management, financial consultancy service	Shinewing PRC(2) PRC GAAP
China Merchants Securities (HK) Finance Co., Limited	HK April 26, 2016	—	—	—	100%	HK$ 500,000	Investment and Financing Management	Shinewing HK(2) HKFRSs

(1) These subsidiaries are directly held by the Company.

(2) The auditors of the respective subsidiaries of the Group are as follows:

— Shinewing PRC represents Shinewing Certified Public Accountants LLP (信永中和會計師事務所(特殊普通合夥)), a firm of certified public accountants registered in PRC; and

— Shinewing HK represents SHINEWING (HK) CPA Limited (信永中和(香港)會計師事務所有限公司), a firm of certified public accountants registered in Hong Kong; and

— Deloitte UK represents Deloitte LLP in United Kingdom, a firm of certified public accountants registered in United Kingdom.

(3) The directors of the Company considered that none of the non-wholly owned subsidiaries is having material non-controlling interests at the end of the year, therefore there are no further information presented.

(4) These subsidiaries were deregistered in 2015.

NOTES TO THE FINANCIAL INFORMATION (Continued)

23 INTERESTS IN CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group stand for the asset management schemes, limited partnership and investment funds where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the asset management product to a level of such significance that it indicates that the Group is a principal.

The financial impact of these asset management products on the Group's financial position as at December 31, 2013, 2014, 2015 and June 30, 2016, and the results and cash flows for the years ended December 31, 2013, 2014, 2015 and six months ended June 30, 2016, though consolidated, are not significant and therefore not disclosed separately.

Interests in all consolidated structured entities directly held by the Group amounted to fair value of RMB78,841 thousand, RMB247,740 thousand, RMB2,309,352 thousand and RMB3,311,286 thousand at December 31, 2013, 2014, 2015 and June 30, 2016, respectively. It contains the interests in the subordinated tranche of those structured products held by the Group. The Group provides credit enhancement to the priority tranche investors by holding such subordinated tranche interests.

24 INTERESTS IN ASSOCIATES

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of unlisted investments in associates	4,105,535	4,105,535	4,105,535	4,105,535
Share of post-acquisition profits and other comprehensive income, net of dividends received	747,926	1,019,050	1,461,429	1,630,838
	4,853,461	5,124,585	5,566,964	5,736,373
Impairment loss	—	(669,150)	(669,150)	(669,150)
	4,853,461	4,455,435	4,897,814	5,067,223

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of unlisted investments in associates	4,081,535	4,081,535	4,081,535	4,081,535
Share of post-acquisition profits and other comprehensive income, net of dividends received	741,441	1,010,899	1,448,871	1,617,800
	4,822,976	5,092,434	5,530,406	5,699,335
Impairment loss	—	(669,150)	(669,150)	(669,150)
	4,822,976	4,423,284	4,861,256	5,030,185

NOTES TO THE FINANCIAL INFORMATION (Continued)

24 INTERESTS IN ASSOCIATES (Continued)

The following list contains only the particulars of material associates, all of which are unlisted corporate entities whose quoted market price is not available. All of the above associates are accounted for using the equity method in the consolidated financial statements:

Name of associate	Place and date of incorporation/ establishment	Equity interest held by the Group				Principal Activities
		December 31,			June 30,	
		2013	2014	2015	2016	
Bosera Asset Management Co., Ltd.	PRC July 13, 1998	49%	49%	49%	49%	Fund Management
China Merchants Fund Management Limited	PRC December 27, 2002	45%	45%	45%	45%	Fund Management
Guangdong Equity Exchange Co., Ltd.(1)	PRC October 19, 2013	32.5%	32.5%	32.5%	32.5%	Transaction settlement services
China Merchants Xiangjiang Industrial Investment Management Co., Ltd.	PRC March 13, 2008	40%	40%	40%	40%	Investment Management
Twenty-first Century Technology Investment Co., Ltd*(2)	PRC June 19, 2000	23.88%	23.88%	23.88%	23.88%	Investment holding
HuaMei Finance Corporation(3)	United States of America May 25, 2005	50%	50%	—	—	Deregistered

* This associate does not have official English names. English translated names are for identification only.

(1) On October 29, 2013, the Company with other four investors set up Guangdong Equity Exchange Co., Ltd. with registered capital of RMB100,000 thousand. Among all, the Company stands for 32.5% percent shares and its first capital contribution reaches RMB32,500 thousand.

(2) The associate has been suspended from business and the losses have been recognized to the consolidated statements of profit or loss.

(3) The associate was dormant during the year ended December 31, 2013 and 2014 and has been deregistered in 2015 and the losses have been recognized to the consolidated statements of profit or loss.

NOTES TO THE FINANCIAL INFORMATION (Continued)

24 INTERESTS IN ASSOCIATES (Continued)

Summarized financial information of the Group's material associates, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

Bosera Asset Management Co., Ltd.

	As at December 31, and for the year ended December 31,			As at June 30, and for the period ended June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	2,225,931	2,694,005	3,362,914	3,620,346
Total liabilities	(539,427)	(639,378)	(867,543)	(1,068,492)
Net assets	1,686,504	2,054,627	2,495,371	2,551,854
Total revenue	1,428,230	1,433,850	1,900,636	1,098,180
Profit for the year / period	425,070	457,711	601,007	399,800
Other comprehensive income	3,756	2,412	9,737	(3,317)
Total comprehensive income	428,826	460,123	610,744	396,483
Dividend received from the associate	147,000	45,080	83,300	166,600
Reconciliation to the Group's interest in the associate				
Net assets of the associate attributable to the parent company	1,686,504	2,054,627	2,495,371	2,551,854
The Group's share of net assets of the associate	826,387	1,006,768	1,222,732	1,250,409
Other adjustments:				
Goodwill	3,425,523	3,425,523	3,425,523	3,425,523
Impairment loss recognized[4]	—	(669,150)	(669,150)	(669,150)
Carrying amount in the consolidated financial statements	4,251,910	3,763,141	3,979,105	4,006,782

(4) As at December 31, 2014, the Company had recognized an impairment loss amounted to approximately RMB669,150 thousand to the interests in Bosera Asset Management Co., Ltd. The recoverable amounts of equity interest, being approximately RMB3,763,141 thousand had been determined by Vocational International (Beijing) Asset Appraisal Co., Ltd., a qualified valuer not connected with the Group. The valuer determined the value-in-use by using cash flow projections which is based on financial budgets covering a five-year period approved by management. The pre-tax discount rates applied and growth rate used to extrapolate the cash flow projections is 10.78% and 9.2% respectively. The growth rates beyond the five-year period is nil for the forecast period. As at June 30, 2016, the management assesses the above investments' recoverable amount was higher than carrying amount and considered no further impairment is identified.

NOTES TO THE FINANCIAL INFORMATION (Continued)

24 INTERESTS IN ASSOCIATES (Continued)

China Merchants Fund Management Limited

	As at December 31, and for the year ended December 31,			As at June 30, and for the period ended June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	1,084,101	2,285,881	3,211,344	2,988,827
Total liabilities	(328,636)	(1,333,568)	(1,771,957)	(1,237,702)
Net assets	755,465	952,313	1,439,387	1,751,125
Total revenue	728,935	1,145,866	2,118,231	1,111,461
Profit for the year / period	162,582	239,713	547,506	315,998
Other comprehensive (expense) income	(314)	2,137	3,512	(4,261)
Total comprehensive income	162,268	241,850	551,018	311,737
Dividend received from the associate	23,461	20,250	28,775	—
Reconciliation to the Group's interest in the associate				
Net assets of the associate attributable to the parent company	755,465	952,313	1,439,387	1,751,125
The Group's share of net assets of the associate	339,959	428,541	647,724	788,006
Other adjustments:				
—Goodwill	199,545	199,545	199,545	199,545
Carrying amount in the consolidated financial statements	539,504	628,086	847,269	987,551

Aggregate information of associates that are not individually material:

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
The Group's share of profit for the year / period	4,853	6,845	10,232	1,451
The Group's share of total comprehensive income	4,853	6,845	10,232	1,451
Aggregate carrying amount of the Group's interests in these associates	62,047	64,208	71,440	72,890

NOTES TO THE FINANCIAL INFORMATION (Continued)

25 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group is principally involved with structured entities through financial investments. These structured entities generally purchase assets through financing. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them. The details of interests holding in the unconsolidated structured entities are set out as below:

(a) Structured entities sponsored by the Group

The unconsolidated structured entities mainly include asset management schemes sponsored by the Group. The nature and major purpose of these structured entities are to generate management fee income from investors by managing their assets in these schemes. Financing is achieved by issuing financial products to investors. The entitlements of the Group in these unconsolidated structured entities include returns on direct investment holding or management fee and performance fee income derived from provision of assets management service in these structured entities.

As at December 31, 2013, 2014, 2015 and June 30, 2016, the total assets of these unconsolidated structured entities managed by the Group amounted to approximately RMB 10,886,000 thousand, RMB 22,259,000 thousand, RMB 56,175,000 thousand and RMB 63,085,000 thousand respectively.

Returns on investments and income derived from managing these unconsolidated structured entities received by the Group were not significant.

(b) Structured entities sponsored by third party institutions

There are structured entities that the Group does not consolidate but holds an interest by direct investments in these entities which were sponsored by third party institutions. These entities include funds, asset management schemes, trust schemes, 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 issue of units to investors.

The carrying amount of the related accounts in the consolidated statement of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at December 31, 2013, 2014, 2015 and June 30, 2016, which are listed below:

	As at December 31, 2013		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
	RMB'000	RMB'000	RMB'000
Funds	501,331	2,608,469	3,109,800
Trust schemes	96,466	—	96,466
Asset management schemes	34,690	—	34,690
	632,487	2,608,469	3,240,956

	As at December 31, 2014		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
	RMB'000	RMB'000	RMB'000
Funds	18,582	3,993,258	4,011,840
Trust schemes	696,555	—	696,555
Asset management schemes	318,604	—	318,604
Wealth management products	—	39,966	39,966
	1,033,741	4,033,224	5,066,965

NOTES TO THE FINANCIAL INFORMATION (Continued)

25 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

(b) Structured entities sponsored by third party institutions (Continued)

	As at December 31, 2015		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
	RMB'000	RMB'000	RMB'000
Funds	14,605	25,061,123	25,075,728
Trust schemes	604,387	—	604,387
Asset management schemes	224,035	—	224,035
Wealth management products	8,829,032	501,860	9,330,892
	9,672,059	25,562,983	35,235,042

	As at June 30, 2016		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
	RMB'000	RMB'000	RMB'000
Funds	13,341	14,340,415	14,353,756
Trust schemes	224,822	—	224,822
Asset management schemes	393,551	143,153	536,704
Wealth management products	8,125,899	370,002	8,495,901
	8,757,613	14,853,570	23,611,183

NOTES TO THE FINANCIAL INFORMATION (Continued)

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Measure at fair value				
—Equity securities(4)	80,837	144,914	182,029	—
—Funds	31,823	—	—	—
—Others(1)(2)	305,122	735,425	9,901,288	8,558,364
Measure at cost				
—Unlisted equity securities(3)	108,025	13,975	13,975	250,000
	525,807	894,314	10,097,292	8,808,364
Analyzed as:				
Listed outside Hong Kong	80,837	144,914	182,029	—
Unlisted	444,970	749,400	9,915,263	8,808,364
	525,807	894,314	10,097,292	8,808,364
Current				
Measure at fair value				
—Equity securities(4)	524,580	1,239,952	4,780,707	3,090,101
—Funds	469,508	18,582	14,605	13,341
—Debt securities	4,766,614	12,334,247	20,680,155	24,314,233
—Others(1)(2)	131,156	390,910	169,885	485,084
	5,891,858	13,983,691	25,645,352	27,902,759
Analyzed as:				
Listed outside Hong Kong	3,406,551	5,150,025	16,734,653	15,515,125
Unlisted	2,485,307	8,833,666	8,910,699	12,387,634
	5,891,858	13,983,691	25,645,352	27,902,759

NOTES TO THE FINANCIAL INFORMATION (Continued)

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Measure at fair value				
—Others(1)(2)	383,963	983,164	9,750,692	8,315,753
Analyzed as:				
Unlisted	383,963	983,164	9,750,692	8,315,753
Current				
Measure at fair value				
—Equity securities(4)	524,580	1,051,037	4,404,218	2,568,587
—Funds	469,508	18,582	14,605	13,341
—Debt securities	4,766,614	12,334,247	20,680,155	24,314,233
—Others(1)(2)	131,156	390,910	158,583	167,246
	5,891,858	13,794,776	25,257,561	27,063,407
Analyzed as:				
Listed outside Hong Kong	3,406,551	5,031,631	16,372,137	14,993,611
Unlisted	2,485,307	8,763,145	8,885,424	12,069,796
	5,891,858	13,794,776	25,257,561	27,063,407

(1) Others mainly represent investments in collective wealth management products, trust products, targeted asset management schemes and special accounts in China Securities Finance Corporation Limited (the "CSFCL"). Investments in these financial products are mainly debt securities and publicly traded equity securities listed in PRC.

The Group has committed to hold its investments till the end of the investment period in order to maintain the leverage to a certain proportion as a product manager. Such investments managed by the Company in the relevant collective asset management schemes and trust products and other wealth products as at December 31, 2013, 2014, 2015 and June 30, 2016, amounted to approximately RMB401,588 thousand, RMB1,126,335 thousand, RMB9,657,454 thousand and RMB8,725,403 thousand respectively.

(2) Others represent an investment in a special account managed by the CSFCL, which mainly invest in debt securities and publicly traded equity securities listed in the PRC. Pursuant to the agreements the Company entered into with the CSFCL, the Company contributed a total of approximately RMB9,287,030 thousand in July and September 2015 to the special account managed by the CSFCL. The Company is entitled to the profit or loss derived from the special account in proportion to the funding portion contributed. As at December 31, 2015 and June 30, 2016, the Company determined the fair value of the investment in accordance with the evaluation report provided by the CSFCL. As at December 31, 2015 and June 30, 2016, the fair value of the Company's contribution are RMB8,829,032 thousand and RMB8,125,899 thousand respectively. No impairment is recognized as the decline was not significant or prolonged under the indicators of impairment in accordance with the Group's accounting policy.

(3) The unlisted equity securities held by the Group and the Company are issued by private companies in other sectors. As the reasonable range of fair value estimation is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably, these equity securities are measured at cost less impairment at the end of each reporting period.

(4) As at December 31, 2013, 2014, 2015 and June 30, 2016, the listed equity securities of the Group included RMB80,837 thousand, RMB390,677 thousand, RMB 558,518 thousand and RMB390,396 thousand of restricted shares, respectively. The restricted shares are listed in the PRC with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period. The fair value of the securities is determined by reference to the quoted market prices and discounted to reflect the effect of the restrictions.

As at December 31, 2014, the listed equity securities of the Company included RMB127,368 thousand of restricted shares. The restricted shares are listed in the PRC with a legally enforceable restriction on these securities that prevents the Company to dispose of within the specified period. The fair value of the securities is determined by reference to the quoted market prices and discounted to reflect the effect of the restrictions.

(5) As at December 31, 2013, 2014, 2015 and June 30, 2016, the Group and the Company entered into securities lending arrangements with clients that resulted in the transfer of available-for-sale equity securities with total fair values of RMB31,853 thousand, RMB 63,399 thousand, RMB 2,845 thousand and RMB 2,871 thousand respectively, to clients. These securities continued to be recognized as financial assets of the Group and the Company.

NOTES TO THE FINANCIAL INFORMATION (Continued)

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Fair value of the Group's and the Company's available-for-sale investments are determined in the manner described in note 67.

In the opinion of the directors of the Company, non-current available-for-sale financial assets are restricted for sale or expected to be realized beyond one year from the end of the respective reporting periods.

27 LOAN RECEIVABLES

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Fixed-rate loan receivables	547,558	404,182	40,522	89,694
Variable-rate loan receivables	408,281	250,726	246,538	92,505
	955,839	654,908	287,060	182,199
Non-current				
Loan receivable, secured	845,964	90,720	—	—
Current				
Loan receivable, secured	109,875	564,188	287,060	133,657
Loan receivable, unsecured	—	—	—	48,542
	955,839	654,908	287,060	182,199

As at December 31, 2013, 2014, 2015 and June 30, 2016, the loan receivables are neither past due nor impaired and none of the loan receivables have been pledged as security for borrowings.

The main types of collateral and credit enhancement obtained are corporate guarantees, personal guarantees from the owner of the corporate, pledge of shares or debentures which are the borrowers' assets. Management reviews of the adequacy of the allowance for impairment loss by monitoring the market value of collateral and assesses the financial situation of the counterparties throughout the loan periods.

No single loan receivable is individually material, and terms and conditions of all loan receivables are presented by appropriate groupings.

As at December 31, 2013, 2014, 2015 and June 30, 2016, the effective interest rate of loan receivables was ranged from 2.50% to 6.98% per annum.

NOTES TO THE FINANCIAL INFORMATION (Continued)

28 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analyzed by collateral type and market of financial assets held under resale agreements:

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Analyzed by collateral type:				
Stock (note)	191,330	1,700,432	3,532,271	5,394,927
Analyzed by market:				
Stock exchanges	191,330	1,700,432	3,532,271	5,394,927
Less: Allowance for impairment losses	—	—	(68,200)	(1)
Total	191,330	1,700,432	3,464,071	5,394,926
Current				
Analyzed by collateral type:				
Stock (note)	2,505,071	5,101,360	6,631,581	5,547,211
Bond	160,000	742,907	4,273,354	260,000
Fund	10,029	—	—	—
	2,675,100	5,844,267	10,904,935	5,807,211
Analyzed by market:				
Stock exchanges	2,625,100	5,522,230	8,731,581	5,547,211
Interbank bond market	50,000	322,037	2,173,354	260,000
	2,675,100	5,844,267	10,904,935	5,807,211
Less: Allowance for impairment losses	—	—	(34,250)	(55,549)
	2,675,100	5,844,267	10,870,685	5,751,662

NOTES TO THE FINANCIAL INFORMATION (Continued)

28 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

(1) Analyzed by collateral type and market of financial assets held under resale agreements: (Continued)

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Analyzed by collateral type:				
Stock (note)	191,330	1,700,432	3,532,271	5,394,927
Analyzed by market:				
Stock exchanges	191,330	1,700,432	3,532,271	5,394,927
Less: Allowance for impairment losses	—	—	(68,200)	(1)
Total	191,330	1,700,432	3,464,071	5,394,926
Current				
Analyzed by collateral type:				
Stock (note)	1,735,161	4,138,194	6,084,596	5,547,211
Bond	160,000	667,907	4,273,354	260,000
Fund	10,029	—	—	—
	1,905,190	4,806,101	10,357,950	5,807,211
Analyzed by market:				
Stock exchanges	1,855,190	4,484,064	8,184,596	5,547,211
Interbank bond market	50,000	322,037	2,173,354	260,000
	1,905,190	4,806,101	10,357,950	5,807,211
Less: Allowance for impairment losses	—	—	(34,250)	(55,549)
	1,905,190	4,806,101	10,323,700	5,751,662

Note: Financial assets (pledged by stock) held under resale agreements are predetermined repurchase transactions and stock-pledged repurchase transactions, where the Group either acquires specific securities from the qualified investors which will be resold to the same investor at a predetermined price at a predetermined future date under the resale agreements; or the qualified investors pledge specific securities to the Group for borrowing, and both parties agree that the qualified investors will return to the Group a sum at the predetermined repo interest rate, and the Group will return the pledged stock to the qualified investors at a predetermined future date. As at December 31, 2013, 2014, 2015 and June 30, 2016, the fair value of securities of the Group and the Company which have been received as collateral were RMB8,049,083 thousand, RMB19,209,582 thousand, RMB38,870,014 thousand and RMB34,909,013 thousand respectively.

(2) The movements of impairment losses are as below:

The Group and the Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year / period	—	—	—	102,450
Impairment losses recognized	—	—	102,450	—
Reversal of impairment losses	—	—	—	(46,900)
At end of the year / period	—	—	102,450	55,550

NOTES TO THE FINANCIAL INFORMATION (Continued)

28 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

(2) The movements of impairment losses are as below: (Continued)

The Group determines the impairment losses of individual accounts based on: (i) the evaluation of collectability; (ii) the ageing analysis of accounts; and (iii) management judgment, including the assessment of liquidity of collateral and the past collection history of each client etc. The Group recognized provision for impairment loss on securities back-lending are those resale agreements of RMB55,550 thousand as at June 30, 2016.

29 DEFERRED TAX ASSETS (LIABILITIES)

The following is an analysis of the deferred tax balances for financial reporting purposes:

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	225,456	370,136	726,238	2,101,820
Deferred tax liabilities	(31,298)	(359,673)	(446,349)	(151,494)
	194,158	10,463	279,889	1,950,326

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	220,390	354,706	700,805	2,040,633
Deferred tax liabilities	(13,119)	(257,307)	(263,227)	(20,745)
	207,271	97,399	437,578	2,019,888

NOTES TO THE FINANCIAL INFORMATION (Continued)

29 DEFERRED TAX ASSETS (LIABILITIES) (Continued)

The following are the major deferred tax assets (liabilities) recognized and movements thereon in the Track Record Period:

The Group

	Financial instruments at fair value through profit and loss and derivatives	Accrued staff cost	Deferred income	Allowance for impairment loss	Fair value change of available-for-sale financial assets	Property and equipment	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2013	(51,425)	45,570	31,500	6,037	(10,074)	(607)	23,724	44,725
Credit (charge) to profit or loss	44,588	69,966	—	1,038	—	—	(2,410)	113,182
Credit to other comprehensive income	—	—	—	—	36,232	—	—	36,232
Exchange realignment	—	—	—	—	—	19	—	19
At December 31, 2013	(6,837)	115,536	31,500	7,075	26,158	(588)	21,314	194,158
(Charge) credit to profit or loss	(273,685)	178,509	—	266	—	(1,328)	14,077	(82,161)
(Charge) to other comprehensive income	—	—	—	—	(101,530)	—	—	(101,530)
Exchange realignment	—	—	—	—	—	(4)	—	(4)
At December 31, 2014	(280,522)	294,045	31,500	7,341	(75,372)	(1,920)	35,391	10,463

NOTES TO THE FINANCIAL INFORMATION (Continued)

29 DEFERRED TAX ASSETS (LIABILITIES) (Continued)

The Group

	Financial instruments at fair value through profit and loss and derivatives	Accrued staff cost	Deferred income	Allowance for impairment loss	Fair value change of available-for-sale financial assets	Property and equipment	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2014	(280,522)	294,045	31,500	7,341	(75,372)	(1,920)	35,391	10,463
(Charge) credit to profit or loss	(6,051)	309,606	—	57,760	—	970	(13,706)	348,579
Charge to other comprehensive income	—	—	—	—	(79,153)	—	—	(79,153)
At December 31, 2015	(286,573)	603,651	31,500	65,101	(154,525)	(950)	21,685	279,889
Credit (charge) to profit or loss	221,136	1,006,728	—	(19,769)	—	—	(2,704)	1,205,391
Credit to other comprehensive income	—	—	—	—	465,065	—	—	465,065
Exchange difference	—	—	—	—	—	(19)	—	(19)
At June 30, 2016	(65,437)	1,610,379	31,500	45,332	310,540	(969)	18,981	1,950,326

NOTES TO THE FINANCIAL INFORMATION (Continued)

29 DEFERRED TAX ASSETS (LIABILITIES) (Continued)

The Company

	Financial instruments at fair value through profit and loss and derivatives	Accrued staff cost	Deferred income	Allowance for impairment loss	Fair value change of available-for-sale financial assets	Property and equipment	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2013	(49,802)	45,570	31,500	5,861	2,141	—	23,595	58,865
Credit (charge) to profit or loss	45,231	65,207	—	1,038	—	—	(2,410)	109,066
Credit to other comprehensive income	—	—	—	—	39,340	—	—	39,340
At December 31, 2013	(4,571)	110,777	31,500	6,899	41,481	—	21,185	207,271
(Charge) credit to profit or loss	(221,272)	168,145	—	266	—	—	7,386	(45,475)
(Charge) to other comprehensive income	—	—	—	—	(64,397)	—	—	(64,397)
At December 31, 2014	(225,843)	278,922	31,500	7,165	(22,916)	—	28,571	97,399
(Charge) credit to profit or loss	(6,942)	299,601	—	57,760	—	—	(2,714)	347,705
(Charge) to other comprehensive income	—	—	—	—	(7,526)	—	—	(7,526)
At December 31, 2015	(232,785)	578,523	31,500	64,925	(30,442)	—	25,857	437,578
Credit (charge) to profit or loss	212,743	972,729	—	(24,191)	—	4,422	(8,761)	1,156,942
Credit to other comprehensive income	—	—	—	—	425,368	—	—	425,368
At June 30, 2016	(20,042)	1,551,252	31,500	40,734	394,926	4,422	17,096	2,019,888

NOTES TO THE FINANCIAL INFORMATION (Continued)

30 OTHER NON-CURRENT ASSETS

(1) Analyzed by nature

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Leasehold improvements and deferred expenses	160,605	168,406	184,083	166,928

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Leasehold improvements and deferred expenses	152,237	154,908	172,061	154,701

(2) The movements of leasehold improvements and deferred expenses are as below:

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	163,138	160,605	168,406	184,083
Additions	36,662	38,271	40,732	6,685
Transfer from construction in progress (note 18)	16,737	29,686	38,279	9,979
Amortization	(55,932)	(60,156)	(63,334)	(33,819)
At end of year/period	160,605	168,406	184,083	166,928

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	159,900	152,237	154,908	172,061
Addition	31,335	30,938	51,529	7,645
Transfer from construction in progress (note 18)	15,586	29,586	26,538	7,381
Amortization	(54,584)	(57,853)	(60,914)	(32,386)
At end of year/period	152,237	154,908	172,061	154,701

NOTES TO THE FINANCIAL INFORMATION (Continued)

31 ADVANCES TO CUSTOMERS

(1) Analyzed by nature

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Loans to margin clients	20,087,285	58,595,165	64,520,142	46,671,965
Less: impairment loss in respect of advance to customers	—	—	(130,800)	(103,675)
	20,087,285	58,595,165	64,389,342	46,568,290

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Loans to margin clients	19,459,068	56,850,715	62,750,281	45,526,113
Less: impairment loss in respect of advance of customers	—	—	(130,800)	(99,028)
	19,459,068	56,850,715	62,619,481	45,427,085

The credit facility limits to margin clients are determined by the discounted market value of the collateral securities accepted by the Group and the Company.

The majority of the loans to margin clients which are secured by the underlying pledged securities and cash collateral as disclosed in note 44 are interest bearing. The Group maintains a list of approved stocks for margin lending at a specified loan-to-collateral ratio. Any excess in the lending ratio will trigger a margin call upon which the customers have to make up the difference.

(2) Analyzed by fair value of collateral of margin financing and securities lending business

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Collateral measured at fair value				
Cash	1,787,646	7,044,123	11,976,354	8,725,947
Debt securities	89,503	46,003	63,172	67,813
Equity securities	49,342,450	147,214,051	194,873,589	141,562,635
Funds	299,893	1,919,768	386,227	463,151
	51,519,492	156,223,945	207,299,342	150,819,546

NOTES TO THE FINANCIAL INFORMATION (Continued)

31 ADVANCES TO CUSTOMERS (Continued)

(2) Analyzed by fair value of collateral of margin financing and securities lending business (Continued)

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Collateral measured at fair value				
Cash	1,787,646	7,044,123	11,976,354	8,725,947
Debt securities	89,503	46,003	63,172	43,513
Equity securities	49,342,428	141,777,497	187,187,052	136,256,727
Funds	299,893	1,919,768	386,227	441,727
	51,519,470	150,787,391	199,612,805	145,467,914

(3) The movements of allowance of impairment losses are as below

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year / period	—	—	—	130,800
Impairment losses recognized	—	—	130,800	(31,772)
Transfer from accounts receivable (note 32)	—	—	—	4,647
At end of the year / period	—	—	130,800	103,675

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year / period	—	—	—	130,800
Impairment losses recognized	—	—	130,800	(31,772)
At end of the year / period	—	—	130,800	99,028

The Group determines the impairment loss of the advance to individual financing customers based on: (i) the evaluation of collectability; (ii) the ageing analysis of accounts; and (iii) management judgment, they include the assessment of changes in credit quality, collateral and the past collection history of each client.

The directors of the Company are of the opinion that the ageing analysis does not give additional value in view of the nature of the securities margin financing business. As a result, no ageing analysis is disclosed.

The concentration of credit risk is limited due to the size and uncorrelated nature of the customer base.

NOTES TO THE FINANCIAL INFORMATION (Continued)

32 ACCOUNTS RECEIVABLE

(1) Analyzed by nature

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts receivable from/ related to:				
Clearing houses, brokers and dealers	556,270	1,142,009	2,548,498	3,214,050
Margin clients	9,419	9,382	10,178	4,750
Commission and fee income	184,692	274,202	485,277	441,835
Others	2,391	2,143	—	—
	752,772	1,427,736	3,043,953	3,660,635
Less: Allowance for doubtful debts	(12,906)	(15,701)	(10,903)	(5,943)
	739,866	1,412,035	3,033,050	3,654,692

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts receivable from/ related to:				
Clearing houses, brokers and dealers	—	36,260	249,647	148,462
Margin clients	2,301	2,240	5,623	4,750
Asset management fee and commission	130,175	246,153	342,453	294,497
Others	2,391	—	—	—
	134,867	284,653	597,723	447,709
Less: Allowance for doubtful debts	(5,787)	(8,558)	(6,348)	(5,943)
	129,080	276,095	591,375	441,766

(2) Analyzed by ageing

As at the end of the Track Record Period, the ageing analysis of accounts receivable, based on trade day, is as follows:

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	722,422	1,398,846	3,027,684	3,628,518
Between 1 and 2 years	7,396	5,343	5,366	26,174
Between 2 and 3 years	9,864	2,290	—	—
More than 3 years	184	5,556	—	—
	739,866	1,412,035	3,033,050	3,654,692

NOTES TO THE FINANCIAL INFORMATION (Continued)

32 ACCOUNTS RECEIVABLE (Continued)

(2) Analyzed by ageing (Continued)

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	111,636	262,906	586,010	415,592
Between 1 and 2 years	7,396	5,343	5,365	26,174
Between 2 and 3 years	9,864	2,290	—	—
More than 3 years	184	5,556	—	—
	129,080	276,095	591,375	441,766

(3) The movement in the allowance for doubtful debts

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year / period	8,983	12,906	15,701	10,903
Impairment losses recognized	6,048	2,777	—	—
Reversal of impairment losses	(1,901)	(6)	(5,152)	(405)
Transfer to advance to customers (note 31)	—	—	—	(4,647)
Exchange realignment	(224)	24	354	92
At end of the year / period	12,906	15,701	10,903	5,943

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year / period	1,634	5,787	8,558	6,348
Impairment losses recognized	6,025	2,777	—	—
Reversal of impairment losses	(1,872)	(6)	(2,210)	(405)
At end of the year / period	5,787	8,558	6,348	5,943

NOTES TO THE FINANCIAL INFORMATION (Continued)

33 OTHER RECEIVABLES, PREPAYMENT AND DEPOSITS

(1) Analyzed by nature

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables	97,336	83,940	71,302	140,981
Interest receivables	236,497	399,423	888,671	868,583
Prepayments (note)	15,577	54,322	35,592	45,760
Others	18,772	20,967	26,219	111,099
	368,182	558,652	1,021,784	1,166,423
Less: Allowance for doubtful debts	(4,826)	(3,117)	(3,117)	(3,117)
	363,356	555,535	1,018,667	1,163,306

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables	67,979	58,559	40,045	139,321
Interest receivables	221,519	368,675	821,474	784,219
Prepayments (note)	15,577	54,322	35,592	45,760
Others	16,897	22,567	26,135	110,707
	321,972	504,123	923,246	1,080,007
Less: Allowance for doubtful debts	(4,123)	(2,414)	(2,414)	(2,414)
	317,849	501,709	920,832	1,077,593

Note: Prepayments comprise amount prepaid for construction expenditure and acquisition of a building.

(2) The movement in the allowance for doubtful debt

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	4,827	4,826	3,117	3,117
Reversal of impairment losses	(1)	(1,709)	—	—
At end of the year/period	4,826	3,117	3,117	3,117

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	4,124	4,123	2,414	2,414
Reversal of impairment losses	(1)	(1,709)	—	—
At end of the year/period	4,123	2,414	2,414	2,414

NOTES TO THE FINANCIAL INFORMATION (Continued)

34 AMOUNT DUE FROM A SUBSIDIARY

Amount due from a subsidiary is unsecured, interest-bearing at 4.35% per annum and repayable on demand. The Company expected to recover the amount due from a subsidiary within one year.

35 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(1) Analyzed by type:

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Financial assets at held-for-trading	13,750,955	34,890,380	61,236,003	49,215,750
Financial assets designated at fair value through profit or loss	1,729,058	1,231,288	1,590,490	1,360,245
	15,480,013	36,121,668	62,826,493	50,575,995
The Company				
Financial assets at held-for-trading	12,228,972	31,735,043	53,980,551	41,194,593
Financial assets designated at fair value through profit or loss	793,714	—	50,000	50,000
	13,022,686	31,735,043	54,030,551	41,244,593

(2) Financial assets held-for-trading

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Debt securities	6,491,244	16,506,484	23,767,220	25,492,036
Equity securities	4,440,242	13,862,611	11,119,575	7,620,354
Funds	2,608,469	3,993,258	25,061,123	14,340,415
Others(1)	211,000	528,027	1,288,085	1,762,945
	13,750,955	34,890,380	61,236,003	49,215,750
Analyzed as:				
Listed in Hong Kong	220,208	585,240	466,304	303,674
Listed outside Hong Kong(2)	7,770,516	21,710,700	18,643,891	12,872,805
Unlisted(3)	5,760,231	12,594,440	42,125,808	36,039,271
	13,750,955	34,890,380	61,236,003	49,215,750

NOTES TO THE FINANCIAL INFORMATION (Continued)

35 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(2) Financial assets held-for-trading (Continued)

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Debt securities	5,812,952	14,743,921	20,907,260	22,727,167
Equity securities	4,198,250	13,189,104	8,916,458	6,122,219
Funds	2,217,770	3,512,051	23,504,406	11,902,349
Others(1)	—	289,967	652,427	442,858
	12,228,972	31,735,043	53,980,551	41,194,593
Analyzed as:				
Listed outside Hong Kong(2)	7,232,502	19,591,410	16,774,848	11,382,461
Unlisted(3)	4,996,470	12,143,633	37,205,703	29,812,132
	12,228,972	31,735,043	53,980,551	41,194,593

(1) Others mainly represent investments in collective asset management schemes, wealth management products issued and managed by bank and commodities.

(2) Equity securities and funds traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange are included in the "Listed outside Hong Kong" category.

(3) Unlisted securities mainly comprise of debt securities traded on Interbank Bond Market. The fair value of these securities is estimated using valuation techniques.

As at December 31, 2013, 2014, 2015 and June 30, 2016, the Group and the Company entered into securities lending arrangement with clients that resulted in the transfer of equity securities under held for trading with total fair values of RMB269,587 thousand, RMB937,027 thousand, RMB115,010 thousand and RMB248,532 thousand respectively, to clients. These securities continued to be recognized as financial assets of the Group and the Company.

(3) Financial assets designated at fair value through profit or loss

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Equity securities	490,175	508,603	588,212	432,805
Others(1)	1,238,883	722,685	1,002,278	927,440
	1,729,058	1,231,288	1,590,490	1,360,245
Analyzed as:				
Listed in Hong Kong	—	—	—	33,922
Unlisted(2)	1,729,058	1,231,288	1,590,490	1,326,323
	1,729,058	1,231,288	1,590,490	1,360,245

NOTES TO THE FINANCIAL INFORMATION (Continued)

35 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(3) Financial assets designated at fair value through profit or loss (Continued)

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Equity securities	—	—	50,000	50,000
Others[1]	793,714	—	—	—
	793,714	—	50,000	50,000
Analyzed as:				
Unlisted[2]	793,714	—	50,000	50,000

(1) Others mainly represent investments in funds and partnership by the Group and the Company.

(2) Unlisted securities mainly comprise of unlisted equity securities, funds and partnerships by the Group and the Company.

36 DERIVATIVE FINANCIAL INSTRUMENTS

The Group

	As at December 31,						As at June 30,	
	2013		2014		2015		2016	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest derivative instrument								
Interest rate swaps[1]	4,612	—	—	6,319	154,168	165,456	121,223	128,250
Bond futures[2]	—	—	—	—	383	—	—	1,670
Equity derivative instrument								
Equity return swaps[3]	6,174	131,407	7,155	842,318	218,871	994,495	174,773	134,510
Stock index futures[4]	—	—	—	—	—	—	1,369	1,867
Options[5]	—	343	—	1,228	7,035	65,327	2,482	42,658
Other derivative instrument								
Commodity futures[2]	—	—	—	—	635,890	295,816	496,992	633,434
Commodity swaps[6]	—	—	—	—	—	332,836	18,691	26,095
Forward contracts[7]	—	68	4,860	—	—	2,840	1,666	149
Others	76,130	—	—	—	—	9,602	—	9,125
	86,916	131,818	12,015	849,865	1,016,347	1,866,372	817,196	977,758

NOTES TO THE FINANCIAL INFORMATION (Continued)

36 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The Company

	As at December 31,						As at June 30,	
	2013		2014		2015		2016	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest derivative instrument								
Interest rate swaps(1)	4,612	—	—	6,319	154,168	165,456	121,223	128,250
Bond futures(2)	—	—	—	—	—	—		
Equity derivative instrument								
Equity return swaps(3)	—	131,407	—	842,318	213,582	994,495	173,943	133,725
Stock index futures(4)	—	—	—	—	—	—	—	—
Options(5)	—	—	—	1,228	7,034	65,327	2,482	42,658
Other derivative instrument								
Commodity futures(2)	—	—	—	—	—	—	—	—
Commodity swaps(6)	—	—	—	—	—	—	—	—
Forward contracts(7)	—	68	4,860	—	—	140	142	—
Others	76,130	—	—	—	—	—	—	—
	80,742	131,475	4,860	849,865	374,784	1,225,418	297,790	304,633

(1) Interest rate swaps: The notional principal amounts of the Group's and Company's interest rate swaps contracts as at December 31, 2013, 2014, 2015 and June 30, 2016 were approximately RMB3,620,000 thousand, RMB13,950,000 thousand, RMB21,660,000 thousand and RMB 18,390,000 thousand, respectively.

(2) Bond futures and commodity futures: As at December 31, 2013, 2014, 2015 and June 30, 2016, the Group's principal of bond futures were approximately RMB96,394 thousand, RMB1,895,635 thousand, RMB2,802,398 thousand and RMB 3,943,125 thousand respectively. The Group's principal commodity futures were approximately RMB340,038 thousand, RMB228,317 thousand, RMB201,801,226 thousand and RMB 12,260,667 thousand respectively.

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Company's position in the bond futures and commodity futures were settled daily and the corresponding receipts and payments were included in "clearing settlement funds" as at December 31, 2013, 2014, 2015 and June 30, 2016. Accordingly, the net position of the bond future contracts and commodity future contracts was nil at the end of each reporting period.

(3) Equity return swaps: The notional principal amounts of the Group's and Company's equity return swaps contracts as at December 31, 2013, 2014, 2015 and June 30, 2016 were approximately RMB1,184,773 thousand, RMB8,718,566 thousand, RMB3,386,772 thousand and RMB 1,015,056 thousand, respectively.

(4) Stock index futures: The notional principal amounts of the Group's and Company's stock futures contracts as at December 31, 2013, 2014, 2015 and June 30, 2016 were approximately RMB2,230,469 thousand, RMB3,073,079 thousand, RMB1,046,121 thousand and RMB1,037,552 thousand, respectively.

Under the daily mark-to-market and settlement arrangement, any gains or losses of the stock index futures were settled daily and the corresponding receipts and payments were included in "clearing settlement funds" as at December 31, 2013, 2014, 2015 and June 30, 2016. Accordingly, the net position of the stock index futures contracts was nil at the end of each reporting period.

(5) Options: Included in options are over-the counter options, exchange-traded options and embedded derivatives.

The notional principal amounts of the Group's and the Company's over-the-counter options as at December 31, 2014, 2015 and June 30, 2016 were approximately RMB153,177 thousand, RMB1,175,497 thousand and RMB6,991,738 thousand, respectively.

The notional principal amounts of the Group's and the Company's exchange-traded options was approximately RMB424,020 thousand and RMB233,485 thousand as at December 31, 2015 and June 30, 2016, respectively.

As at December 31, 2014 and June 30, 2016, the amounts represent the fair value of the embedded options being bifurcated from structured notes issued by the Group. Details are set out in note 42 and 56.

(6) Commodity swaps: As of December 31, 2013, 2014, 2015 and June 30, 2016, the notional principal of commodity swap contracts the Group invested are nil, nil, RMB 4,575,511 thousands and RMB 5,146,292 thousand, respectively.

(7) Forward contracts: As at June 30, 2016, the notional principal of forward contracts the Group invested are RMB3,070,880 thousand.

NOTES TO THE FINANCIAL INFORMATION (Continued)

37 DEPOSITS WITH EXCHANGES AND NON-BANK FINANCIAL INSTITUTIONS

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits with stock exchanges and clearing house:				
Shanghai Clearing House	2,400	18,973	8,610	41,055
China Beijing Equity Exchange	—	—	2,398	3,283
London Stock Exchange plc	—	—	27,616	44,525
The Stock Exchange of Hong Kong Limited	629	631	670	684
Hong Kong Securities Clearing Company Limited	8,818	12,520	36,590	12,726
China Securities Depository and Clearing Corporation Limited	137,683	167,372	619,498	323,290
Deposits with futures and commodity exchanges and other financial institutions:				
China Financial Futures Exchange	10,078	10,078	10,069	10,010
Shanghai Gold Exchange	—	1,600	4,467	15,673
Chicago Mercantile Exchange Group Inc.	3,048	3,060	—	3,316
Hong Kong Futures Exchange Limited	1,412	1,408	4,713	1,282
Yongan Futures Co., Ltd.	—	29,004	35,515	47,757
COFCO Futures Co., Ltd.	—	34	—	—
CITIC Futures International Company Limited	—	—	107,296	67,583
Nanhua Futures Co., Ltd.	—	—	—	126
Haitong Futures Co., Ltd.	—	—	—	5,689
	164,068	244,680	857,442	576,999

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits with stock exchanges and clearing house:				
Shanghai Clearing House	2,400	18,973	8,610	39,305
China Beijing Equity Exchange	—	—	2,398	3,283
China Securities Depository and Clearing Corporation Limited	137,683	167,312	619,497	323,290
Deposits with futures and commodity exchanges and other financial institutions:				
Shanghai Gold Exchange	—	—	2,867	14,074
Yongan Futures Co., Ltd.	—	29,004	35,515	47,757
China Merchants Futures Co., Limited	263,179	376,363	178,252	153,535
COFCO Futures Co., Ltd.	—	34	—	—
CITIC Futures International Company Limited	—	—	107,296	67,583
Nanhua Futures Co., Ltd.	—	—	—	126
Haitong Futures Co., Ltd.	—	—	—	5,689
	403,262	591,686	954,435	654,642

NOTES TO THE FINANCIAL INFORMATION (Continued)

38 CLEARING SETTLEMENT FUNDS

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Clearing settlement funds held with clearing house for:				
House accounts	481,973	1,158,750	2,291,385	1,886,883
Clients	4,565,188	11,033,051	16,874,803	9,789,843
	5,047,161	12,191,801	19,166,188	11,676,726

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Clearing settlement funds held with clearing house for:				
House accounts	415,050	953,696	1,771,151	1,352,015
Clients	3,519,375	9,045,858	14,780,873	6,990,357
	3,934,425	9,999,554	16,552,024	8,342,372

These clearing settlement funds are held by the clearing houses for the Group and the Company and these balances carry interest at prevailing market interest rates.

39 CASH AND BANK BALANCES

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
House accounts	2,485,854	7,379,956	8,263,176	8,803,151
Pledge and restricted bank deposits				
—Restricted bank deposit for purchase of bond and stock	—	—	938,613	154,100
—Pledged bank deposit for borrowings[(1)]	114,003	—	—	—
Bank balances—house account	2,599,857	7,379,956	9,201,789	8,957,251
Cash held on behalf of customers	22,683,149	47,486,938	72,416,265	64,279,987
	25,283,006	54,866,894	81,618,054	73,237,238

NOTES TO THE FINANCIAL INFORMATION (Continued)

39 CASH AND BANK BALANCES (Continued)

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
House accounts	1,593,961	5,730,164	6,377,325	6,684,001
Pledge and restricted bank deposits				
—Restricted bank deposits for purchase of bond and stock (note 40)	—	—	904,389	154,100
Bank balances—house account	1,593,961	5,730,164	7,281,714	6,838,101
Cash held on behalf of customers	18,577,184	40,518,992	64,320,920	55,374,075
	20,171,145	46,249,156	71,602,634	62,212,176

(1) Pledged bank deposits represent deposits pledged to banks to secure bank facilities granted to the Group.

40 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the followings:

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Bank balances—house accounts (note 39)	2,599,857	7,379,956	9,201,789	8,957,251
Clearing settlement funds—house accounts (note 38)	481,973	1,158,750	2,291,385	1,886,883
	3,081,830	8,538,706	11,493,174	10,844,134
Less: Pledged and restricted bank deposit (note 39)	(114,003)	—	(938,613)	(154,100)
	2,967,827	8,538,706	10,554,561	10,690,034

41 BORROWINGS

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Secured bank loan(1)	157,295	295,496	370,194	368,405
Unsecured bank loan	—	—	83,778	—
	157,295	295,496	453,972	368,405
Current(2)				
Secured bank loan(3)	114,003	—	—	—
Unsecured bank loan	1,305,142	2,843,876	3,090,227	3,339,139
	1,419,145	2,843,876	3,090,227	3,339,139

NOTES TO THE FINANCIAL INFORMATION (Continued)

41 BORROWINGS (Continued)

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Secured bank loan(1)	157,295	295,496	370,194	368,405

(1) As at December 31, 2013, 2014, 2015 and June 30, 2016, the non-current borrowing was secured by the leasehold land of the Group, which was included in construction in progress. Details of the carrying amounts of pledged leasehold land were disclosed in note 18. The effective interest rate for the loan was 2% below benchmark interest rate, which was 6.272%, 5.88%, 5.80% and 4.66% per annum, respectively. The non-current borrowing is repayable within five years.

(2) As at December 31, 2013, 2014, 2015 and June 30, 2016, the short-term borrowing were all borrowed in Hong Kong, following the prevailing market rate. The effective interest rate for the loan was ranged from 0.64% to 1.63%, 1.8% to 2.8% and 0.82% to 2.6%, and 1.2% to 3.04% per annum respectively. The short-term borrowing is repayable on demand or within one year.

(3) As at December 31, 2013, the Group has short-term borrowings with pledged deposits at financial institutions as collateral. The details of restricted bank balances are disclosed in note 39.

42 SHORT-TERM DEBT INSTRUMENTS

The Group

	Nominal interest rate	As at January 1, 2013	Issuance	Redemption	As at December 31, 2013
		RMB'000	RMB'000	RMB'000	RMB'000
Short-term financing bill payables(1)	4.00%-6.35%	2,000,000	28,700,000	(22,900,000)	7,800,000

	Nominal interest rate	As at January 1, 2014	Issuance	Redemption	As at December 31, 2014
		RMB'000	RMB'000	RMB'000	RMB'000
Short-term financing bill payables(1)	4.16%-6.35%	7,800,000	31,500,000	(30,900,000)	8,400,000
Short-term bond payables(2)	6.20%	—	4,000,000	—	4,000,000
Principals of structured notes(3)	5.10%-7.00%	—	1,963,147	—	1,963,147
		7,800,000	37,463,147	(30,900,000)	14,363,147

	Nominal interest rate	As at January 1, 2015	Issuance	Redemption	As at December 31, 2015
		RMB'000	RMB'000	RMB'000	RMB'000
Short-term financing bill payables(1)	2.75%-6.20%	8,400,000	21,500,000	(27,900,000)	2,000,000
Short-term bond payables(2)	5.30%-6.20%	4,000,000	15,000,000	(8,000,000)	11,000,000
Principals of structured notes(3)	3.60%-6.50%	1,963,147	22,537,918	(9,622,745)	14,878,320
		14,363,147	59,037,918	(45,522,745)	27,878,320

	Nominal interest rate	As at January 1, 2016	Issuance	Redemption	As at June 30, 2016
		RMB'000	RMB'000	RMB'000	RMB'000
Short-term financing bill payables(1)	3.05%	2,000,000	—	(2,000,000)	—
Short-term bond payables(2)	5.30%-5.40%	11,000,000	—	(11,000,000)	—
Principals of structured notes(3)	2.50%-6.50%	14,878,320	2,530,000	(9,713,840)	7,694,480
		27,878,320	2,530,000	(22,713,840)	7,694,480

NOTES TO THE FINANCIAL INFORMATION (Continued)

42 SHORT-TERM DEBT INSTRUMENTS (Continued)

The Company

	Nominal interest rate	As at January 1, 2013	Issuance	Redemption	As at December 31, 2013
		RMB'000	RMB'000	RMB'000	RMB'000
Short-term financing bill payables(1)	4.00%-6.35%	2,000,000	28,700,000	(22,900,000)	7,800,000

	Nominal interest rate	As at January 1, 2014	Issuance	Redemption	As at December 31, 2014
		RMB'000	RMB'000	RMB'000	RMB'000
Short-term financing bill payables(1)	4.16%-6.35%	7,800,000	31,500,000	(30,900,000)	8,400,000
Short-term bond payables(2)	6.20%	—	4,000,000	—	4,000,000
Principals of structured notes(3)	5.10%-7.00%	—	2,033,147	—	2,033,147
		7,800,000	37,533,147	(30,900,000)	14,433,147

	Nominal interest rate	As at January 1, 2015	Issuance	Redemption	As at December 31, 2015
		RMB'000	RMB'000	RMB'000	RMB'000
Short-term financing bill payables(1)	2.75%-6.20%	8,400,000	21,500,000	(27,900,000)	2,000,000
Short-term bond payables(2)	5.30%-6.20%	4,000,000	15,000,000	(8,000,000)	11,000,000
Principals of structured notes(3)	3.60%-6.50%	2,033,147	22,537,918	(9,692,745)	14,878,320
		14,433,147	59,037,918	(45,592,745)	27,878,320

	Nominal interest rate	As at January 1, 2016	Issuance	Redemption	As at June 30, 2016
		RMB'000	RMB'000	RMB'000	RMB'000
Short-term financing bill payables(1)	3.05%	2,000,000	—	(2,000,000)	—
Short-term bond payables(2)	5.30%-5.40%	11,000,000	—	(11,000,000)	—
Principals of structured notes(3)	2.50%-6.50%	14,878,320	2,530,000	(9,713,840)	7,694,480
		27,878,320	2,530,000	(22,713,840)	7,694,480

(1) Short-term financing bill payables

As at December 31, 2013, 2014 and 2015, short-term financing bills were debt securities issued in the PRC inter-bank market by the Group and the Company, bearing interest rates ranging from 4.00% to 6.35%, 4.16% to 6.35%, 2.75% to 6.20% per annum, respectively, repayable upon maturity within three months. There are no short-term financing bill payables outstanding as at June 30, 2016.

(2) Short-term bond payables

The Company issued one tranche of short-term corporate bond in 2014 and five tranches of short-term corporate bond were issued till June 30, 2016, in which all of the short-term corporate bond issued had been settled in June 30, 2016. The short-term bond is repayable upon maturity within three months to one year.

(3) Principals of structured notes

As at December 31, 2014, 2015 and June 30, 2016, the amount represents principals received from investors for subscription of structured notes issued by the Group and the Company. The structured notes bear fixed rate interest ranging from 5.10% to 7.00%, 3.60% to 6.50% and 2.50% to 6.50% per annum, respectively, or variable rate linked to certain stock index. The interests are repayable upon maturity within one year. The notes with variable rate contain non-closely related derivative as their returns are linked to the fluctuation of stock index. For those embedded derivatives, they are accounted for in this Financial Information under note 36 after being bifurcated from their respective host contracts.

NOTES TO THE FINANCIAL INFORMATION (Continued)

43 PLACEMENTS FROM OTHER FINANCIAL INSTITUTIONS

The Group and the Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Placements from banks	—	2,600,000	4,000,000	1,600,000
Placements from China Securities Finance Corporation Limited	1,000,000	2,000,000	—	—
	1,000,000	4,600,000	4,000,000	1,600,000

As at December 31, 2013, 2014 the effective interest rate on due to China Securities Finance Corporation Limited is 7.10% and 5.80% per annum and unsecured. The amount was repayable upon maturity within 1 year from the end of the reporting period.

As at December 31, 2014, 2015 and June 30, 2016, the effective interest rate on due to banks is ranging from 4.84% to 5.22 %, 2.15% and 2.15% per annum, respectively. The amount was repayable within seven days from the end of the reporting period.

44 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Clients' deposits for margin financing and securities lending	1,787,646	7,044,123	12,016,071	8,725,947
Clients' deposits for other brokerage business	24,930,839	50,650,100	76,732,973	65,317,539
	26,718,485	57,694,223	88,749,044	74,043,486

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Clients' deposits for margin financing and securities lending	1,787,646	7,044,123	12,016,071	8,725,947
Clients' deposits for other brokerage business	20,108,677	41,757,587	66,119,008	53,000,577
	21,896,323	48,801,710	78,135,079	61,726,524

Accounts payable to brokerage clients represent the money 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 brokerage clients are interest bearing at the prevailing interest rate.

The majority of the accounts payable balances are repayable on demand, except certain accounts payable to brokerage clients where money received from clients for their margin financing activities under normal course of business, such as margin financing and securities lending. In this case, only the excessive amounts over the required margin deposits and cash collateral stipulated is repayable on demand.

NOTES TO THE FINANCIAL INFORMATION (Continued)

44 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS (Continued)

The directors of the Company are of the opinion that the ageing analysis does not give additional value in view of the nature of these businesses. As a result, no ageing analysis is disclosed.

45 ACCRUED STAFF COSTS

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Salaries, bonus and allowances	1,038,000	787,540	787,540	787,540
Other long-term welfare	438,936	1,026,059	—	—
	1,476,936	1,813,599	787,540	787,540
Current				
Salaries, bonus and allowances	633,038	1,810,795	7,060,212	4,885,370
Social welfare	624	34,820	40,233	40,255
Others	540	10,730	24,766	40,407
	634,202	1,856,345	7,125,211	4,966,032

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Salaries, bonus and allowances	1,038,000	787,540	787,540	787,540
Other long-term welfare	438,936	1,026,059	—	—
	1,476,936	1,813,599	787,540	787,540
Current				
Salaries, bonus and allowances	516,921	1,627,903	6,664,958	4,617,401
Social welfare	13	34,001	39,321	39,321
Others	59	9,907	23,619	37,340
	516,993	1,671,811	6,727,898	4,694,062

NOTES TO THE FINANCIAL INFORMATION (Continued)

46 OTHER PAYABLES AND ACCRUED CHARGES

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits of equity return swaps(1)	446,884	3,431,730	2,558,705	951,647
Settlement payables to brokers and clearing house	52,096	2,010,229	2,722,763	2,572,039
Commission and handling fee payable	46,959	72,107	134,316	98,597
Futures risk reserve	25,907	32,903	45,996	61,391
Business tax and surcharge	120,278	198,606	339,821	998,058
Interest payables	487,824	570,964	3,385,453	1,497,777
Others(2)	149,298	168,128	162,410	231,983
	1,329,246	6,484,667	9,349,464	6,411,492

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits of equity return swaps(1)	446,884	3,431,730	2,558,705	951,647
Settlement payables to brokers and clearing house	—	16,358	42,589	108,879
Commission and handling fee payable	—	29,462	124,994	87,677
Futures risk reserve	11,310	8,309	9,962	11,024
Business tax and surcharge	118,479	194,043	328,944	944,083
Interest payables	487,573	570,970	3,382,412	1,492,831
Others(2)	112,442	124,560	97,472	155,577
	1,176,688	4,375,432	6,545,078	3,751,718

(1) As at December 31, 2013, 2014, 2015 and June 30, 2016, the balance represents deposits received from investors for equity return swaps which is refundable with the contract terms upon the expiry date. The deposit will be mature within one year from the end of the reporting period. These instruments contain non-closely related embedded derivatives as their returns are linked to the fluctuation of certain stock index or specific stock price. For those embedded derivatives with significant fair values, they are accounted for in this Financial Information under note 36 after being bifurcated form their respective host contracts.

(2) Others mainly represent payable to joint bonds underwriters, private offering cost payable, and other payables arising from normal course of business.

47 PROVISION

The Group and the Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year / period	—	8,507	118	96
Addition for the year / period	8,507	—	—	—
Reversal for the year / period	—	(8,389)	(22)	—
At the end of the year/period	8,507	118	96	96

NOTES TO THE FINANCIAL INFORMATION (Continued)

47 PROVISION (Continued)

As at December 31, 2013, 2014, 2015 and June 30, 2016, the provision represents several pending litigations against the Group and the Company. By the best estimation of the directors of the Company, provision amounted to approximately of RMB8,507 thousand, RMB118 thousand, RMB96 thousand and RMB96 thousand was made for the years ended December 31, 2013 and 2014 and 2015 and six months ended June 30, 2016 respectively. The amount is of best estimate and close to its maximum potential amount paid.

48 OTHER LIABILITIES

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Third-party interests in consolidated structured entities	696,649	844,594	545,735	—

Third-party unit holders' interests in these consolidated structured entities are reflected as a liability since they can be put back to the Group for cash.

The realization of third-party interests in consolidated structured entities cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated structured entities which are held to back investment contract liabilities and are subject to market risk and the actions of third-party investors.

During the six months ended June 30, 2016, the Group has disposed of and deconsolidated entire structured entities, which are not individually significant to the Group.

49 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities held for trading				
—Equity securities	651,815	94,753	101,960	128,211
—Debt securities	—	16,245	857,974	160,916
—Others	—	—	190,566	70,410
Financial liabilities designated at fair value through profit or loss				
—Structured entities	—	99,699	1,218,780	1,855,210
	651,815	210,697	2,369,280	2,214,747

NOTES TO THE FINANCIAL INFORMATION (Continued)

49 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities held for trading				
—Debt securities	—	—	818,420	127,839
—Others	—	—	166,226	28,150
	—	—	984,646	155,989

In the consolidated financial statements, the financial liabilities arising from consolidation 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.

50 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

The Group and the Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Analyzed by collateral type:				
Rights and interests in margin loans	—	4,300,000	10,865,000	2,000,000
Analyzed by market:				
Over-the-counter	—	4,300,000	10,865,000	2,000,000
Current				
Analyzed by collateral type:				
Bonds	4,358,448	15,745,662	14,788,027	25,761,428
Rights and interests in margin loans	—	29,092,854	17,300,000	16,065,000
	4,358,448	44,838,516	32,088,027	41,826,428
Analyzed by market:				
Stock exchange	264,015	6,443,090	5,375,068	9,635,055
Interbank bond market	4,094,433	9,302,572	9,412,959	15,922,428
Over-the-counter	—	29,092,854	17,300,000	16,268,945
	4,358,448	44,838,516	32,088,027	41,826,428

Sales and repurchase agreements are transactions in which the Group and the Company sell a security as well as rights and interests in margin loans and simultaneous agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group and the Company are still exposed to substantially all the credit risks, market risk and rewards of those securities and rights and interests sold. These securities and margin loans are not derecognized from the financial statements but regarded as "collateral" for the liabilities because the Group and the Company retain substantially all the risk and rewards of these securities and margin loans.

Details of corresponding financial assets under repurchase agreements are disclosed in note 31.

NOTES TO THE FINANCIAL INFORMATION (Continued)

51 SHARE CAPITAL

All shares issued by the Company are fully paid common shares. The par value per share is RMB1. The Company's number of shares issued and their nominal value are as follows:

The Group and Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Registered, issued and fully paid ordinary shares of RMB1 each:				
—Domestic shares	4,661,100	5,808,136	5,808,136	5,808,136
At beginning of the year / period	4,661,100	4,661,100	5,808,136	5,808,136
Issuance of shares(1)	—	1,147,036	—	—
At end of the year/ period	4,661,100	5,808,136	5,808,136	5,808,136

(1) In May 2014, the Company issued 1,147,035,700 shares at RMB9.72 each by way of private placement to its existing shareholders amounted to RMB11,101,736,136, net of underwriting fee attributable to issue of shares of RMB47,450,868 from the total funds raised amounted to RMB11,149,187,004. The share capital and capital reserve of the Company increased by RMB1,147,035,700 and RMB9,954,700,436 respectively. These shares rank pari passu with the existing shares in all respects. The proceeds were to provide additional working capital for the Company.

52 INVESTMENT REVALUATION RESERVE

The movement in the Group's and the Company's investment revaluation reserve is set out as below:

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year / period	27,889	(89,139)	218,556	462,366
Available-for-sale financial assets				
Net fair value changes during the year / period	(123,242)	353,178	357,577	(1,313,345)
Reclassification adjustment to profit or loss upon disposal	(31,741)	53,903	(40,966)	(538,733)
Income tax impact	36,232	(101,530)	(79,153)	465,065
Share of fair value gain on available-for-sale financial assets of associates	1,723	2,144	6,352	(3,543)
At end of the year/period	(89,139)	218,556	462,366	(928,190)

NOTES TO THE FINANCIAL INFORMATION (Continued)

52 INVESTMENT REVALUATION RESERVE (Continued)

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/ period	(14,060)	(130,273)	64,978	93,907
Available-for-sale financial assets				
Net fair value changes during the year / period	(122,428)	196,292	55,718	(1,345,107)
Reclassification adjustment to profit or loss on disposal	(34,848)	61,212	(25,615)	(356,363)
Income tax impact	39,340	(64,397)	(7,526)	425,368
Share of fair value gain/ (loss) on available-for-sale financial assets of associates	1,723	2,144	6,352	(3,543)
At end of the year/ period	(130,273)	64,978	93,907	(1,185,738)

53 GENERAL RESERVES

General reserves include statutory reserve, reserve for general risk and transaction risk reserve.

Pursuant to the Company Law of the PRC and the Company's articles of association, 10% of the net profit of the Company, as determined under the relevant accounting rules and financial regulations applicable to enterprises in the PRC, is required to be transferred to the statutory reserve until such time when this reserve reaches 50% of the share capital of the Company. The reserve appropriated can be used for expansion of business and capitalization. If the statutory reserve is capitalized into share capital, the remaining reserve is required to be no less than 25% of the Company's registered capital before capitalization.

In accordance with the Financial Rules for Financial Enterprises, the Company is required to appropriate 10% of net profit derived in accordance with PRC GAAP before distribution to shareholders as general risk reserve from retained profits.

Pursuant to the Securities Law of the PRC, the Company is required to appropriate 10% of net profit derived in accordance with PRC GAAP before distribution to shareholders as transaction risk reserve from retained profits and cannot be distributed or transferred to share capital.

The movements of the general reserves of the Group and the Company are set out below:

The Group and the Company

As at December 31, 2013

	Opening	Addition	Closing
	RMB'000	RMB'000	RMB'000
Statutory reserve	1,821,093	204,826	2,025,919
Reserve for general risk	1,821,093	204,826	2,025,919
Transaction risk reserve	1,692,278	204,825	1,897,103
	5,334,464	614,477	5,948,941

NOTES TO THE FINANCIAL INFORMATION (Continued)

53 GENERAL RESERVES (Continued)

The Group and the Company

As at December 31, 2014

	Opening	Addition	Closing
	RMB'000	RMB'000	RMB'000
Statutory reserve	2,025,919	374,293	2,400,212
Reserve for general risk	2,025,919	374,293	2,400,212
Transaction risk reserve	1,897,103	374,292	2,271,395
	5,948,941	1,122,878	7,071,819

As at December 31, 2015

	Opening	Addition	Closing
	RMB'000	RMB'000	RMB'000
Statutory reserve	2,400,212	1,015,328	3,415,540
Reserve for general risk	2,400,212	1,015,328	3,415,540
Transaction risk reserve	2,271,395	1,015,332	3,286,727
	7,071,819	3,045,988	10,117,807

As at June 30, 2016

	Opening	Addition	Closing
	RMB'000	RMB'000	RMB'000
Statutory reserve	3,415,540	—	3,415,540
Reserve for general risk	3,415,540	—	3,415,540
Transaction risk reserve	3,286,727	—	3,286,727
	10,117,807	—	10,117,807

54 RETAINED PROFITS

The movements of retained profits of the Group and Company are set out below:

The Group

	At December 31,			At June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/ period	6,473,174	7,428,912	9,268,062	12,664,367
Profit for the year/ period	2,232,091	3,850,673	10,908,749	2,241,825
Appropriation to general reserves	(614,477)	(1,122,878)	(3,045,988)	—
Dividends recognized as distribution	(661,876)	(888,645)	(4,466,456)	(1,434,610)
At the end of the year/ period	7,428,912	9,268,062	12,664,367	13,471,582

NOTES TO THE FINANCIAL INFORMATION (Continued)

54 RETAINED PROFITS (Continued)

The Company

	At December 31,			At June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/ period	5,706,199	6,478,102	8,209,506	10,850,355
Profit for the year/ period	2,048,256	3,742,927	10,153,293	2,293,157
Appropriation to general reserves	(614,477)	(1,122,878)	(3,045,988)	—
Dividends recognized as distribution	(661,876)	(888,645)	(4,466,456)	(1,434,610)
At the end of the year/ period	6,478,102	8,209,506	10,850,355	11,708,902

Details of the dividends are set out in note 57.

55 DEFERRED INCOME

The Group and the Company

	At December 31,			At June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Government grant	126,000	126,000	126,000	126,000

In 2009, the Group and the Company received a government subsidy from Finance Commission of Shenzhen Municipality of RMB126,000 thousand towards the cost of building including construction in progress. The amount is transferred to income over the useful lives of the relevant assets once completed.

56 BONDS PAYABLE

The Group and the Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-convertible corporate bonds(1)	9,979,673	9,982,486	15,460,871	15,463,093
Subordinated bonds(2)	—	—	35,000,000	35,000,000
Principal of structured note(3)	—	—	2,500,000	—
	9,979,673	9,982,486	52,960,871	50,463,093

(1) The following table presents an analysis of non-convertible corporate bonds:

Name	Issue amount	Value date	Maturity date	Coupon rate
	RMB'000			
12CM01	3,000,000	5/3/2013	5/3/2018	4.45%
12CM02	1,500,000	5/3/2013	5/3/2018	4.80%
12CM03	5,500,000	5/3/2013	5/3/2023	5.15%
14CM bond	5,500,000	26/5/2015	26/5/2025	5.08%

NOTES TO THE FINANCIAL INFORMATION (Continued)

56 BONDS PAYABLE (Continued)

Pursuant to the approval by the CSRC, shareholders and the directors of the Company, the Company issued non-convertible corporate bonds with face value of RMB10,000,000 thousand on March 15, 2013. These bonds, which are bearing fixed interest rate, comprise a 3 plus 2-year bond with a face value of RMB3,000,000 thousand, a 5-year bond with a face value of RMB1,500,000 thousand and a 10-year bond with a face value RMB5,500,000 thousand. These bonds were listed in Shanghai Stock Exchange on March 15, 2013.

Pursuant to the approval by the CSRC, shareholders and directors of the Company, the Company issued 10-year non-convertible bond with face value of RMB5,500,000 thousand on May 26, 2015. The bond is listed on Shanghai Exchange on June 9, 2015.

(2) The following table presents an analysis of subordinated corporate bonds.

Name	Issue amount	Value date	Maturity date	Coupon rate
	RMB'000			
15CM01	10,000,000	19/3/2015	19/3/2018	5.48%
15CM02	10,000,000	24/3/2015	24/3/2020	5.58%
15CM03	5,000,000	13/4/2015	13/4/2018	5.60%
15CM04	5,000,000	13/4/2015	13/4/2018	5.75%
15CM05	5,000,000	24/4/2015	24/10/2017	5.57%

Pursuant to the approval by shareholders meeting and board of directors meeting, the Company was authorized to issue up to RMB35,000,000 thousand (inclusive) Renminbi subordinated corporate bonds. The Company issued five tranches of 3 to 5 years subordinated corporate bonds with aggregate face value of RMB35,000,000 thousand in March and April 2015.

(3) As at December 31, 2015, the amount represents principals received from investors for subscription of structured notes issued by the Company. The structured notes bear a fixed rate interest ranging from 5.60% to 6.10% per annum and interest was payable within one year. The structured notes has been redeemed as at June 30, 2016.

57 DIVIDENDS

The Group and the Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Dividends recognized as distribution	661,876	888,645	4,466,456	1,434,610

Pursuant to the resolution of the shareholders meeting of 2012, the Company distributed cash dividends of RMB1.42 for every 10 shares (tax included) based on 4,661,099,829 shares held amounting to approximately RMB661,876 thousand in 2013.

Pursuant to the resolution of the second temporary shareholders meeting of 2014, the Company distributed cash dividends of RMB1.53 for every 10 shares (tax included) based on 5,808,135,529 shares held amounting to approximately RMB888,645 thousand in 2014.

Pursuant to the resolution of the shareholders meeting of 2014, the Company distributed cash dividends of RMB2.65 for every 10 shares (tax included) based on 5,808,135,529 shares held amounting to approximately RMB1,539,156 thousand in 2015.

Pursuant to the resolution of the sixth temporary shareholders meeting of 2015, the Company distributed cash dividends of RMB5.04 for every 10 shares (tax included) based on 5,808,135,529 shares held amounting to approximately RMB2,927,300 thousand in 2015.

NOTES TO THE FINANCIAL INFORMATION (Continued)

57 DIVIDENDS (Continued)

Pursuant to the resolution of the shareholders meeting of 2015, the Company distributed cash dividends of RMB2.47 for every 10 shares (tax included) based on 5,808,135,529 shares held amounting to approximately RMB1,434,610 thousand in 2016.

58 TRANSFER OF FINANCIAL ASSETS

Repurchase agreements

The Group and the Company entered into repurchase agreements with certain counterparties to sell securities and interests in margin loans and the proceeds are presented as financial assets sold under repurchase agreements. In accordance with the terms of the repurchase agreements, the legal title of those securities and interests in margin loans are not transferred to the counterparties during the Track Record Period and both parties simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group and the Company are still exposed to substantially all the credit risks, market risks and rewards of those securities and rights and interests in margin loans sold. These securities and margin loans are not derecognized from the financial statements but regarded as "collateral" for the liabilities because the Group and the Company retain substantially all the risks and rewards of these securities and rights and interest in margin loans.

The following tables provide a summary of carrying amounts and fair values related to transferred financial assets that are not derecognized in their entirety and the associated liabilities:

The Group and the Company

As at December 31, 2013

	Financial asset at fair value through profit or loss	Available-for-sale financial assets	Advances to customers	Securities lending arrangements	Financial assets held under resale arrangements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of transferred assets	2,010,916	3,003,964	—	618,756	—	5,633,636
Carrying amount of associated liabilities	1,538,018	2,324,009	—	496,421	—	4,358,448
Net position	472,898	679,955	—	122,335	—	1,275,188

As at December 31, 2014

	Financial asset at fair value through profit or loss	Available-for-sale financial assets	Advances to customers	Securities lending arrangements	Financial assets held under resale arrangements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of transferred assets	10,078,538	5,861,857	38,717,457	759,784	—	55,417,636
Carrying amount of associated liabilities	9,502,488	5,526,816	33,392,854	716,358	—	49,138,516
Net position	576,050	335,041	5,324,603	43,426	—	6,279,120

NOTES TO THE FINANCIAL INFORMATION (Continued)

58 TRANSFER OF FINANCIAL ASSETS (Continued)

Repurchase agreements (Continued)

The Group and the Company

As at December 31, 2015

	Financial asset at fair value through profit or loss	Available-for-sale financial assets	Advances to customers	Securities lending arrangements	Financial assets held under resale arrangements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of transferred assets	6,127,584	13,064,697	33,341,323	2,033,753	830,332	55,397,689
Carrying amount of associated liabilities	4,108,332	8,759,425	28,165,000	1,363,561	556,709	42,953,027
Net position	2,019,252	4,305,272	5,176,323	670,192	273,623	12,444,662

As at June 30, 2016

	Financial asset at fair value through profit or loss	Available-for-sale financial assets	Advances to customers	Securities lending arrangements	Financial assets held under resale arrangements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of transferred assets	11,270,202	14,561,691	21,427,919	1,941,956	—	49,201,768
Carrying amount of associated liabilities	10,453,592	13,506,589	18,065,000	1,801,247	—	43,826,428
Net position	816,610	1,055,102	3,362,919	140,709	—	5,375,340

Securities lending arrangements

The Group and the Company entered into securities lending agreements with clients to lend out its financial assets classified as available-for-sale financial assets and financial assets at fair value through profit or loss with carrying amount totaling RMB301,440 thousand, RMB1,000,426 thousand, RMB117,855 thousand and RMB 251,403 thousand as at December 31, 2013, 2014, 2015 and June 30, 2016, respectively, which are secured by client's securities and deposits held as collateral. As stipulated in the securities lending agreements, the legal ownership of these securities is transferred to the clients. Although the clients are allowed to sell these securities during the covered period, they have obligations to return these securities to the Group and the Company at specified future dates. The Group and the Company have determined that it retains substantially all the risks and rewards of these securities and therefore have not derecognized these securities in the Financial Information.

NOTES TO THE FINANCIAL INFORMATION (Continued)

58 TRANSFER OF FINANCIAL ASSETS (Continued)

Securities borrowing arrangements

The Group and the Company borrowed securities from interbank securities market platform used for the business of financial assets sold under repurchase agreements, and simultaneously offers debt securities classified as available-for-sale financial assets and financial assets at fair value through profit and loss as collateral to the counterparties. As at December 31, 2013, 2014, 2015 and June 30, 2016, the type and fair values of securities the Group and the Company borrowed from banks through interbank securities market trading platform are as follows:

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Treasury bonds	965,992	2,089,694	3,370,542	2,553,464

The above securities borrowing transactions as at December 31, 2013, 2014, 2015 and June 30, 2016 are due before February 26, 2014, March 16, 2015, March 25, 2016 and August 5, 2016, respectively.

As at December 31, 2013, 2014, 2015 and June 30, 2016, the type and fair values of securities pledged for the Group and the Company borrowing arrangements are as follows:

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Corporate bonds	701,673	1,470,969	2,310,786	1,978,982

59 CAPITAL COMMITMENTS

The Group and the Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Commitments contracted but not provided for in respect of				
—Construction in progress	341,616	249,260	170,738	239,520

NOTES TO THE FINANCIAL INFORMATION (Continued)

60 OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of renting of premises which fall due as follows:

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year (inclusive)	156,719	207,656	234,566	229,305
One to two years (inclusive)	113,990	159,633	193,264	194,053
Two to three years (inclusive)	64,413	124,678	136,765	104,102
Over three years	118,491	206,549	389,805	366,271
Total	453,613	698,516	954,400	893,731

Operating lease payments represent rentals payable by the Group for certain of its office properties. Lease of rented premises are negotiated with fixed lease term for 1 to 20 years.

The Company as lessee

At the end of the reporting periods, the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of renting of premises which fall due as follows:

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year (inclusive)	121,504	159,789	167,756	159,165
One to two years (inclusive)	93,384	133,183	134,489	132,219
Two to three years (inclusive)	62,103	104,821	103,234	96,491
Over three years	118,491	184,128	385,956	362,187
Total	395,482	581,921	791,435	750,062

The Group and the Company as lessor

During the Track Record Period, the Group or the Company (as lessor) has no significant lease commitments as lessor.

NOTES TO THE FINANCIAL INFORMATION (Continued)

61 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments of directors and supervisors of the Company paid and/or payable by the Group for each of the years ended December 31, 2013, 2014, 2015 and six months ended June 30, 2016 are set out below:

Year ended December 31, 2013

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Gong Shao Lin	—	2,117	147	3,014	5,278
Wang Yan	—	2,134	135	2,584	4,853
	—	4,251	282	5,598	10,131
Non-executive director[21]:					
Yeung Kun	—	—	—	—	—
Fu Gang Feng	—	—	—	—	—
Hong Xiao Yuan	—	—	—	—	—
Zhu Li Wei	—	—	—	—	—
Peng Lei	—	—	—	—	—
Sun Yue Ying	—	—	—	—	—
Huang Jian	—	—	—	—	—
Liu Chong	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
Zheng Hong Qing[1]	60	—	—	—	60
Yi Xi Qun[2]	60	—	—	—	60
Wang Yuan[3]	60	—	—	—	60
Liu Jia Lin	120	—	—	—	120
Wu Jie Si[4]	60	—	—	—	60
Ma Tie Sheng[5]	60	—	—	—	60
Xu Hua[6]	60	—	—	—	60
Yang Jun	120	—	—	—	120
	600	—	—	—	600
Supervisors:					
Jiang Lu Ming	—	1,546	135	1,776	3,457
Wu Hui Feng[18]	—	—	—	—	—
Fang Xiao Bing	—	—	—	—	—
Lin Zhi Feng[7]	—	—	—	—	—
Zhang Ze Hong	—	—	—	—	—
Zhu Hai Bin	—	—	—	—	—
Cao Dong	—	—	—	—	—
Yin Hong Yan	—	652	86	1,440	2,178
Zhan Gui Feng	—	627	86	1,170	1,883
He Min	—	510	68	751	1,329
	—	3,335	375	5,137	8,847
Total	600	7,586	657	10,735	19,578

NOTES TO THE FINANCIAL INFORMATION (Continued)

61 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Year ended December 31, 2014

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Gong Shao Lin	—	2,148	134	840	3,122
Wang Yan	—	2,158	120	840	3,118
	—	4,306	254	1,680	6,240
Non-executive director[21]:					
Yeung Kun[8]	—	—	—	—	—
Fu Gang Feng[9]	—	—	—	—	—
Zhu Li Wei[10]	—	—	—	—	—
Liu Chong[11]	—	—	—	—	—
Hong Xiao Yuan	—	—	—	—	—
HUA Li[12]	—	—	—	—	—
Xiong Xian Liang[13]	—	—	—	—	—
Guo Jian[14]	—	—	—	—	—
Peng Lei	—	—	—	—	—
Sun Yue Ying	—	—	—	—	—
Hunag Jian	—	—	—	—	—
Cao Dong[15]	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
Yi Xi Qun[2]	120	—	—	—	120
Liu Jia Lin	120	—	—	—	120
Ding Hui Ping[16]	60	—	—	—	60
Xu Hua[6]	120	—	—	—	120
Yang Jun	120	—	—	—	120
Wu Jie Si[4]	60	—	—	—	60
	600	—	—	—	600
Supervisors:					
Zhou Yu Han[17]	—	964	54	603	1,621
Wu Hui Feng[18]	—	631	55	420	1,106
Fang Xiao Bing	—	—	—	—	—
Zhang Ze Hong	—	—	—	—	—
Zhu Hai Bing	—	—	—	—	—
Cao Dong[15]	—	—	—	—	—
Li Xiao Fei[19]	—	—	—	—	—
Liu Chong[11]	—	—	—	—	—
Jiang Lu Ming[20]	—	1,368	112	720	2,200
Yin Hong Yan	—	701	82	2,380	3,163
Zhan Gui Feng	—	653	82	2,128	2,863
He Min	—	548	73	1,264	1,885
	—	4,865	458	7,515	12,838
Total	600	9,171	712	9,195	19,678

NOTES TO THE FINANCIAL INFORMATION (Continued)

61 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Year ended December 31, 2015

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Gong Shao Lin	—	2,163	259	2,794	5,216
Wang Yan	—	2,184	241	2,794	5,219
	—	4,347	500	5,588	10,435
Non-executive directors[21]					
Hong Xiao Yuan	—	—	—	—	—
Guo Jian[14]	—	—	—	—	—
Peng Lei	—	—	—	—	—
Sun Yue Ying	—	—	—	—	—
Hunag Jian	—	—	—	—	—
Cao Dong[15]	—	—	—	—	—
HUA Li[12]	—	—	—	—	—
Xiong Xian Liang[13]	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors					
Liu Jia Lin	120	—	—	—	120
Yang Jun	120	—	—	—	120
Yi Xi Qun[2]	120	—	—	—	120
Xu Hua[6]	120	—	—	—	120
Ding Hui Ping[16]	120	—	—	—	120
	600	—	—	—	600
Supervisors:					
Zhou Yu Han[17]	—	1,741	215	2,142	4,098
Fang Xiao Bing	—	—	—	—	—
Zhang Ze Hong	—	—	—	—	—
Zhu Hai Bing	—	—	—	—	—
Cao Dong[15]	—	—	—	—	—
Liu Chong[11]	—	—	—	—	—
He Min	—	610	136	96	842
Yin Hong Yan	—	783	157	174	1,114
Zhan Gui Feng	—	728	157	159	1,044
Li Xiao Fei[19]	—	—	—	—	—
	—	3,862	665	2,571	7,098
Total	600	8,209	1,165	8,159	18,133

NOTES TO THE FINANCIAL INFORMATION (Continued)

61 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Six months ended June 30, 2015

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
Executive directors:					
Gong Shao Lin	—	989	129	600	1,718
Wang Yan	—	997	121	600	1,718
	—	1,986	250	1,200	3,436
Non-executive directors[21]:					
Hong Xiao Yuan	—	—	—	—	—
Hua Li[12]	—	—	—	—	—
Xiong Xian Liang[13]	—	—	—	—	—
Guo Jian[14]	—	—	—	—	—
Peng Lei	—	—	—	—	—
Sun Yue Ying	—	—	—	—	—
Hunag Jian	—	—	—	—	—
Cao Dong[15]	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
Liu Jia Lin	60	—	—	—	60
Yang Jun	60	—	—	—	60
Yi Xi Qun[2]	60	—	—	—	60
Xu Hua[6]	60	—	—	—	60
Ding Hui Ping[16]	60	—	—	—	60
	300	—	—	—	300
Supervisors:					
Zhou Yu Han	—	782	108	450	1,340
Fang Xiao Bing	—	—	—	—	—
Zhang Ze Hong	—	—	—	—	—
Zhu Hai Bing	—	—	—	—	—
Li Xiao Fei [19]	—	—	—	—	—
Liu Chong[11]	—	—	—	—	—
He Min	—	259	78	—	337
Yin Hong Yan	—	343	78	—	421
Zhan Gui Feng	—	316	78	—	394
	—	1,700	342	450	2,492
Total	300	3,686	592	1,650	6,228

NOTES TO THE FINANCIAL INFORMATION (Continued)

61 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Six months ended June 30, 2016

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:					
Gong Shao Lin	—	1,053	129	—	1,182
Wang Yan	—	1,022	120	—	1,142
	—	2,075	249	—	2,324
Non-executive directors[21]:					
Hong Xiao Yuan	—	—	—	—	—
Guo Jian[14]	—	—	—	—	—
Peng Lei	—	—	—	—	—
Sun Yue Ying	—	—	—	—	—
Hunag Jian	—	—	—	—	—
Cao Dong[15]	—	—	—	—	—
Hua Li[12]	—	—	—	—	—
Xiong Xian Liang[13]	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
Liu Jia Lin	—	60	—	—	60
Yang Jun	—	60	—	—	60
Yi Xi Qun[2]	—	—	—	—	—
Xu Hua[6]	—	—	—	—	—
Ding Hui Ping[16]	—	60	—	—	60
	—	180	—	—	180
Supervisors:					
Zhou Yu Han[17]	—	742	106	—	848
Fang Xiao Bing		—	—	—	—
Zhang Ze Hong	—	—	—	—	—
Zhu Hai Bing	—	—	—	—	—
Cao Dong[15]	—	—	—	—	—
Liu Chong[11]	—	—	—	—	—
He Min	—	338	68	—	406
Yin Hong Yan	—	414	79	—	493
Zhan Gui Feng	—	384	79	—	463
Li Xiao Fei[19]	—	—	—	—	—
	—	1,878	332	—	2,210
Total	—	4,133	581	—	4,714

(1) Zheng Hong Qing resigned as independent non-executive director in August 2013.
(2) Yi Xi Qun was appointed as independent non-executive director in August 2013 and resigned on March 2016 but there has not been successor.
(3) Wang Yuan resigned as independent non-executive director in August 2013.
(4) Wu Jie Si was appointed as independent non-executive director in August 2013 and resigned as independent non-executive director in May 2014.
(5) Ma Tie Sheng resigned as independent non-executive director in July 2013.
(6) Xu Hua was appointed as independent non-executive director in July 2013 and resigned on January 2016, officially departure on July 2016.
(7) Lin Zhi Feng resigned as supervisor in March 2013.
(8) Yeung Kun resigned as non-executive director in October 2014.
(9) Fu Gang Feng resigned as non-executive director in May 2014.
(10) Zhu Li Wei resigned as non-executive director in May 2014.
(11) Liu Chong resigned as non-executive director in May 2014 and was appointed as supervisor in May 2014.
(12) Hua Li was appointed as non-executive director in July 2014.
(13) Xiong Xian Liang was appointed as non-executive director in December 2014.
(14) Guo Jian was appointed as non-executive director in May 2014.

NOTES TO THE FINANCIAL INFORMATION (Continued)

61 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

(15) Cao Dong resigned as supervisor in May 2014 and was appointed as non-executive director in May 2014.
(16) Ding Hui Ping was appointed as Independent non-executive director in July 2014.
(17) Zhou Yu Han was appointed as the Chairman of the Board of supervisors in May 2014.
(18) Wu Hui Feng resigned as supervisor in May 2014 and was appointed as secretary of the board of directors in December 2014.
(19) Li Xiao Fei was appointed as supervisor in July 2014.
(20) Jiang Lu Ming resigned as the Chairman of the Board of supervisors in May 2014.
(21) The Independent non-executive directors' emoluments of the Company were bound by shareholders and other related parties. As at reporting date, no emoluments were paid to the related parties by the Group.

Wang Yan is also the chief executive of the Group and his emoluments disclosed above include those for services rendered by him as the executive director.

The total compensation packages for these directors and supervisors for the year ended December 31, 2014, 2015 and six months ended June 30, 2016 had not yet been finalized in accordance with regulations of the relevant authorities in the PRC. The final compensation will be disclosed when determined.

No directors or supervisors of the Company waived or agreed to waive any emolument paid by the Group during the Track Record Period. No emoluments were paid by the Group to the directors or supervisors of the Company as an incentive payment for joining the Group or as compensation for loss of office during the Track Record Period.

The amounts disclosed above represent emoluments paid or receivables in respect of a person's service as a director, whether of the Company or its subsidiary undertaking. No emoluments were paid or receivables in respect of directors' other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

62 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments; two were directors of the Company for the year ended December 31, 2013; none were directors of the Company for the year ended December 31, 2014; none were directors of the Company for the year ended December 31, 2015; two were directors of the Company for the six months ended June 30, 2015; three were directors of the Company for the six months ended June 30, 2016. The details of the emoluments of the five individuals with the highest emoluments are as below:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Basic salaries and allowances	7,300	2,820	2,492	4,264	4,208
Bonuses	17,250	43,320	29,231	2,550	—
Contributions to retirement benefit scheme	560	360	547	401	592
Total	25,110	46,500	32,270	7,215	4,800

Bonus was determined with reference to results of the Group and performance of individuals. No emoluments were paid by the Group to the these individuals as an incentive payment for joining the Group or as compensation for loss of office during the Track Record Period.

NOTES TO THE FINANCIAL INFORMATION (Continued)

62 INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

The emoluments of the individuals with the highest emoluments are within the following bands:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Emolument bands					
nil to RMB3,000,000	—	—	—	5	5
RMB 3,000,001 to RMB5,000,000	3	—	—	—	—
RMB 5,000,001 to RMB7,000,000	1	1	4	—	—
RMB 7,000,001 to RMB9,000,000	1	1	1	—	—
RMB 9,000,001 to RMB11,000,000	—	1	—	—	—
RMB 11,000,001 to RMB13,000,000	—	2	—	—	—

63 RELATED PARTY TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

Major shareholders include shareholders of the Company with 5% or above ownership.

Share percentage in the Company:

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
China Merchants Finance Investment Holdings Co., Ltd.	13.30%	24.71%	24.71%	24.71%
Shenzhen Jisheng Investment Development Co., Ltd.	28.78%	23.09%	23.09%	23.09%
China Ocean Shipping (Group) Company	10.85%	10.85%	6.85%	7.37%
Hebei Port Group Co., Ltd.	4.83%	5.00%	4.87%	5.00%

(b) Principal subsidiaries of the Company

The details information of the Company's principal subsidiaries is set out in note 22.

(c) Associates of the Company

The details information of the Company's associates is set out in note 24.

(d) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals.

NOTES TO THE FINANCIAL INFORMATION (Continued)

63 RELATED PARTY TRANSACTIONS (Continued)

(2) Related parties transactions and balances

(a) During the Track Record Period, the Group's major transactions and balances with its associate are as below:

Transaction between the Group and the associate:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fee and commission income					
—Funds managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	45,406	54,134	93,968	43,048	33,795

Balance between the Group and the associate:

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Commission receivables				
—Funds managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	22,718	30,375	44,172	40,350

(b) During the Track Record Period, the Group's major transactions and balances with its other related parties are as below:

Transactions between the Group and other related parties:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fee and commission income					
—China Merchants Bank Co., Ltd.	34,259	37,980	64,684	7,273	12,769
—China Merchants Holdings (International) Company Limited	—	200	1,859	—	—
—China Merchants Property Development Company Limited	—	2,630	500	300	—
—China Merchants Steam Navigation Company Limited	—	600	3,200	—	—
—Shenzhen Chiwan Wharf Holdings Limited	3,250	—	—	—	—
—China Merchants Energy Shipping Company Limited	—	—	8,000	—	—
—China Merchants Group Limited	—	—	9,033	158	—
—China Merchants Industry Holdings Co., Ltd.	—	—	163	—	—

NOTES TO THE FINANCIAL INFORMATION (Continued)

63 RELATED PARTY TRANSACTIONS (Continued)

(2) Related parties transactions and balances (Continued)

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
—China Merchants Land Limited	—	—	9,114	—	—
—China Merchants Chongqing Communications Technology Research & Design Institute Co., Ltd	—	—	200	—	456
—China Merchants Shekou Industrial Zone Holdings Co., Ltd	—	—	53,000	—	—
—China Merchants Finance Holdings Co., Ltd	—	—	1,254	—	—
Interest income					
—China Merchants Bank Co., Ltd.	226,149	306,250	833,640	338,814	283,911
Fee and commission expenses					
—China Merchants Bank Co., Ltd.	(43,142)	(107,974)	(354,996)	(115,592)	(150,219)
Interest expenses					
—China Merchants Bank Co., Ltd.	(6,335)	(29,863)	(40,802)	(28,290)	(16,044)
—China Merchants Holdings (Hong Kong) Company Limited	(53)	—	—	—	—

The Group also has the following balances with its other related parties.

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Account receivables				
—China Merchants Property Development Company Limited	—	237	—	—
Bank balances				
—China Merchants Bank Co., Ltd.	7,413,014	25,442,038	36,016,487	31,107,531
Borrowings				
—China Merchants Bank Co., Ltd.	668,345	847,705	453,972	453,872
Placements from banks				
—China Merchants Bank Co., Ltd.	—	1,400,000	4,000,000	1,000,000
Other payables and accrued charges				
—China Merchants Bank Co., Ltd.	301	464	937	671

(3) Key management personnel

The remuneration of the key management personnel of the Group, including the amount paid to the Company's director and supervisor was as below:

	Year ended December 31,			Six months ended June 30,	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Short-term benefits:					
—Salaries, allowance and bonuses	33,669	22,468	36,573	10,927	7,400
Post-employment benefits:					
—Contribution to retirement schemes	1,142	1,064	2,257	687	1,125
Total	34,811	23,532	38,830	11,614	8,525

NOTES TO THE FINANCIAL INFORMATION (Continued)

63 RELATED PARTY TRANSACTIONS (Continued)

(4) Other related parties transaction

In December 2015, China Merchants Shekou Industrial Zone Holdings Co., Ltd. issued A Shares for the purpose to acquire China Merchants Property Development Co., Ltd. and issued A Shares to certain specific targets for fund raising purpose. The Company, through its wholly-owned subsidiary, China Merchants Zhiyuan Capital Investment Co., Ltd. and its indirectly subscribed affiliated entity, China Merchants Shekou Industrial Zone Holdings Co., Ltd. made a non-public offering of 84,746 thousand shares. As at June 30, 2016, the fair value of the above shares was approximately RMB1,207,627 thousand.

64 SEGMENT INFORMATION

(1) Business segment

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's operating segments represents a strategic business unit that offers services which are subject to risks and returns that are different from the other operating segments. Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to the board of directors, which are consistent with the accounting and measurement criteria in the preparation of the Financial Information. The Group's operating segments are as follows:

(a) Brokerage and wealth management segment engages in the trading of stocks and futures contracts on behalf of clients. Moreover, the activities of providing margin financing, securities lending and selling financial products and other wealth management products are included in this segment.

(b) Investment banking segment provides investment banking services to the Group's institutional clients, including financial advisory, equity underwriting, debt underwriting and sponsorship.

(c) Investment management segment primarily engages in assets management, investing advisory and deal execution services. Moreover, the investment income from private equity investment management and alternative investment are included in this segment.

(d) Investment and trading segment engages in trading equity securities, fixed-income securities, derivatives, other financial products and market maker service.

(e) Other segment primarily includes head office operations, investment holding as well as interest income and interest expense incurred for generating working capital for general operation.

No operating segments above have been aggregated in presentation. Management monitors the operating results of the Group's business units separately for the purpose of resource allocation and other operating decisions. Segment performance is measured consistently with operating profit or loss in the consolidated financial statements. However, income taxes are managed on the Company level and are not allocated to operating segments.

NOTES TO THE FINANCIAL INFORMATION (Continued)

64 SEGMENT INFORMATION (Continued)

(1) Business segment (Continued)

The operating and reportable segment information provided to the chief operating decision maker (hereinafter refer as "CODM") for the years ended December 31, 2013, 2014, 2015 and six months ended June 30, 2015 and 2016 is as follows:

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2013							
Segment revenue and results							
Segment revenue	5,315,878	541,004	436,999	1,277,664	130,371	(29)	7,701,887
Segment other income and gains	85	—	—	—	38,093	—	38,178
Segment revenue and other income	5,315,963	541,004	436,999	1,277,664	168,464	(29)	7,740,065
Segment expenses	(3,347,553)	(468,238)	(174,307)	(839,603)	(529,028)	29	(5,358,700)
Segment result	1,968,410	72,766	262,692	438,061	(360,564)	—	2,381,365
Share of results of associates	—	—	5,556	—	263,519	—	269,075
Profit (loss) before income tax	1,968,410	72,766	268,248	438,061	(97,045)	—	2,650,440
As at December 31, 2013							
Segment assets and liabilities							
Segment assets	51,599,511	95,988	3,147,384	21,818,333	8,468,549	(1,269,940)	83,859,825
Segment liabilities	(40,122,233)	(376,053)	(1,762,196)	(13,516,102)	(2,168,801)	1,269,940	(56,675,445)
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets							
Interest income	1,736,674	—	91,102	26,997	130,370	(29)	1,985,114
Interest expense	(542,239)	—	(8,869)	(567,197)	(28,278)	29	(1,146,554)
Capital expenditure	(123,138)	(1,217)	(971)	(634)	(171,684)	—	(297,644)
Depreciation and amortization	(118,118)	(1,635)	(1,179)	(824)	(12,598)	—	(134,354)
Impairment losses	(4,146)	—	—	—	—	—	(4,146)

NOTES TO THE FINANCIAL INFORMATION (Continued)

64 SEGMENT INFORMATION (Continued)

(1) Business segment (Continued)

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2014							
Segment revenue and results							
Segment revenue	8,751,692	1,613,446	918,377	2,273,575	181,553	(25,303)	13,713,340
Segment other income and gains	201	—	175	—	52,464	—	52,840
Segment revenue and other income	8,751,893	1,613,446	918,552	2,273,575	234,017	(25,303)	13,766,180
Segment expenses	(5,191,580)	(809,677)	(310,751)	(1,340,149)	(1,506,558)	25,303	(9,133,412)
Segment result	3,560,313	803,769	607,801	933,426	(1,272,541)	—	4,632,768
Share of results of associates	—	—	6,466	—	332,643	—	339,109
Profit (loss) before income tax	3,560,313	803,769	614,267	933,426	(939,898)	—	4,971,877
As at December 31, 2014							
Segment assets and liabilities							
Segment assets	119,771,682	496,930	2,557,317	59,244,523	14,239,394	(2,901,794)	193,408,052
Segment liabilities	(71,880,116)	(285,691)	(3,345,104)	(66,010,282)	(13,192,492)	2,901,794	(151,811,891)
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets							
Interest income	3,507,936	—	187,587	6,857	182,403	(81)	3,884,702
Interest expense	(1,181,293)	—	(71,311)	(664,275)	(57,594)	81	(1,974,392)
Capital expenditure	(148,763)	(1,401)	(1,874)	(1,305)	(203,232)	—	(356,575)
Depreciation and amortization	(122,374)	(1,368)	(1,811)	(1,283)	(14,145)	—	(140,981)
Impairment losses	(1,006)	—	—	—	(669,206)	—	(670,212)

NOTES TO THE FINANCIAL INFORMATION (Continued)

64 SEGMENT INFORMATION (Continued)

(1) Business segment (Continued)

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2015							
Segment revenue and results							
Segment revenue	24,404,304	2,843,768	1,313,328	5,732,157	611,043	—	34,904,600
Segment other income and gains	63	—	15	—	83,890	—	83,968
Segment revenue and other income	24,404,367	2,843,768	1,313,343	5,732,157	694,933	—	34,988,568
Segment expenses	(13,702,071)	(1,352,410)	(610,409)	(3,212,078)	(3,028,711)	—	(21,905,679)
Segment result	10,702,296	1,491,358	702,934	2,520,079	(2,333,778)	—	13,082,889
Share of results of associates	—	—	7,406	—	543,696	—	551,102
Profit (loss) before income tax	10,702,296	1,491,358	710,340	2,520,079	(1,790,082)	—	13,633,991
As at December 31, 2015							
Segment assets and liabilities							
Segment assets	158,457,197	341,752	6,795,378	111,766,652	18,817,798	(4,523,192)	291,655,585
Segment liabilities	(150,586,832)	(1,237,839)	(6,662,965)	(76,692,000)	(12,567,351)	4,523,192	(243,223,795)
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets							
Interest income	9,151,447	—	114,741	28,829	611,044	—	9,906,061
Interest expense	(5,857,287)	—	(70,028)	(1,223,357)	(134,598)	—	(7,285,270)
Capital expenditure	(238,214)	(4,440)	(3,516)	(3,935)	(161,132)	—	(412,237)
Depreciation and amortization	(129,228)	(1,907)	(1,871)	(1,933)	(16,194)	—	(151,133)
Impairment losses	(228,098)	—	—	—	—	—	(228,098)

NOTES TO THE FINANCIAL INFORMATION (Continued)

64 SEGMENT INFORMATION (Continued)

(1) Business segment (Continued)

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the period ended June 30, 2015							
Segment revenue and results							
Segment revenue	13,970,893	991,415	720,216	4,604,909	172,005	—	20,459,438
Segment other income and gains	27	—	3,276	—	33,425	—	36,728
Segment revenue and other income	13,970,920	991,415	723,492	4,604,909	205,430	—	20,496,166
Segment expenses	(6,910,648)	(728,201)	(287,324)	(1,768,255)	(1,779,645)	—	(11,474,073)
Segment result	7,060,272	263,214	436,168	2,836,654	(1,574,215)	—	9,022,093
Share of results of associates	—	—	4,627	—	304,498	—	309,125
Profit (loss) before income tax	7,060,272	263,214	440,795	2,836,654	(1,269,717)	—	9,331,218
As at June 30, 2015							
Segment assets and liabilities							
Segment assets	253,852,427	168,202	3,940,100	86,365,462	25,301,851	(4,833,393)	364,794,649
Segment liabilities	(193,440,837)	(1,179,310)	(3,993,472)	(114,477,863)	(8,677,947)	4,833,393	(316,936,036)
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets							
Interest income	5,004,026	—	46,893	11,460	172,005	—	5,234,384
Interest expense	(2,523,377)	—	—	(690,920)	(82,430)	—	(3,296,727)
Capital expenditure	(57,077)	(591)	(645)	(492)	(56,348)	—	(115,153)
Depreciation and amortization	(62,742)	(628)	(719)	(610)	(9,288)	—	(73,987)
Impairment losses reversal	4,409	—	—	—	—	—	4,409

NOTES TO THE FINANCIAL INFORMATION (Continued)

64 SEGMENT INFORMATION (Continued)

(1) Business segment (Continued)

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the period ended June 30, 2016							
Segment revenue and results							
Segment revenue	6,405,195	1,124,430	413,323	546,779	198,289	—	8,688,016
Segment other income and gains	218	—	—	—	40,522	—	40,740
Segment revenue and other income	6,405,413	1,124,430	413,323	546,779	238,811	—	8,728,756
Segment expenses	(4,416,704)	(536,302)	(244,618)	(410,312)	(615,638)	—	(6,223,574)
Segment result	1,988,709	588,128	168,705	136,467	(376,827)	—	2,505,182
Share of results of associates	—	—	481	—	339,071	—	339,552
Profit (loss) before income tax	1,988,709	588,128	169,186	136,467	(37,756)	—	2,844,734
As at June 30, 2016							
Segment assets and liabilities							
Segment assets	124,726,535	53,853	7,499,319	96,844,685	20,699,286	(4,559,056)	245,264,622
Segment liabilities	(116,052,411)	(1,317,229)	(7,035,820)	(54,023,246)	(23,507,874)	4,559,056	(197,377,524)
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets							
Interest income	3,084,561	—	8,045	7,171	198,290	—	3,298,067
Interest expense	(2,279,214)	—	(49,743)	(274,130)	(416,343)	—	(3,019,430)
Capital expenditure	(41,642)	(464)	(1,048)	(607)	(79,218)	—	(122,979)
Depreciation and amortization	(65,696)	(865)	(1,013)	(1,183)	(10,657)	—	(79,414)
Impairment losses reversal	79,077	—	—	—	—	—	79,077

NOTES TO THE FINANCIAL INFORMATION (Continued)

64 SEGMENT INFORMATION (Continued)

(2) Geographical segments

The Group has two major geographical operations in the PRC, namely Mainland China and Hong Kong, where the Group's revenue from external customer and the Group's assets located. The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property and equipment, investment properties, goodwill, other intangible assets, interests in associates 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, they are based on the location of operation to which they are allocated, in the case of goodwill and other intangible assets (e.g. interests in associates), they are based on the location of operations.

	Mainland China	Outside Mainland China	Total
	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2013			
Segment Revenue			
Revenue from external customers	7,240,684	461,203	7,701,887
Other income and gains	15,635	22,543	38,178
Total	7,256,319	483,746	7,740,065
For the year ended December 31, 2014			
Segment Revenue			
Revenue from external customers	13,105,348	607,992	13,713,340
Other income and gains	49,861	2,979	52,840
Total	13,155,209	610,971	13,766,180
For the year ended December 31, 2015			
Segment Revenue			
Revenue from external customers	33,843,708	1,060,892	34,904,600
Other income and gains	124,500	(40,532)	83,968
Total	33,968,208	1,020,360	34,988,568
For the six months ended June 30, 2015			
Segment Revenue			
Revenue from external customers	19,683,610	775,828	20,459,438
Other income and gains	35,423	1,305	36,728
Total	19,719,033	777,133	20,496,166
For the six months ended June 30, 2016			
Segment Revenue			
Revenue from external customers	8,471,905	216,111	8,688,016
Other income and gains	53,254	(12,514)	40,740
Total	8,525,159	203,597	8,728,756

NOTES TO THE FINANCIAL INFORMATION (Continued)

64 SEGMENT INFORMATION (Continued)

(2) Geographical segments (Continued)

Specified non-current assets

	Mainland China	Outside Mainland China	Total
	RMB'000	RMB'000	RMB'000
As at December 31, 2013			
Specified non-current assets	6,103,357	39,407	6,142,764
As at December 31, 2014			
Specified non-current assets	5,894,917	65,594	5,960,511
As at December 31, 2015			
Specified non-current assets	6,580,364	58,940	6,639,304
As at June 30, 2015			
Specified non-current assets	6,135,162	62,791	6,197,953
As at June 30, 2016			
Specified non-current assets	6,792,061	60,388	6,852,449

(3) Information about major customers:

There were no customers for each of the three years ended December 31, 2013, 2014, 2015 and six months ended June 30, 2016 contributing over 10% of the total revenue of the Group.

65 FINANCIAL INSTRUMENTS

Categories of financial instruments

The Group

	December 31,			June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables	55,491,434	136,011,395	184,668,967	148,160,278
Available-for-sale financial assets	6,417,665	14,878,005	35,742,644	36,711,123
Derivative financial assets	86,916	12,015	1,016,347	817,196
Financial assets at fair value through profit or loss	15,480,013	36,121,668	62,826,493	50,575,995
	77,476,028	187,023,083	284,254,451	236,264,592
Financial liabilities				
Derivative financial liabilities	131,818	849,865	1,866,372	977,758
Financial liabilities at fair value through profit or loss	651,815	210,697	2,369,280	2,214,747
Financial liabilities at amortized cost	53,338,663	146,048,399	229,640,839	186,748,465
	54,122,296	147,108,961	233,876,491	189,940,970

NOTES TO THE FINANCIAL INFORMATION (Continued)

65 FINANCIAL INSTRUMENTS (Continued)

Categories of financial instruments (Continued)

The Company

	December 31,			June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables	46,495,772	120,921,126	168,492,960	130,756,462
Available-for-sale financial assets	6,275,821	14,777,940	35,008,253	35,379,160
Derivative financial assets	80,742	4,860	374,784	297,790
Financial assets at fair value through profit or loss	13,022,686	31,735,043	54,030,551	41,244,593
	65,875,021	167,438,969	257,906,548	207,678,005
Financial liabilities				
Derivative financial liabilities	131,475	849,865	1,225,418	304,633
Financial liabilities at fair value through profit or loss	—	—	984,646	155,989
Financial liabilities at amortized cost	46,249,948	131,432,744	212,513,625	168,486,565
	46,381,423	132,282,609	214,723,689	168,947,187

66 FINANCIAL RISK MANAGEMENT

(1) Risk management structure

The Group has been engaged in developing an all around, innovative and forward-looking risk management system aligning with its operation strategy and focusing on departments at the business level since its establishment. The structure of the risk management of the Group consists of five levels, including the strategical arrangement by the Board of Directors, supervision and scrutiny by the Supervisory Committee, risk management decision-making by the senior management and the Risk Management Committee, collaboration and internal control maintained by relevant risk management departments and direct management on other departments, branches and its wholly-owned subsidiaries.

The Group adopts a three-level risk management organization structure system. First level refers to self-implementation of effective control on risk management on all departments and branches. Second level refers to risk management and internal control measures implemented by relevant risk management departments. Third level refers to supervisory follow-up supervision and evaluation by the Audit and Supervision Department.

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(1) Risk management structure (Continued)

The overall risk management duties of departments or positions under the risk management organization structure are as follows: (i) the Board of Directors and the Risk Management Committee are responsible for considering and approving the Company's risk appetite, risk tolerance and various risk limit indicators. They are also responsible for considering and approving the Company's economic capital allocation plan, convening quarterly meetings, reviewing quarterly risk reports and reviewing the Company's overall risk management; (ii) the Supervisory Committee of the Company is responsible for supervising and examining the operation of the comprehensive risk management system of the Company; (iii) the senior management comprising the president and vice presidents of the Company is responsible for the risk management of business operation, determine risk control measures and formulate risk limit indicators on a regular basis by reference to the risk evaluation reports. The Risk Management Committee set up by the senior management is the ultimate risk decision-making body. The Chief Risk Officer of the Company is responsible for establishing comprehensive risk management system, monitoring, evaluating and reporting the overall risk level of the Company and providing risk management suggestion on business decisions; (iv) the Risk Management Department, as the leading department for the management of market, credit and operational risks of the Company, it is responsible for managing market risk and credit risk, assisting and guiding all units in performing risk management work. The Finance Department is responsible for managing liquidity risk, and facilitating the establishment of the systems, rules and policies of liquidity risk management. Legal Compliance Department is responsible for leading the company's legal compliance and risk management, to assist the compliance director on reviewing, supervising and scrutinizing on the compliance issues of the management and practice of the Group. Internal Audit Department is responsible for monitoring the effectiveness and implementation of the Company's risk management process toward audit review, and responsible for initiating the evaluation of the whole risk management system at least once a year and (v) all departments, branches and wholly-owned subsidiaries of the Company are responsible for directly managing and supervising risks of their own businesses and management scopes.

(2) Credit risk

The Group's exposure to credit risk represents the potential economic loss that may arise from the failure of a debtor or counterparty to meet its obligation according to their contractual commitment. The Group is primarily exposed to four types of credit risk: (i) risk arising from default of customers to repay debts in businesses of margin financing and securities lending, securities-backed lending or stock repurchase; (ii) risk of losses of principal and interests for investments in debt securities, trust products and other credit products due to default of the issuer or borrower; (iii) risk arising from default of counterparty to meet its payment obligation in trading of OTC derivatives such as equity swaps, interest rate swap and OTC futures; (iv) risk of losses arising from the default of customers in businesses of brokerage trading of securities, futures and other financial products after liquidation of client's accounts due to their insufficiency of funds on the settlement date.

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

In respect of margin financing and securities lending, securities-backed lending, stock repurchase business and other financing businesses, the Group has established a multi-level authorization system for business management and a comprehensive risk management system covering the whole process through due diligence investigation of customers, approval of credit grant, post-loan evaluation, dynamic adjustment to collaterals, mark to market system, mandatory liquidation and disposal on default.

For debt securities investment business, the Group has developed an internal credit rating mechanism to control risks of default and degradation of debt securities as well as default of counterparties. The Group sets the minimum rating requirements for various types of investments and counterparties by the business authorization system and minimizes the loss arising from different types of investments and default of counterparties through the strategy of diversification.

For OTC derivatives trading business, the Group has formulated a set of management measures and rules to determine eligibility of investors, due diligence of customers, grant of credit to counterparties, discount rate of securities, effective monitoring of gearing ratio, management of collaterals and follow-up measures on default of customers, in order to strengthen the management before, during and after the transactions.

For brokerage business, the securities trading of domestic customers of whom the Group is an agent are settled by full margin. With regard to the trading of securities and other financial products for overseas customers, the Group has effectively controlled the relevant credit risk by strengthen the monitor on credit grant and margin ratio.

The table below sets forth the Group's maximum credit risk exposure as at the end of the reporting period, without taking account of any collateral and other credit enhancements:

(a) Maximum credit risk exposure

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale financial assets[1]	4,894,933	13,094,201	21,287,386	24,541,925
Financial assets at fair value through profit or loss[2]	6,760,831	17,443,511	23,882,230	25,740,040
Derivative financial assets	86,916	12,015	1,016,347	817,196
Advances to customers	20,087,285	58,595,165	64,389,342	46,568,290
Financial assets held under resale agreements	2,866,430	7,544,699	14,334,756	11,146,588
Loan receivables	955,839	654,908	287,060	182,199
Accounts receivable	739,866	1,412,035	3,033,050	3,654,692
Other receivables and deposits	347,779	501,213	983,075	1,117,546
Deposit with exchanges and non-bank financial institutions	164,068	244,680	857,442	576,999
Clearing settlement funds	5,047,161	12,191,801	19,166,188	11,676,726
Cash and bank balances	25,283,006	54,866,894	81,618,054	73,237,238
	67,234,114	166,561,122	230,854,930	199,259,439

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(a) Maximum credit risk exposure (Continued)

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale financial assets[1]	4,894,933	13,094,201	21,287,386	24,541,925
Financial assets at fair value through profit or loss[2]	6,082,539	15,680,948	21,022,271	22,975,170
Derivative financial assets	80,742	4,860	374,784	297,790
Advances to customers	19,459,068	56,850,715	62,619,481	45,427,085
Financial assets held under resale agreements	2,096,520	6,506,533	13,787,771	11,146,588
Accounts receivable	129,080	276,095	591,375	441,766
Other receivables and deposits	302,272	447,387	885,240	1,031,833
Amount due from a subsidiary	—	—	1,500,000	1,500,000
Deposit with exchanges and non-bank financial institutions	403,262	591,686	954,435	654,642
Clearing settlement funds	3,934,425	9,999,554	16,552,024	8,342,372
Cash and bank balances	20,171,145	46,249,156	71,602,634	62,212,176
	57,553,986	149,701,135	211,177,401	178,571,347

(1) Available-for-sale financial assets represent the debt securities, trust products and equity securities lent to customers.

(2) Financial assets at fair value through profit or loss represent the debt securities, trust products and equity securities lent to customers.

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(b) Risk concentration

The Group's maximum credit risk exposure without taking account of any collaterals and other credit enhancements are categorized by geographical area as follows:

The Group

As at December 31, 2013

	Mainland China	Outside Mainland China	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale financial assets (1)	4,894,933	—	4,894,933
Financial assets at fair value through profit or loss (2)	6,488,381	272,450	6,760,831
Derivative financial assets	80,746	6,170	86,916
Advances to customers	19,459,068	628,217	20,087,285
Financial assets held under resale agreements	2,866,430	—	2,866,430
Loan receivables	—	955,839	955,839
Accounts receivable	101,536	638,330	739,866
Other receivables and deposits	284,128	63,651	347,779
Deposits with exchanges and non-bank financial institutions	150,160	13,908	164,068
Clearing settlement funds	5,047,161	—	5,047,161
Cash and bank balances	21,184,671	4,098,335	25,283,006
	60,557,214	6,676,900	67,234,114

As at December 31, 2014

	Mainland China	Outside Mainland China	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale financial assets (1)	13,094,201	—	13,094,201
Financial assets at fair value through profit or loss (2)	16,084,521	1,358,990	17,443,511
Derivative financial assets	4,865	7,150	12,015
Advances to customers	56,850,715	1,744,450	58,595,165
Financial assets held under resale agreements	7,544,699	—	7,544,699
Loan receivables	—	654,908	654,908
Accounts receivable	306,855	1,105,180	1,412,035
Other receivables and deposits	464,646	36,567	501,213
Deposits with exchanges and non-bank financial institutions	225,461	19,219	244,680
Clearing settlement funds	12,191,801	—	12,191,801
Cash and bank balances	48,534,275	6,332,619	54,866,894
	155,302,039	11,259,083	166,561,122

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(b) Risk concentration (Continued)

The Group

As at December 31, 2015

	Mainland China	Outside Mainland China	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale financial assets (1)	21,287,386	—	21,287,386
Financial assets at fair value through profit or loss (2)	21,211,483	2,670,747	23,882,230
Derivative financial assets	374,784	641,563	1,016,347
Advances to customers	62,619,481	1,769,861	64,389,342
Financial assets held under resale agreements	14,334,756	—	14,334,756
Loan receivables	—	287,060	287,060
Accounts receivable	574,908	2,458,142	3,033,050
Other receivables and deposits	910,630	72,445	983,075
Deposits with exchanges and non-bank financial institutions	786,252	71,190	857,442
Clearing settlement funds	19,166,188	—	19,166,188
Cash and bank balances	76,044,153	5,573,901	81,618,054
	217,310,021	13,544,909	230,854,930

As at June 30, 2016

	Mainland China	Outside Mainland China	Total
	RMB'000	RMB'000	RMB'000
Available-for-sale financial assets (1)	24,541,925	—	24,541,925
Financial assets at fair value through profit or loss (2)	22,975,171	2,764,869	25,740,040
Derivative financial assets	297,789	519,407	817,196
Advances to customers	45,427,085	1,141,205	46,568,290
Financial assets held under resale agreements	11,146,588	—	11,146,588
Loan receivables	—	182,199	182,199
Accounts receivable	485,414	3,169,278	3,654,692
Other receivables and deposits	1,055,696	61,850	1,117,546
Deposits with exchanges and non-bank financial institutions	511,116	65,883	576,999
Clearing settlement funds	11,676,726	—	11,676,726
Cash and bank balances	67,604,901	5,632,337	73,237,238
	185,722,411	13,537,028	199,259,439

(1) Available-for-sale financial assets represent the debt securities, trust products and equity securities lent to customers.

(2) Financial assets at fair value through profit or loss represent the debt securities, trust products and equity securities lent to customers.

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(c) Credit rating analysis of financial assets

The carrying amounts of debt securities at the end of the Track Record Period are categorized by rating distribution as follows:

The Group

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Issuers in Mainland China				
—PRC sovereign bonds	378,795	5,193,064	11,969,332	17,105,377
—AAA	1,656,896	9,969,170	9,892,418	17,286,082
—AA+	1,356,400	4,164,290	8,548,975	8,521,066
—AA	2,334,718	2,466,131	2,915,081	3,757,993
—AA-	742,814	86,202	—	193,525
—A-1	1,412,822	1,501,549	859,329	82,356
	7,882,445	23,380,406	34,185,135	46,946,399
Non-rated	3,102,960	4,101,331	7,591,491	95,000
Sub-total	10,985,405	27,481,737	41,776,626	47,041,399
Issuers in Hong Kong and other regions				
—A	—	217,093	23,577	—
—B	229,279	548,445	492,338	924,621
—C	12,144	111,515	1,265,346	1,344,525
	241,423	877,053	1,781,261	2,269,146
Non-rated	31,030	481,941	889,488	495,723
Sub-total	272,453	1,358,994	2,670,749	2,764,869
Total	11,257,858	28,840,731	44,447,375	49,806,268

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(c) Credit rating analysis of financial assets (Continued)

The Company

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Issuers in Mainland China				
—PRC sovereign bonds	378,795	5,193,064	11,969,332	17,105,377
—AAA	1,596,474	9,742,323	9,703,207	17,286,082
—AA+	1,356,400	4,060,499	8,548,975	8,521,066
—AA	2,207,168	2,393,260	2,915,081	3,757,993
—AA-	690,264	86,202	—	193,525
—A-1	1,247,505	1,501,549	859,329	82,356
	7,476,606	22,976,897	33,995,924	46,946,399
Non-rated	3,102,960	4,101,271	7,591,491	95,000
Sub-total	10,579,566	27,078,168	41,587,415	47,041,399

PRC sovereign bonds represent the rating of bonds issued by the government of PRC. AAA~A rating represents the bonds with maturity over 1 year, which AAA rating is representing the highest rating. A-1 rating represents the bonds with maturity within 1 year. Non-rated represents the bonds are not rated by independent rating agencies.

Credit rating of the bonds issued in Hong Kong and other regions were derived from the lowest of Moody's, Standard & Poor's and Fitch Rating, if any. The bonds, which are not rated by the above agencies, are classified as non-rated. Including in A rating are the bonds comprising Aaa~Aa3 rating of Moody's, AAA~AA- rating of Standard & Poor's and AAA~AA- rating of Fitch; and including in B rating are the bonds comprising A1~Baa3 rating of Moody's, A+~BBB- rating of Standard & Poor's and A+~BBB- rating of Fitch; including in C rating are the bonds comprising Ba1~B3 rating of Moody's, BB+~B- rating of Standard & Poor's and BB+~B- rating of Fitch; and including D rating are the bonds comprising Caa1~D rating of Moody's, CCC+~C rating of Standard & Poor's and CCC+~C- rating of Fitch.

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk

(a) Origin and management of market risk

Market risks of the Group refer to the risks of loss resulting from adverse changes in the market. Securities held by the Group are derived from the proprietary investment, market-making business and other investment activities. Movements in securities holding primarily arise from the relevant strategies of proprietary investment and market-making necessity. The securities of the Group are measured at fair value which will be fluctuated daily according to the market factors and change in the portfolios of the securities. Market risks of the Group primarily include: (i) equity price risk, which represents the exposures arise from fluctuation in the spot price, future price and volatility of indices such as stocks, equity portfolio, commodities and stock index futures; (ii) interest rate risk, which primarily represents the exposures arise from movements in the yield curve of fixed income investment, fluctuation in interest rates and credit spreads; and (iii) commodity risk, which represents exposures arise from changes in the spot price, future price and volatility of commodities price of securities held; and (iv) exchange rate risk, which represents the exposures arise from changes in the spot price, future price and volatility of foreign currency rates of securities held.

The Group collectively allocates the economic capital in accordance with the risk preference and risk tolerance indicators set by the directors of the Company. By considering the risk associated with each type of investments and their interrelationship, the Group diversifies the overall risk limitation to different business departments/business lines. The front-office business departments are responsible for market risk management. The person in charge and investment manager shall utilize their extensive experience and in-depth knowledge of the markets and products to conduct risk management in trading transactions within their authorities and dynamic regulate the risk exposures to the securities held in open position by taking initiative measures to mitigate or hedge against the associated market risks. The chief risk management officer (the "CRMO") is in charge of the risk management department of the Group (the "Risk Management Department"), which is independent from other business departments. By applying professional risk management tools and methods to the investment strategies, business departments/ business lines and to the whole Company, Risk Management Department aims to control, evaluate and manage market risk at different levels. Reports of evaluation and risk analysis are generated and delivered to the responsible officers of the business departments/ business lines and operation management of the Company on a daily, monthly or quarterly basis to facilitate decision making. When risk level is approaching or exceeds the threshold values, the Risk Management Department will warn relevant management officers in advance and discuss with the respective business management officers. According to the opinion reached through discussions, the business departments/business lines will mitigate the exposures to a level within the limits, or the respective business departments/business lines may apply for a temporary or permanent upgrade in the limits, subject to the resolutions of the relevant committees. Risk Management Department will continuously monitor and communicate directly with the respective business departments/business lines with regard to information on risk exposures, and discuss the status of risk portfolios and the losses in extreme situations.

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(b) Price risk

Value at Risk ("VaR")

The Group adopts Value at Risk ("VaR") as the risk evaluation tool for measuring the market risk of the entire securities investment portfolio which comprises various financial instruments. VaR analysis is a statistical technique that estimates the potential maximum losses that could occur on risk positions due to movements in interest rates, stock prices or currency rates over a specified time period and at a given level of confidence.

The analysis of the Group's and the Company's VaR (confidence level of 95% and a holding period of one trading day) by types of risks is as follows:

The Group

As at year/period end

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Market risk of equity	32,701	49,201	690,742	585,493
Market risk of interest rate	17,707	54,903	64,551	65,860
Market risk of commodity	1,088	112	11,564	8,470
Market risk of foreign exchange	191	275	2,117	1,880
Diluted effect	(13,826)	(20,052)	(58,884)	(57,863)
Total portfolio VaR	37,861	84,439	710,090	603,840

Highest

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Market risk of equity	26,266	49,201	712,141	705,178
Market risk of interest rate	41,569	54,903	53,180	55,950
Market risk of commodity	—	112	9,593	4,670
Market risk of foreign exchange	286	275	549	2,810
Diluted effect	(19,526)	(20,052)	(57,381)	(98,578)
Total portfolio VaR	48,595	84,439	718,082	670,030

Lowest

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Market risk of equity	24,818	33,891	62,899	600,001
Market risk of interest rate	12,861	12,633	41,080	45,840
Market risk of commodity	1,050	2,734	5,061	7,900
Market risk of foreign exchange	180	376	250	1,970
Diluted effect	(12,629)	(13,085)	(28,028)	(66,181)
Total portfolio VaR	26,280	36,549	81,262	589,530

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(b) Price risk (Continued)

The Group

Average

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Market risk of equity	27,542	39,953	353,433	630,236
Market risk of interest rate	25,103	29,143	58,619	59,128
Market risk of commodity	1,221	2,495	6,678	7,010
Market risk of foreign exchange	172	289	460	2,227
Diluted effect	(15,975)	(19,741)	(49,855)	(76,861)
Total portfolio VaR	38,063	52,139	369,335	621,740

The Company

As at year/period end

	As at December 31,			As at June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Market risk of equity	30,901	42,741	690,429	574,243
Market risk of interest rate	13,268	53,263	63,290	57,430
Market risk of commodity	1,090	—	10,879	6,383
Diluted effect	(11,013)	(15,314)	(55,052)	(50,718)
Total portfolio VaR	34,246	80,690	709,546	587,338

Highest

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Market risk of equity	33,490	42,741	711,807	692,358
Market risk of interest rate	41,468	53,263	51,250	37,780
Market risk of commodity	4,115	—	8,843	1,144
Diluted effect	(33,659)	(15,314)	(54,153)	(62,019)
Total portfolio VaR	45,414	80,690	717,747	669,263

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(b) Price risk (Continued)

The Company

Lowest

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Market risk of equity	19,498	32,432	51,040	588,851
Market risk of interest rate	11,383	11,588	40,712	37,190
Market risk of commodity	—	2,542	1,360	5,024
Diluted effect	(6,111)	(12,093)	(25,704)	(49,242)
Total portfolio VaR	24,770	34,469	67,408	581,823

Average

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Market risk of equity	25,201	35,671	345,886	618,826
Market risk of interest rate	23,428	24,921	56,662	44,860
Market risk of commodity	1,221	2,022	5,806	4,428
Diluted effect	(14,582)	(15,779)	(47,233)	(54,961)
Total portfolio VaR	35,268	46,835	361,121	613,153

(c) Interest rate risk

The tables below summarize the Group's and the Company's interest-bearing financial assets and liabilities as at Track Record Period by their remaining terms to repricing or contractual maturity date, whichever is earlier. Other financial assets and liabilities not included below are not exposed to significant interest rate risk.

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

The Group

At December 31, 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
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets							
Available-for-sale financial assets	—	62,442	891,801	3,328,032	484,340	1,651,050	6,417,665
Financial assets at fair value through profit or loss	455,767	864,223	1,075,457	4,221,964	228,222	8,634,380	15,480,013
Derivative financial assets	—	—	—	—	—	86,916	86,916
Advances to customers	1,228,956	3,343,784	15,514,545	—	—	—	20,087,285
Financial assets held under resale agreements	273,827	414,812	1,788,161	389,630	—	—	2,866,430
Loan receivables	277,279	131,002	27,879	519,679	—	—	955,839
Account receivables	—	—	—	—	—	739,866	739,866
Deposit with exchanges and non-bank financial institutions	164,068	—	—	—	—	—	164,068
Clearing settlement funds	5,047,161	—	—	—	—	—	5,047,161
Cash and bank balances	25,283,006	—	—	—	—	—	25,283,006
Sub-total	32,730,064	4,816,263	19,297,843	8,459,305	712,562	11,112,212	77,128,249
Financial liabilities							
Borrowings	1,026,030	—	393,115	157,295	—	—	1,576,440
Short-term debt instruments	3,000,000	4,800,000	—	—	—	—	7,800,000
Placements from other financial institutions	—	—	1,000,000	—	—	—	1,000,000
Bonds payable	—	—	—	4,495,898	5,483,775	—	9,979,673
Financial assets sold under repurchase agreements	4,358,408	40	—	—	—	—	4,358,448
Derivative financial liabilities	—	—	—	—	—	131,818	131,818
Financial liabilities at fair value through profit or loss	—	—	—	—	—	651,815	651,815
Accounts payable to brokerage clients	26,718,485	—	—	—	—	—	26,718,485
Other liabilities	—	82,440	453,870	151,470	—	8,869	696,649
Other payables and accrued charges	374	—	—	—	—	571,846	572,220
Sub-total	35,103,297	4,882,480	1,846,985	4,804,663	5,483,775	1,364,348	53,485,548
Net position	(2,373,233)	(66,217)	17,450,858	3,654,642	(4,771,213)	9,747,864	23,642,701

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

The Group

At December 31, 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
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets							
Available-for-sale financial assets	6,276	103,950	596,276	7,233,792	4,393,954	2,543,757	14,878,005
Financial assets at fair value through profit or loss	541,339	802,246	2,934,012	9,283,949	3,099,593	19,460,529	36,121,668
Derivative financial assets	—	—	—	—	—	12,015	12,015
Advances to customers	2,310,762	4,903,605	51,380,798	—	—	—	58,595,165
Financial assets held under resale agreements	991,006	471,190	4,342,071	1,740,432	—	—	7,544,699
Loan receivables	—	131,394	523,514	—	—	—	654,908
Account receivables	—	—	—	—	—	1,412,035	1,412,035
Deposit with exchanges and non-bank financial institutions	244,680	—	—	—	—	—	244,680
Clearing settlement funds	12,191,801	—	—	—	—	—	12,191,801
Cash and bank balances	54,866,894	—	—	—	—	—	54,866,894
Sub-total	71,152,758	6,412,385	59,776,671	18,258,173	7,493,547	23,428,336	186,521,870
Financial liabilities							
Borrowings	1,601,406	—	1,242,470	295,496	—	—	3,139,372
Short-term debt instruments	4,325,377	9,715,395	322,375	—	—	—	14,363,147
Placements from other financial institutions	2,600,000	—	2,000,000	—	—	—	4,600,000
Bonds payable	—	—	—	4,497,284	5,485,202	—	9,982,486
Financial assets sold under repurchase agreements	15,298,999	3,845,717	25,693,800	4,300,000	—	—	49,138,516
Derivative financial liabilities	—	—	—	—	—	849,865	849,865
Financial liabilities at fair value through profit or loss	—	—	—	—	—	210,697	210,697
Accounts payable to brokerage clients	57,694,223	—	—	—	—	—	57,694,223
Other liabilities	—	195,310	638,499	—	—	10,785	844,594
Other payables and accrued charges	374	—	—	—	—	5,588,801	5,589,175
Sub-total	81,520,379	13,756,422	29,897,144	9,092,780	5,485,202	6,660,148	146,412,075
Net position	(10,367,621)	(7,344,037)	29,879,527	9,165,393	2,008,345	16,768,188	40,109,795

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

The Group

At December 31, 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
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets							
Available-for-sale financial assets	831,838	1,367,351	3,747,889	10,321,269	4,411,807	15,062,490	35,742,644
Financial assets at fair value through profit or loss	1,770,813	2,644,473	5,609,826	11,000,811	2,595,390	39,205,180	62,826,493
Derivative financial assets	—	—	—	—	—	1,016,347	1,016,347
Advances to customers	3,293,208	5,040,418	56,055,716	—	—	—	64,389,342
Financial assets held under resale agreements	4,589,014	884,890	5,396,781	3,464,071	—	—	14,334,756
Loan receivables	25,064	244,396	17,600	—	—	—	287,060
Account receivables	—	—	—	—	—	3,033,050	3,033,050
Deposit with exchanges and non-bank financial institutions	857,442	—	—	—	—	—	857,442
Clearing settlement funds	19,166,188	—	—	—	—	—	19,166,188
Cash and bank balances	81,618,054	—	—	—	—	—	81,618,054
Sub-total	112,151,621	10,181,528	70,827,812	24,786,151	7,007,197	58,317,067	283,271,376
Financial liabilities							
Borrowings	1,854,501	167,556	1,068,170	453,972	—	—	3,544,199
Short-term debt instruments	4,750,040	11,154,570	11,973,710	—	—	—	27,878,320
Placements from other financial institutions	4,000,000	—	—	—	—	—	4,000,000
Bonds payable	—	—	—	41,998,734	10,962,137	—	52,960,871
Financial assets sold under repurchase agreements	14,788,027	—	17,300,000	10,865,000	—	—	42,953,027
Derivative financial liabilities	—	—	—	—	—	1,866,372	1,866,372
Financial liabilities at fair value through profit or loss	818,420	155,086	11,140	18,112	—	1,366,522	2,369,280
Accounts payable to brokerage clients	88,749,044	—	—	—	—	—	88,749,044
Other liabilities	7,813	81,000	374,460	—	—	82,462	545,735
Other payables and accrued charges	374	—	—	—	—	5,519,296	5,519,670
Sub-total	114,968,219	11,558,212	30,727,480	53,335,818	10,962,137	8,834,652	230,386,518
Net position	(2,816,598)	(1,376,684)	40,100,332	(28,549,667)	(3,954,940)	49,482,415	52,884,858

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

The Group

At June 30, 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
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets							
Available-for-sale financial assets	3,503,319	5,419,170	1,475,346	13,487,505	428,893	12,396,890	36,711,123
Financial assets at fair value through profit or loss	342,878	392,820	1,824,925	15,092,273	7,839,140	25,083,959	50,575,995
Derivative financial assets	—	—	—	—	—	817,196	817,196
Advances to customers	2,610,976	5,111,326	38,845,988	—	—	—	46,568,290
Financial assets held under resale agreements	394,823	683,724	4,673,115	5,394,926	—	—	11,146,588
Loan receivables	—	87,930	40,316	—	—	53,953	182,199
Account receivables	—	—	—	—	—	3,654,692	3,654,692
Deposit with exchanges and non-bank financial institutions	576,999	—	—	—	—	—	576,999
Clearing settlement funds	11,676,726	—	—	—	—	—	11,676,726
Cash and bank balances	73,237,238	—	—	—	—	—	73,237,238
Sub-total	92,342,959	11,694,970	46,859,690	33,974,704	8,268,033	42,006,690	235,147,046
Financial liabilities							
Borrowings	2,163,968	—	1,175,171	368,405	—	—	3,707,544
Short-term debt instruments	339,600	854,880	6,500,000	—	—	—	7,694,480
Placements from other financial institutions	1,600,000	—	—	—	—	—	1,600,000
Bonds payable	—	—	—	39,499,148	10,963,945	—	50,463,093
Financial assets sold under repurchase agreements	25,761,428	1,500,000	14,565,000	2,000,000	—	—	43,826,428
Derivative financial liabilities	—	—	—	—	—	977,758	977,758
Financial liabilities at fair value through profit or loss	155,989	26,644	—	—	7,526	2,024,588	2,214,747
Accounts payable to brokerage clients	74,043,486	—	—	—	—	—	74,043,486
Other payables and accrued charges	374	—	—	—	—	3,713,837	3,714,211
Sub-total	104,064,845	2,381,524	22,240,171	41,867,553	10,971,471	6,716,183	188,241,747
Net position	(11,721,886)	9,313,446	24,619,519	(7,892,849)	(2,703,438)	35,290,507	46,905,299

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

The Company

At December 31, 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
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets							
Available-for-sale financial assets	—	62,442	891,801	3,328,032	484,340	1,509,206	6,275,821
Financial assets at fair value through profit or loss	10,491	850,642	1,005,275	3,814,789	228,222	7,113,267	13,022,686
Derivative financial assets	—	—	—	—	—	80,742	80,742
Advances to customers	600,739	3,343,784	15,514,545	—	—	—	19,459,068
Financial assets held under resale agreements	267,927	321,802	1,315,461	191,330	—	—	2,096,520
Account receivables	—	—	—	—	—	129,080	129,080
Deposit with exchanges and non-bank financial institutions	403,262	—	—	—	—	—	403,262
Clearing settlement funds	3,934,425	—	—	—	—	—	3,934,425
Cash and bank balances	20,171,145	—	—	—	—	—	20,171,145
Sub-total	25,387,989	4,578,670	18,727,082	7,334,151	712,562	8,832,295	65,572,749
Financial liabilities							
Borrowings	—	—	—	157,295	—	—	157,295
Short-term debt instruments	3,000,000	4,800,000	—	—	—	—	7,800,000
Placements from other financial institutions	—	—	1,000,000	—	—	—	1,000,000
Bonds payable	—	—	—	4,495,898	5,483,775	—	9,979,673
Financial assets sold under repurchase agreements	4,358,408	40	—	—	—	—	4,358,448
Derivative financial liabilities	—	—	—	—	—	131,475	131,475
Accounts payable to brokerage clients	21,896,323	—	—	—	—	—	21,896,323
Other payables and accrued charges	374	—	—	—	—	476,490	476,864
Sub-total	29,255,105	4,800,040	1,000,000	4,653,193	5,483,775	607,965	45,800,078
Net position	(3,867,116)	(221,370)	17,727,082	2,680,958	(4,771,213)	8,224,330	19,772,671

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

The Company

At December 31, 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
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets							
Available-for-sale financial assets	6,276	103,950	596,276	7,233,792	4,393,954	2,443,692	14,777,940
Financial assets at fair value through profit or loss	332,819	774,464	2,780,179	7,905,096	2,951,363	16,991,122	31,735,043
Derivative financial assets	—	—	—	—	—	4,860	4,860
Advances to customers	566,312	4,903,605	51,380,798	—	—	—	56,850,715
Financial assets held under resale agreements	931,297	105,909	1,700,432	3,768,895	—	—	6,506,533
Account receivables	—	—	—	—	—	276,095	276,095
Deposit with exchanges and non-bank financial institutions	591,686	—	—	—	—	—	591,686
Clearing settlement funds	9,999,554	—	—	—	—	—	9,999,554
Cash and bank balances	46,249,156	—	—	—	—	—	46,249,156
Sub-total	58,677,100	5,887,928	56,457,685	18,907,783	7,345,317	19,715,769	166,991,582
Financial liabilities							
Borrowings	—	—	—	295,496	—	—	295,496
Short-term debt instruments	4,325,377	9,715,395	392,375	—	—	—	14,433,147
Placements from other financial institutions	2,600,000	—	2,000,000	—	—	—	4,600,000
Bonds payable	—	—	—	4,497,284	5,485,202	—	9,982,486
Financial assets sold under repurchase agreements	15,298,999	3,845,717	25,693,800	4,300,000	—	—	49,138,516
Derivative financial liabilities	—	—	—	—	—	849,865	849,865
Accounts payable to brokerage clients	48,801,710	—	—	—	—	—	48,801,710
Other payables and accrued charges	374	—	—	—	—	3,548,575	3,548,949
Sub-total	71,026,460	13,561,112	28,086,175	9,092,780	5,485,202	4,398,440	131,650,169
Net position	(12,349,360)	(7,673,184)	28,371,510	9,815,003	1,860,115	15,317,329	35,341,413

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

The Company

At December 31, 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
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets							
Available-for-sale financial assets	831,838	1,367,351	3,747,889	10,321,269	4,411,807	14,328,099	35,008,253
Financial assets at fair value through profit or loss	1,621,679	2,541,919	5,372,856	8,971,897	2,398,910	33,123,290	54,030,551
Derivative financial assets	—	—	—	—	—	374,784	374,784
Advances to customers	1,523,347	5,040,418	56,055,716	—	—	—	62,619,481
Financial assets held under resale agreements	4,508,014	844,890	4,970,796	3,464,071	—	—	13,787,771
Account receivables	—	—	—	—	—	591,375	591,375
Deposit with exchanges and non-bank financial institutions	954,435	—	—	—	—	—	954,435
Clearing settlement funds	16,552,024	—	—	—	—	—	16,552,024
Cash and bank balances	71,602,634	—	—	—	—	—	71,602,634
Sub-total	97,593,971	9,794,578	70,147,257	22,757,237	6,810,717	48,417,548	255,521,308
Financial liabilities							
Borrowings	—	—	—	370,194	—	—	370,194
Short-term debt instruments	4,750,040	11,154,570	11,973,710	—	—	—	27,878,320
Placements from other financial institutions	4,000,000	—	—	—	—	—	4,000,000
Bonds payable	—	—	—	41,998,734	10,962,137	—	52,960,871
Financial assets sold under repurchase agreements	14,788,027	—	17,300,000	10,865,000	—	—	42,953,027
Derivative financial liabilities	—	—	—	—	—	1,225,418	1,225,418
Financial liabilities at fair value through profit or loss	818,420	155,086	11,140	—	—	—	984,646
Accounts payable to brokerage clients	78,135,079	—	—	—	—	—	78,135,079
Other payables and accrued charges	374	—	—	—	—	2,779,489	2,779,863
Sub-total	102,491,940	11,309,656	29,284,850	53,233,928	10,962,137	4,004,907	211,287,418
Net position	(4,897,969)	(1,515,078)	40,862,407	(30,476,691)	(4,151,420)	44,412,641	44,233,890

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

The Company

At June 30, 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
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets							
Available-for-sale financial assets	3,503,319	5,419,170	1,475,346	13,487,505	428,893	11,064,927	35,379,160
Financial assets at fair value through profit or loss	342,878	386,178	1,636,706	12,958,711	7,402,693	18,517,427	41,244,593
Derivative financial assets	—	—	—	—	—	297,790	297,790
Advances to customers	1,469,771	5,111,326	38,845,988	—	—	—	45,427,085
Financial assets held under resale agreements	394,823	683,724	4,673,115	5,394,926	—	—	11,146,588
Account receivables	—	—	—	—	—	441,766	441,766
Deposit with exchanges and non-bank financial institutions	654,642	—	—	—	—	—	654,642
Clearing settlement funds	8,342,372	—	—	—	—	—	8,342,372
Cash and bank balances	62,212,176	—	—	—	—	—	62,212,176
Sub-total	76,919,981	11,600,398	46,631,155	31,841,142	7,831,586	30,321,910	205,146,172
Financial liabilities							
Borrowings	—	—	—	368,405	—	—	368,405
Short-term debt instruments	339,600	854,880	6,500,000	—	—	—	7,694,480
Placements from other financial institutions	1,600,000	—	—	—	—	—	1,600,000
Bonds payable	—	—	—	39,499,148	10,963,945	—	50,463,093
Financial assets sold under repurchase agreements	25,761,428	1,500,000	14,565,000	2,000,000	—	—	43,826,428
Derivative financial liabilities	—	—	—	—	—	304,633	304,633
Financial liabilities at fair value through profit or loss	155,989	—	—	—	—	—	155,989
Accounts payable to brokerage clients	61,726,524	—	—	—	—	—	61,726,524
Other payables and accrued charges	374	—	—	—	—	1,182,130	1,182,504
Sub-total	89,583,915	2,354,880	21,065,000	41,867,553	10,963,945	1,486,763	167,322,056
Net position	(12,663,934)	9,245,518	25,566,155	(10,026,411)	(3,132,359)	28,835,147	37,824,116

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

Sensitivity analysis

The Group conduct sensitivity analysis on interest rates to measure the impact of a reasonably possible change in interest rates on the Group's revenue and equity, assuming all other variables were held constant. Assuming a parallel change in market interest rate and without taking into account of any possible risk management activities that may be taken by the management to reduce interest rate risks, the Group's and the Company's interest rate sensitivity analysis is as follows:

The Group

Sensitivity of revenue	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Change in basis points				
Increase by 100bps	(110,934)	(336,538)	(353,762)	(929,555)
Decrease by 100bps	111,674	337,998	355,853	931,853

Sensitivity of equity	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Change in basis points				
Increase by 100bps	(226,905)	(725,793)	(944,513)	(1,431,058)
Decrease by 100bps	228,125	728,553	948,672	1,435,817

The Company

Sensitivity of revenue	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Change in basis points				
Increase by 100bps	(107,166)	(335,042)	(319,938)	(828,358)
Decrease by 100bps	107,906	336,502	322,017	830,737

Sensitivity of equity	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Change in basis points				
Increase by 100bps	(227,504)	(724,298)	(910,678)	(1,329,942)
Decrease by 100bps	228,724	727,058	914,836	1,334,702

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(d) Foreign currency rate risk

Foreign exchange rate risk represents the adverse changes in the financial position and cash flows of the Group due to changes in foreign exchange rates. The Group conducts sensitivity analysis on foreign exchange rates to measure its foreign exchange rate risks. The table below indicates the sensitivity analysis on exchange rate changes in currencies that the Group has significant exposure, which calculates the impacts of a reasonably possible change in the exchange rate of a foreign currency against Renminbi on the revenue and equity, assuming all other variables were held constant. A negative amount reflects a potential decrease in profit before tax or equity, and a positive amount reflects a potential increase in revenue or equity.

Sensitivity analysis of exchange rate

The Group

	Sensitivity of revenue/equity			
	December 31,			June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Change in exchange rate				
Depreciation of USD by 3%	(27,204)	(31,059)	65,207	(90,314)
Depreciation of HKD by 3%	(21,347)	6,391	10,215	29,043

The Company

	Sensitivity of revenue/equity			
	December 31,			June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Change in exchange rate				
Depreciation of USD by 3%	(6,210)	(501)	(1,344)	(1,348)
Depreciation of HKD by 3%	(9,356)	(997)	(1,723)	(2,099)

The table above indicates the impacts on the revenue and equity of a depreciation of 3% in USD and HKD against Renminbi. There will be an opposite impact with the same amount as shown in the above table if the above exchange rates appreciate by the same percentage.

(4) Operational risk

The Company's operational risks arising from imperfection on the internal processes, people and systems or external events, the operational risk factors of the Company summarized into seven categories, including: internal fraud, external fraud, employee policies and workplace safety, clients, products and business activities, physical property damage, business interruption and IT system failures, execution, settlement and process management.

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(4) Operational risk (Continued)

The Company emphasis on balance of the business scale, profitability and risk tolerance level, adhere to carry out various operations in the context of prudent operation, and will not overlook the operational risk management and control. During the year 2016, the Company continued to strengthen the operational risk management, and established a sound operational risk management system gradually, which was matched with the business nature, scale and complexity so as to improve the operation management system. Through the implementation on operational risk self-examination process and data collection tools in relation to the operational risk events and losses, the Company gradually began to set up and implement a pilot application with key operational risk indicators in order to achieve the three endogenous closed-loop management tools to manage operational risk in the future.

(5) Liquidity risk

(a) Origin and management of liquidity risk

The Group's exposure to liquidity risk mainly arises from failure to obtain sufficient funds at reasonable costs and in a timely manner to repay due debts, perform other payment obligations and satisfy capital needs for normal business operation. If there is material and adverse changes in the operating condition of the Company in the future and the Company is not able to maintain their gearing ratio at a reasonable level, and the operational management of the Company experiences unusual changes, the Company may not be able to repay the principal or interests of relevant debts in full when due.

In order to prevent liquidity risk, the Group has established high-quality current asset reserves and minimum excess reserve quota system. The Group has formulated liquidity emergency management plans to store minimum excess reserve in the capital plan. The Group has reserved treasury bond, Central Bank bills and other high-liquid assets which can be liquidized at any time under extreme circumstances for unexpected expenses. In addition, the Company has actively developed management for financing gaps. By using management tools of cash flow gap, sensitivity analysis and stress testing, the Group can identify potential risks as early as possible to arrange financing and adjust the pace of fund usage for business purposes in advance to effectively manage the payment risk. The Group has also continuously expanded their financing channels and balanced the distribution of debt maturity, so as to avoid the payment risk caused by single financing channel or servicing debts when due. Besides, the Company has established internal risk reporting system to promptly monitor the liquidity risk in the operation of each business and at each branch. Moreover, the Company takes measures to promote the safe, sound and sustainable operation of each business and each branch.

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(5) Liquidity risk (Continued)

(b) Undiscounted cash flow by contractual maturities

The Group

	As at December 31, 2013							
	Carrying amount	On demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	1,576,440	779,349	248,149	401,307	16,816	169,854	—	1,615,475
Short-term debt instruments	7,800,000	—	3,038,466	4,872,434	—	—	—	7,910,900
Placements from other financial institutions	1,000,000	—	—	—	1,071,000	—	—	1,071,000
Bonds payable	9,979,673	—	—	—	488,750	6,455,000	6,918,365	13,862,115
Financial assets sold under repurchase agreements	4,358,448	—	4,360,489	40	—	—	—	4,360,529
Derivative financial liabilities	131,818	343	68	—	131,407	—	—	131,818
Financial liabilities at fair value through profit or loss	651,815	651,815	—	—	—	—	—	651,815
Accounts payable to brokerage clients	26,718,485	26,718,485	—	—	—	—	—	26,718,485
Other payables and accrued charges	572,220	571,846	374	—	—	—	—	572,220
Other liabilities	696,649	—	—	84,100	482,534	167,461	—	734,095
Total	53,485,548	28,721,838	7,647,546	5,357,881	2,190,507	6,792,315	6,918,365	57,628,452

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(5) Liquidity risk (Continued)

(b) Undiscounted cash flow by contractual maturities (Continued)

The Group

	As at December 31, 2014							
	Carrying amount	On demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	3,139,372	1,264,205	345,695	421,953	917,355	315,510	—	3,264,718
Short-term debt instruments	14,363,147	—	4,314,880	9,816,247	347,115	—	—	14,478,242
Placements from other financial institutions	4,600,000	—	2,602,534	—	2,057,841	—	—	4,660,375
Bonds payable	9,982,486	—	—	—	488,750	6,249,500	6,635,115	13,373,365
Financial assets sold under repurchase agreements	49,138,516	—	15,298,998	3,887,359	26,567,502	4,718,482	—	50,472,341
Derivative financial liabilities	849,865	7,547	28,000	133,650	680,668	—	—	849,865
Financial liabilities at fair value through profit or loss	210,697	210,697	—	—	—	—	—	210,697
Accounts payable to brokerage clients	57,694,223	57,694,223	—	—	—	—	—	57,694,223
Other payables and accrued charges	5,589,175	5,589,175	—	—	—	—	—	5,589,175
Other liabilities	844,594	72,209	—	247,464	695,045	—	—	1,014,718
Total	146,412,075	64,838,056	22,590,107	14,506,673	31,754,276	11,283,492	6,635,115	151,607,719

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(5) Liquidity risk (Continued)

(b) Undiscounted cash flow by contractual maturities (Continued)

The Group

	As at December 31, 2015							
	Carrying amount	On demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	3,544,199	704,898	1,245,096	262,249	965,105	463,501	—	3,640,849
Short-term debt instruments	27,878,320	—	4,938,196	11,621,799	12,816,094	—	—	29,376,089
Placements from other financial institutions	4,000,000	—	4,000,956	—	—	—	—	4,000,956
Bonds payable	52,960,871	—	—	1,594,750	1,125,400	47,858,827	13,246,750	63,825,727
Financial assets sold under repurchase agreements	42,953,027	—	14,792,959	347,695	18,205,047	11,427,631	—	44,773,332
Derivative financial liabilities	1,866,372	1,866,372	—	—	—	—	—	1,866,372
Financial liabilities at fair value through profit or loss	2,369,280	185,656	820,156	155,709	11,223	443,121	755,857	2,371,722
Accounts payable to brokerage clients	88,749,044	88,749,044	—	—	—	—	—	88,749,044
Other payables and accrued charges	5,519,670	5,519,670	—	—	—	—	—	5,519,670
Other liabilities	545,735	82,462	83,670	82,757	397,354	—	—	646,243
Total	230,386,518	97,108,102	25,881,033	14,064,959	33,520,223	60,193,080	14,002,607	244,770,004

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(5) Liquidity risk (Continued)

(b) Undiscounted cash flow by contractual maturities (Continued)

The Group

	As at June 30, 2016							
	Carrying amount	On demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	3,707,544	745,203	1,602,266	10,743	1,057,691	397,241	—	3,813,144
Short-term debt instruments	7,694,480	—	371,775	931,865	7,123,773	—	—	8,427,413
Placements from other financial institutions	1,600,000	—	1,600,838	—	—	—	—	1,600,838
Bonds payable	50,463,093	—	—	—	2,720,150	42,939,998	12,089,245	57,749,393
Financial assets sold under repurchase agreements	43,826,428	—	25,770,966	1,717,718	15,345,079	2,009,742	—	44,843,505
Derivative financial liabilities	977,758	977,758	—	—	—	—	—	977,758
Financial liabilities at fair value through profit or loss	2,214,747	2,058,758	156,442	—	—	—	—	2,215,200
Accounts payable to brokerage clients	74,043,486	74,043,486	—	—	—	—	—	74,043,486
Other payables and accrued charges	3,714,211	3,714,211	—	—	—	—	—	3,714,211
Total	188,241,747	81,539,416	29,502,287	2,660,326	26,246,693	45,346,981	12,089,245	197,384,948

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(5) Liquidity risk (Continued)

(b) Undiscounted cash flow by contractual maturities (Continued)

The Company

	As at December 31, 2013							
	Carrying amount	On demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	157,295	—	—	2,279	16,816	169,854	—	188,949
Short-term debt instruments	7,800,000	—	3,038,466	4,872,434	—	—	—	7,910,900
Placements from other financial institutions	1,000,000	—	—	—	1,071,000	—	—	1,071,000
Bonds payable	9,979,673	—	—	—	488,750	6,455,000	6,918,365	13,862,115
Financial assets sold under repurchase agreements	4,358,448	—	4,360,489	40	—	—	—	4,360,529
Derivative financial liabilities	131,475	343	68	—	131,064	—	—	131,475
Accounts payable to brokerage clients	21,896,323	21,896,323	—	—	—	—	—	21,896,323
Other payables and accrued charges	476,864	476,864	—	—	—	—	—	476,864
Total	45,800,078	22,373,530	7,399,023	4,874,753	1,707,630	6,624,854	6,918,365	49,898,155

	As at December 31, 2014							
	Carrying amount	On demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	295,496	—	—	4,282	22,935	315,510	—	342,727
Short-term debt instruments	14,433,147	—	4,334,941	9,816,247	398,521	—	—	14,549,709
Placements from other financial institutions	4,600,000	—	2,602,534	—	2,057,841	—	—	4,660,375
Bonds payable	9,982,486	—	—	—	488,750	6,249,500	6,635,115	13,373,365
Financial assets sold under repurchase agreements	49,138,516	—	15,298,998	3,887,359	26,567,502	4,718,482	—	50,472,341
Derivative financial liabilities	849,865	7,547	28,000	133,650	680,668	—	—	849,865
Accounts payable to brokerage clients	48,801,710	48,801,710	—	—	—	—	—	48,801,710
Other payables and accrued charges	3,548,949	3,548,949	—	—	—	—	—	3,548,949
Total	131,650,169	52,358,206	22,264,473	13,841,538	30,216,217	11,283,492	6,635,115	136,599,041

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(5) Liquidity risk (Continued)

(b) Undiscounted cash flow by contractual maturities (Continued)

The Company

	As at December 31, 2015							
	Carrying amount	On demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	370,194	—	—	4,324	18,590	377,023	—	399,937
Short-term debt instruments	27,878,320	—	4,938,196	11,621,799	12,816,094	—	—	29,376,089
Placements from other financial institutions	4,000,000	—	4,000,956	—	—	—	—	4,000,956
Bonds payable	52,960,871	—	—	1,594,750	1,125,400	47,858,827	13,246,750	63,825,727
Financial assets sold under repurchase agreements	42,953,027	—	14,792,959	347,695	18,205,047	11,427,631	—	44,773,332
Derivative financial liabilities	1,225,418	1,225,418	—	—	—	—	—	1,225,418
Financial liabilities at fair value through profit or loss	984,646	—	820,156	155,709	11,223	—	—	987,088
Accounts payable to brokerage clients	78,135,079	78,135,079	—	—	—	—	—	78,135,079
Other payables and accrued charges	2,779,863	2,779,863	—	—	—	—	—	2,779,863
Total	211,287,418	82,140,360	24,552,267	13,724,277	32,176,354	59,663,481	13,246,750	225,503,489

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(5) Liquidity risk (Continued)

(b) Undiscounted cash flow by contractual maturities (Continued)

The Company

	As at June 30, 2016							
	Carrying amount	On demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	368,405	—	—	4,304	20,054	397,241	—	421,599
Short-term debt instruments	7,694,480	—	371,775	931,865	7,123,773	—	—	8,427,413
Placements from other financial institutions	1,600,000	—	1,600,838	—	—	—	—	1,600,838
Bonds payable	50,463,093	—	—	—	2,720,150	42,939,998	12,089,245	57,749,393
Financial assets sold under repurchase agreements	43,826,428	—	25,770,966	1,717,718	15,345,079	2,009,742	—	44,843,505
Derivative financial liabilities	304,633	304,633	—	—	—	—	—	304,633
Financial liabilities at fair value through profit or loss	155,989	—	156,442	—	—	—	—	156,442
Accounts payable to brokerage clients	61,726,524	61,726,524	—	—	—	—	—	61,726,524
Other payables and accrued charges	1,182,504	1,182,504	—	—	—	—	—	1,182,504
Total	167,322,056	63,213,661	27,900,021	2,653,887	25,209,056	45,346,981	12,089,245	176,412,851

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital management

The Group's and the Company's objectives of capital management are:

- To ensure the Group maintain sufficient capital level to retain market competitiveness, based on the Group's strategic direction;
- Adequately manage its capital resource allocation to maximize the profit and capital return;
- To actively explore the Group's source of funding, optimize the Group's assets and debt structure to enhance the use of balance sheet financing; and
- To comply with the relevant capital requirements under the PRC, Hong Kong and overseas 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 indicators on a continual basis:

1. The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100% ("Ratio 1");
2. The ratio of net capital divided by net assets shall be no less than 40% ("Ratio 2");
3. The ratio of net capital divided by liabilities shall be no less than 8% ("Ratio 3");
4. The ratio of net assets divided by liabilities shall be no less than 20% ("Ratio 4");
5. The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100% ("Ratio 5"); and
6. The ratio of the value of fixed income securities held divided by net capital shall not exceed 500% ("Ratio 6").

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

As at December 31, 2013, 2014, 2015 and June 30, 2016, the Company maintained the above ratios as follows:

	Year ended December 31,			Six months ended June 30,
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Net capital (RMB'000)	14,041,322	25,448,851	37,153,881	33,900,534
Ratio 1	761.63%	803.73%	728.19%	782.19%
Ratio 2	53.17%	62.75%	80.29%	73.93%
Ratio 3	52.24%	28.96%	25.58%	29.71%
Ratio 4	98.24%	46.15%	31.86%	40.18%
Ratio 5	48.17%	35.98%	57.36%	58.11%
Ratio 6	98.28%	117.48%	174.05%	172.74%

The above ratios are calculated based on the underlying financial information prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the PRC.

NOTES TO THE FINANCIAL INFORMATION (Continued)

66 FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital management (Continued)

The above ratio are calculated based on the underlying financial information prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprise in the PRC.

Certain subsidiaries of the Company are also subject to capital requirements under the PRC, Hong Kong and overseas regulations, imposed by the CSRC, the Hong Kong Securities and Futures Commission and the Financial Conduct Authority, respectively.

67 FAIR VALUE OF FINANCIAL INSTRUMENTS

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1: Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;

Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;

Level 3: Inputs are unobservable inputs for the asset or liability.

Fair value of the financial assets and financial liabilities that are not measured on a recurring basis

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis is estimated using discounted cash flow method.

The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis (including available-for-sale financial assets and financial liabilities included in the statement of financial position of the Group and the Company at amortized cost or at cost less impairment) approximate their fair values as at December 31, 2013, 2014, 2015 and June 30, 2016.

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

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.

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Since the level 2 and level 3 of financial assets and liabilities are not quoted in an active market, valuation technique is used to estimate the fair value. When estimating fair value using valuation technique, observable inputs and data from the practical market (e.g. yield curve of interest rate products, foreign currency exchange rate, implied volatility, etc) are adopted. If the observable inputs in the market cannot be obtained, the observable input data that are calibrated as closely as possible to the market observable data are used for estimating the fair value. Meanwhile, the credit risk, volatility, correlation, etc of the Group and the counterparty are estimated by the management. The changing of these factors will affect the estimated fair value of the financial instruments, therefore there were uncertainty of accounting estimation on the level 2 and level 3 of financial assets and liabilities.

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The valuation techniques and input used in the fair value measurements of financial instruments as set out below:

The Group

	Financial assets/ financial liabilities	Fair value as at December 31,			Fair value as at June 30,	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
		2013	2014	2015	2016				
		RMB'000	RMB'000	RMB'000	RMB'000				
1)	**Financial assets at fair value through profit or loss**								
	Debt securities								
	—Traded on stock exchanges	1,088,936	6,733,298	3,473,039	3,391,983	Level 1	Quoted closing prices in an active market.	N/A	N/A
	—Traded on inter-bank market	5,402,308	9,773,186	20,294,181	22,100,053	Level 2	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A
	Equity securities								
	—Traded on stock exchanges	4,440,242	13,091,525	8,629,684	5,382,550	Level 1	Quoted closing prices in an active market.	N/A	N/A
	—Traded National Securities Exchange and Quotation System	—	24,377	606,817	890,105	Level 1	Based on recent trading prices in an active market.	N/A	N/A
	—Traded on stock exchange (Restricted share)	—	746,709	1,883,074	1,347,699	Level 2	Based on the quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A
	—Unlisted	183,263	183,878	195,279	—	Level 3	Discounted cash flow with future cash flow that are estimated based on returns using the general discount rate.	Based on Management's judgment, consider the industry specific growth rate and using the discount rate indicators.	The higher the growth rate, the higher the fair value. The higher the discount, the lower the fair value.

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Group

Financial assets/ financial liabilities	Fair value as at December 31, 2013 RMB'000	2014 RMB'000	2015 RMB'000	Fair value as at June 30, 2016 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
1) **Financial assets at fair value through profit or loss** (Continued) Equity securities (Continued)								
	—	16,335	66,615	92,574	Level 3	Recent transaction prices.	Recent transaction prices	The higher the recent transaction price, the higher the fair value.
	306,912	308,390	326,318	340,231	Level 3	Based on the net asset values of the funds, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses	Third party valuation of underlying investment portfolio.	The higher the third party valuation, the higher the fair value.
Funds								
—Listed	2,461,546	1,700,031	4,527,731	2,164,142	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Unlisted	146,923	2,293,227	20,533,392	12,176,273	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
Others								
—Wealth management and trust products and others	—	—	84,757	423,311	Level 1	Quoted closing prices in an active market.	N/A	N/A
	100,000	460,132	1,144,300	1,334,456	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	1,349,883	790,580	1,061,306	932,618	Level 3	Based on the net asset values of the investments, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation, the higher the fair value.

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Group

Financial assets/ financial liabilities	Fair value as at December 31,			Fair value as at June 30,	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2013	2014	2015	2016				
	RMB'000	RMB'000	RMB'000	RMB'000				
2) **Available-for-sale financial assets**								
Debt securities								
—Traded on stock exchanges	2,412,464	3,971,042	11,965,175	12,422,507	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Traded on inter-bank market	2,354,150	8,363,205	8,714,980	11,891,726	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
Equity securities								
—Traded on stock exchanges	524,580	923,669	4,404,218	2,699,705	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Restricted share	80,837	390,677	558,518	390,396	Level 2	The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A
—Unlisted	—	70,520	—	—	Level 3	Determined with reference to recent transaction prices	Recent transaction prices	The higher the recent transaction price, the higher the fair value
Funds								
—Listed	469,508	9,552	2,745	2,517	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Unlisted	31,823	9,030	11,860	10,824	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
Others								
—Wealth management and trust products and others	436,278	1,126,335	10,071,173	9,043,448	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Group

Financial assets/ financial liabilities	Fair value as at December 31, 2013 RMB'000	2014 RMB'000	2015 RMB'000	Fair value as at June 30, 2016 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
3) **Derivative financial instruments**								
—Interest rate swap (assets)	4,612	—	154,168	121,223	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
—Interest rate swap (liabilities)	—	6,319	165,456	128,250	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
—Equity return swap (assets)	6,174	7,155	218,871	174,773	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
—Equity return swap (liabilities)	131,407	842,318	994,495	134,510	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
—Stock index future (assets) (note)	—	—	—	1,369	Level 1	Quoted closing prices in an active market.	N/A	N/A

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Group

Financial assets/ financial liabilities	Fair value as at December 31,			Fair value as at June 30,	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2013	2014	2015	2016				
	RMB'000	RMB'000	RMB'000	RMB'000				
3) **Derivative financial instruments** (Continued)								
—Stock index future (liabilities) (note)	—	—	—	1,867	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Others (assets)	76,130	—	—	—	Level 2	Based on the net asset values of the investment, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
—Treasury bond futures (assets)	—	—	383	—	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Treasury bond futures (liabilities)	—	—	—	1,670	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Commodity swap (assets)	—	—	—	18,691	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
—Commodity swap (liabilities)	—	—	332,836	26,095	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
—Commodity futures (assets) (note)	—	—	635,890	496,992	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Commodity futures (liabilities) (note)	—	—	295,816	633,434	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Options (assets)	—	—	7,035	2,482	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Options (liabilities)	—	—	23,074	7,540	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Over-the-counter options (liabilities)	343	1,228	42,253	35,118	Level 2	Option pricing model	N/A	N/A

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Group

Financial assets/ financial liabilities	Fair value as at December 31,			Fair value as at June 30,	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2013	2014	2015	2016				
	RMB'000	RMB'000	RMB'000	RMB'000				
3) **Derivative financial instruments** (Continued)								
—Forward contracts (assets)	—	4,860	—	1,666	Level 2	Discounted cash flows with future cash flows that are estimated based on future rates and contractual rates, discounted at a rate that reflects the credit risk of counterparty	N/A	N/A
—Forward (liabilities)	68	—	2,840	149	Level 2	Discounted cash flows with future cash flows that are estimated based on future rates and contractual rates, discounted at a rate that reflects the credit risk of counterparty	N/A	N/A
—Others (liabilities)	—	—	9,602	9,125	Level 1	Quoted closing prices in an active market.	N/A	N/A
4) **Financial liabilities at fair value through profit or loss**								
—Designated at fair value through profit or loss	—	99,699	1,218,780	1,855,210	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
—Financial liabilities held for trading	651,815	94,753	126,300	170,471	Level 1	Quoted closing prices in an active market.	N/A	N/A
	—	16,245	857,974	160,916	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves.	N/A	N/A
	—	—	166,226	28,150	Level 2	Underlying commodity prices	N/A	N/A

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Company

Financial assets/ financial liabilities	Fair value as at December 31,			Fair value as at June 30,	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2013	2014	2015	2016				
	RMB'000	RMB'000	RMB'000	RMB'000				
1) **Financial assets at fair value through profit or loss**								
Debt securities								
—Traded on stock exchanges	816,482	4,970,736	3,473,039	3,391,983	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Traded on inter-bank market	4,996,470	9,773,185	17,434,221	19,335,184	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
Equity securities								
—Traded on stock exchanges	4,198,250	12,418,018	8,194,364	5,092,042	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Traded on National Securities Exchange and Quotation System	—	24,377	606,816	890,105	Level 1	Based on recent transaction prices	N/A	N/A
—Traded on stock exchanges (Restricted shares)	—	746,709	115,278	140,072	Level 2	Based on the quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A
—Unlisted	—	—	50,000	50,000	Level 3	Recent transaction prices.	Recent transaction prices.	The higher the recent transaction price, the higher the fair value.
Funds								
—Listed	2,217,770	1,431,570	4,385,351	1,868,259	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Unlisted	—	2,080,481	19,119,055	10,034,090	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Company

Financial assets/ financial liabilities	Fair value as at December 31, 2013 RMB'000	2014 RMB'000	2015 RMB'000	Fair value as at June 30, 2016 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
1) **Financial assets at fair value through profit or loss** (Continued)								
Others								
—Wealth management and trust products and others	—	289,587	621,530	437,680	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	793,714	380	30,897	5,178	Level 3	Based on the net asset values of the investment, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation the higher the fair value
2) **Available-for-sale financial assets**								
Debt securities								
—Traded on stock exchanges	2,412,464	3,971,042	11,965,175	12,422,507	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Traded on inter-bank market	2,354,150	8,363,205	8,714,980	11,891,726	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
Equity securities								
—Traded on stock exchanges	524,580	923,669	4,404,218	2,568,587	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Traded on stock exchanges (Restricted shares)	—	127,368	—	—	Level 2	Based on the quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Company

Financial assets/ financial liabilities	Fair value as at December 31,			Fair value as at June 30,	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2013	2014	2015	2016				
	RMB'000	RMB'000	RMB'000	RMB'000				
2) **Available-for-sale financial assets** (Continued)								
Funds								
—Listed	469,508	9,552	2,745	2,517	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Unlisted	—	9,030	11,860	10,824	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
Others								
—Wealth management and trust products and others	515,119	1,374,074	9,909,275	8,482,999	Level 2	Based on the net asset values of the investments, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
3) **Derivative financial instruments**								
—Interest rate swap (assets)	4,612	—	154,168	121,223	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
—Interest rate swap (liabilities)	—	6,319	165,456	128,250	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Company

Financial assets/ financial liabilities	Fair value as at December 31, 2013 RMB'000	2014 RMB'000	2015 RMB'000	Fair value as at June 30, 2016 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
3) **Derivative financial instruments** (Continued)								
—Equity return swap (assets)	—	—	213,582	173,943	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
—Equity return swap (liabilities)	131,407	842,318	994,495	133,725	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
—Other (assets)	76,130	—	—	—	Level 2	Based on net asset value of the investments, determined with reference to observable (quoted) price of underlying investment portfolio and adjustment of related expenses.	N/A	N/A
—Options (assets)	—	—	7,034	2,482	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Options (liabilities)	—	—	23,074	7,540	Level 1	Quoted closing prices in an active market.	N/A	N/A
—Over-the-counter options (liabilities)	—	1,228	42,253	35,118	Level 2	Option pricing model	N/A	N/A
—Forward contracts (assets)	—	4,860	—	142	Level 2	Discounted cash flows. Future cash flows are estimated based on future interests rates and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties	N/A	N/A
—Forward contracts (liabilities)	68	—	140	—	Level 2	Discounted cash flows. Future cash flows are estimated based on future interests rates and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties	N/A	N/A

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Company

Financial assets/ financial liabilities	Fair value as at December 31,			Fair value as at June 30,	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2013	2014	2015	2016				
	RMB'000	RMB'000	RMB'000	RMB'000				
4) **Financial liabilities at fair value through profit or loss**								
Financial liabilities held for trading	—	—	818,420	127,839	Level 2	Discounted cash flow with future cash flows that are estimated based on yield curves.	N/A	N/A
	—	—	166,226	28,150	Level 2	Underlying commodity price	N/A	N/A

Note: Under the daily mark-to-market and settlement arrangement, any gains or losses of the stock index futures, bond futures, commodity futures and options were settled daily and the corresponding receipts and payments were included in "clearing settlement funds" as at December 31, 2013, 2014, 2015 and June 30, 2016. Accordingly, the net position of the stock index futures contracts was nil at the end of each reporting period.

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Analysis of financial instruments, measured at fair value at the end of the reporting period, by level in the fair value hierarchy into which the fair value measurement is categorized as follows:

The Group

	At December 31, 2013			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at fair value through profit or loss				
—Debt securities	1,088,936	5,402,308	—	6,491,244
—Equity investments	4,440,242	—	490,175	4,930,417
—Funds	2,461,546	146,923	—	2,608,469
—Others	—	100,000	1,349,883	1,449,883
Derivative financial assets	—	86,916	—	86,916
Available-for-sale financial assets				
—Debt securities	2,412,464	2,354,150	—	4,766,614
—Equity investments	524,580	80,837	—	605,417
—Funds	469,508	31,823	—	501,331
—Others	—	436,278	—	436,278
Total	11,397,276	8,639,235	1,840,058	21,876,569
Financial liabilities				
Financial liabilities at fair value through profit or loss	651,815	—	—	651,815
Derivative financial liabilities	—	131,818	—	131,818
Total	651,815	131,818	—	783,633

	At December 31, 2014			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at fair value through profit or loss				
—Debt securities	6,733,298	9,773,186	—	16,506,484
—Equity investments	13,115,902	746,709	508,603	14,371,214
—Funds	1,700,031	2,293,227	—	3,993,258
—Others	—	460,132	790,580	1,250,712
Derivative financial assets	—	12,015	—	12,015
Available-for-sale financial assets				
—Debt securities	3,971,042	8,363,205	—	12,334,247
—Equity investments	923,669	390,677	70,520	1,384,866
—Funds	9,552	9,030	—	18,582
—Others	—	1,126,335	—	1,126,335
Total	26,453,494	23,174,516	1,369,703	50,997,713
Financial liabilities				
Financial liabilities at fair value through profit or loss	94,753	115,944	—	210,697
Derivative financial liabilities	—	849,865	—	849,865
Total	94,753	965,809	—	1,060,562

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Group

	At December 31, 2015			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at fair value through profit or loss				
—Debt securities	3,473,039	20,294,181	—	23,767,220
—Equity investments	9,236,501	1,883,074	588,212	11,707,787
—Funds	4,527,731	20,533,392	—	25,061,123
—Others	84,757	1,144,300	1,061,306	2,290,363
Derivative financial assets	643,308	373,039	—	1,016,347
Available-for-sale financial assets				
—Debt securities	11,965,175	8,714,980	—	20,680,155
—Equity investments	4,404,218	558,518	—	4,962,736
—Funds	2,745	11,860	—	14,605
—Others	—	10,071,173	—	10,071,173
Total	34,337,474	63,584,517	1,649,518	99,571,509
Financial liabilities				
Financial liabilities at fair value through profit or loss	126,300	2,242,980	—	2,369,280
Derivative financial liabilities	328,492	1,537,880	—	1,866,372
Total	454,792	3,780,860	—	4,235,652

	At June 30, 2016			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at fair value through profit or loss				
—Debt securities	3,391,983	22,100,053	—	25,492,036
—Equity investments	6,272,655	1,347,699	432,805	8,053,159
—Funds	2,164,142	12,176,273	—	14,340,415
—Others	423,311	1,334,456	932,618	2,690,385
Derivative financial assets	500,843	316,353	—	817,196
Available-for-sale financial assets				
—Debt securities	12,422,507	11,891,726	—	24,314,233
—Equity investments	2,699,705	390,396	—	3,090,101
—Funds	2,517	10,824	—	13,341
—Others	—	9,043,448	—	9,043,448
Total	27,877,663	58,611,228	1,365,423	87,854,314
Financial liabilities				
Financial liabilities at fair value through profit or loss	170,471	2,044,276	—	2,214,747
Derivative financial liabilities	653,636	324,122	—	977,758
Total	824,107	2,368,398	—	3,192,505

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Company

	At December 31, 2013			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at fair value through profit or loss				
—Debt securities	816,482	4,996,470	—	5,812,952
—Equity investments	4,198,250	—	—	4,198,250
—Funds	2,217,770	—	—	2,217,770
—Others	—	—	793,714	793,714
Derivative financial assets	—	80,742	—	80,742
Available-for-sale financial assets				
—Debt securities	2,412,464	2,354,150	—	4,766,614
—Equity investments	524,580	—	—	524,580
—Funds	469,508	—	—	469,508
—Others	—	515,119	—	515,119
Total	10,639,054	7,946,481	793,714	19,379,249
Financial liabilities				
Derivative financial liabilities	—	131,475	—	131,475

	At December 31, 2014			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at fair value through profit or loss				
—Debt securities	4,970,736	9,773,185	—	14,743,921
—Equity investments	12,442,395	746,709	—	13,189,104
—Funds	1,431,570	2,080,481	—	3,512,051
—Others	—	289,587	380	289,967
Derivative financial assets	—	4,860	—	4,860
Available-for-sale financial assets				
—Debt securities	3,971,042	8,363,205	—	12,334,247
—Equity investments	923,669	127,368	—	1,051,037
—Funds	9,552	9,030	—	18,582
—Others	—	1,374,074	—	1,374,074
Total	23,748,964	22,768,499	380	46,517,843
Financial liabilities				
Derivative financial liabilities	—	849,865	—	849,865

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Company

	At December 31, 2015			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at fair value through profit or loss				
—Debt securities	3,473,039	17,434,221	—	20,907,260
—Equity investments	8,801,180	115,278	50,000	8,966,458
—Funds	4,385,351	19,119,055	—	23,504,406
—Others	—	621,530	30,897	652,427
Derivative financial assets	7,034	367,750	—	374,784
Available-for-sale financial assets				
—Debt securities	11,965,175	8,714,980	—	20,680,155
—Equity investments	4,404,218	—	—	4,404,218
—Funds	2,745	11,860	—	14,605
—Others	—	9,909,275	—	9,909,275
Total	33,038,742	56,293,949	80,897	89,413,588
Financial liabilities				
Financial liabilities at fair value through profit or loss	—	984,646	—	984,646
Derivative financial liabilities	23,074	1,202,344	—	1,225,418
Total	23,074	2,186,990	—	2,210,064

	At June 30, 2016			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at fair value through profit or loss				
—Debt securities	3,391,983	19,335,184	—	22,727,167
—Equity investments	5,982,147	140,072	50,000	6,172,219
—Funds	1,868,259	10,034,090	—	11,902,349
—Others	—	437,680	5,178	442,858
Derivative financial assets	2,482	295,308	—	297,790
Available-for-sale financial assets				
—Debt securities	12,422,507	11,891,726	—	24,314,233
—Equity investments	2,568,587	—	—	2,568,587
—Funds	2,517	10,824	—	13,341
—Others	—	8,482,999	—	8,482,999
Total	26,238,482	50,627,883	55,178	76,921,543
Financial liabilities				
Financial liabilities at fair value through profit or loss	—	155,989	—	155,989
Derivative financial liabilities	7,540	297,093	—	304,633
Total	7,540	453,082	—	460,622

As at December 31, 2013, 2014, 2015 and June 30, 2016, there were no significant transfers between Level 1, 2 and 3 during the Track Record Period.

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Level 3 fair value measurements

The Group

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2013	546,374	—	546,374
Gains or losses for the year	30,446	—	30,446
Purchases	2,000,250	—	2,000,250
Sales and settlements	(737,012)	—	(737,012)
As at December 31, 2013	1,840,058	—	1,840,058
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	30,446	—	30,446

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2014	1,840,058	—	1,840,058
Gains or losses for the year	231,651	—	231,651
Changes in fair value recognized in other comprehensive income	—	20,520	20,520
Purchases	337,454	—	337,454
Sales and settlements	(1,109,980)	—	(1,109,980)
Transfer out of level 3	—	50,000	50,000
As at December 31, 2014	1,299,183	70,520	1,369,703
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	231,651	—	231,651

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2015	1,299,183	70,520	1,369,703
Gains or losses for the year	90,355	20,484	110,839
Changes in fair value recognized in other comprehensive income	—	(20,521)	(20,521)
Purchases	437,791	—	437,791
Sales and settlements	(177,811)	(70,483)	(248,294)
As at December 31, 2015	1,649,518	—	1,649,518
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	90,355	20,484	110,839

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Level 3 fair value measurements (Continued)

The Group

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2016	1,649,518	—	1,649,518
Gains or losses for the period	(12,899)	—	(12,899)
Changes in fair value recognized in other comprehensive income	—	—	—
Purchases	71,818	—	71,818
Sales and settlements	(343,014)	—	(343,014)
As at June 30, 2016	1,365,423	—	1,365,423
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(12,899)	—	(12,899)

The Company

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2013	—	—	—
Gains or losses for the year	13,714	—	13,714
Purchases	780,000	—	780,000
As at December 31, 2013	793,714	—	793,714
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	13,714	—	13,714

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2014	793,714	—	793,714
Gains or losses for the year	39,674	—	39,674
Purchases	1,350	—	1,350
Sales and settlements	(834,358)	—	(834,358)
As at December 31, 2014	380	—	380
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	39,674	—	39,674

NOTES TO THE FINANCIAL INFORMATION (Continued)

67 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Level 3 fair value measurements (Continued)

The Company

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2015	380	—	380
Gains or losses for the year	9,578	—	9,578
Purchases	101,977	—	101,977
Sales and settlements	(31,038)	—	(31,038)
As at December 31, 2015	80,897	—	80,897
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	9,578	—	9,578

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2016	80,897	—	80,897
Gains or losses for the period	4,122	—	4,122
Purchases	14,040	—	14,040
Sales and settlements	(43,881)	—	(43,881)
As at June 30, 2016	55,178	—	55,178
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	4,122	—	4,122

68 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group offsets the following financial assets and financial liabilities since the Group currently has a legally enforceable right to set off the balances, and intends either to settle on a net basis, or to realize the balances simultaneously.

Under the continuous net settlement, money obligations receivable and payable with Hong Kong Securities Clearing Company Limited on the same settlement date are settled on a net basis.

NOTES TO THE FINANCIAL INFORMATION (Continued)

68 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

The Group

	December 31, 2013					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognize financial assets	Gross amounts of recognized financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Financial instruments	Cash collateral	Net amount
Type of financial assets	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Advances to customers	20,087,285	—	20,087,285	(18,299,639)	(1,787,646)	—
Accounts receivable from clearing house, brokers and dealers	912,127	(355,857)	556,270	—	—	556,270
Derivatives instruments	96,176	(9,260)	86,916	—	—	86,916
	21,095,588	(365,117)	20,730,471	(18,299,639)	(1,787,646)	643,186

	December 31, 2013					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognize financial liabilities	Gross amounts of recognized financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Financial instruments	Cash collateral	Net amount
Type of financial liabilities	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accounts payable to brokerage clients	407,953	(355,857)	52,096	—	—	52,096
Derivatives instruments	135,441	(3,623)	131,818	—	—	131,818
	543,394	(359,480)	183,914	—	—	183,914

	December 31, 2014					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognize financial assets	Gross amounts of recognized financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Financial instruments	Cash collateral	Net amount
Type of financial assets	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Advances to customers	58,595,165	—	58,595,165	(51,551,042)	(7,044,123)	—
Accounts receivable from clearing house, brokers and dealers	1,788,479	(646,470)	1,142,009	—	—	1,142,009
Derivatives instruments	14,117	(2,102)	12,015	—	—	12,015
	60,397,761	(648,572)	59,749,189	(51,551,042)	(7,044,123)	1,154,024

NOTES TO THE FINANCIAL INFORMATION (Continued)

68 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

The Group

	December 31, 2014					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognize Financial Liabilities	Gross amounts of recognized financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Financial instruments	Cash collateral	Net amount
Type of financial liabilities	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Settlement payables to clearing house	2,656,699	(646,470)	2,010,229	—	—	2,010,229
Derivatives instruments	1,545,383	(695,518)	849,865	—	—	849,865
	4,202,082	(1,341,988)	2,860,094	—	—	2,860,094

	December 31, 2015					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognize financial assets	Gross amounts of recognized financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Financial instruments	Cash collateral	Net amount
Type of financial assets	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Advances to customers	64,389,342	—	64,389,342	(52,412,988)	(11,976,354)	—
Account receivable from clearing houses, brokers and dealers	305,164	(293,918)	11,246	—	—	11,246
Derivatives instruments	1,020,822	(4,475)	1,016,347	—	—	1,016,347
	65,715,328	(298,393)	65,416,935	(52,412,988)	(11,976,354)	1,027,593

	December 31, 2015					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognize financial liabilities	Gross amounts of recognized financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Financial instruments	Cash collateral	Net amount
Type of financial liabilities	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Settlement payables to clearing house	946,248	(293,918)	652,330	—	—	652,330
Derivatives instruments	1,911,950	(45,578)	1,866,372	—	—	1,866,372
	2,858,198	(339,496)	2,518,702	—	—	2,518,702

NOTES TO THE FINANCIAL INFORMATION (Continued)

68 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

The Group

	June 30, 2016					
	Gross amounts of recognize financial assets	Gross amounts of recognized financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Cash collateral	Net amount
Type of financial assets	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Advances to customers . . .	46,568,290	—	46,568,290	(37,842,343)	(8,725,947)	—
Account receivable from clearing houses, brokers and dealers	390,184	(344,416)	45,768	—	—	45,768
Derivatives instruments . . .	829,438	(12,242)	817,196	—	—	817,196
	47,787,912	(356,658)	47,431,254	(37,842,343)	(8,725,947)	862,964

	June 30, 2016					
	Gross amounts of recognize financial liabilities	Gross amounts of recognized financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Cash collateral	Net amount
Type of financial liabilities	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Settlement payables to clearing house	344,456	(344,416)	40	—	—	40
Derivatives instruments . . .	1,015,882	(38,124)	977,758	—	—	977,758
	1,360,338	(382,540)	977,798	—	—	977,798

The Company

	December 31, 2013					
	Gross amounts of recognize financial assets	Gross amounts of recognized financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Cash collateral	Net amount
Type of financial assets	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Advances to customers . . .	19,459,068	—	19,459,068	(17,671,422)	(1,787,646)	—
Derivatives instruments . . .	86,785	(6,043)	80,742	—	—	80,742
	19,545,853	(6,043)	19,539,810	(17,671,422)	(1,787,646)	80,742

NOTES TO THE FINANCIAL INFORMATION (Continued)

68 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

The Company

	December 31, 2013					
	Gross amounts of recognize financial liabilities	Gross amounts of recognized financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Cash collateral	Net amount
Type of financial liabilities	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Derivatives instruments . . .	131,643	(168)	131,475	—	—	131,475

	December 31, 2014					
	Gross amounts of recognize financial assets	Gross amounts of recognized financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Cash collateral	Net amount
Type of financial assets	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Advances to customers . . .	56,850,715	—	56,850,715	(49,806,592)	(7,044,123)	—
Derivatives instruments . . .	5,057	(197)	4,860	—	—	4,860
	56,855,772	(197)	56,855,575	(49,806,592)	(7,044,123)	4,860

	December 31, 2014					
	Gross amounts of recognize financial liabilities	Gross amounts of recognized financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Cash collateral	Net amount
Type of financial liabilities	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Derivatives instruments . . .	1,541,632	(691,767)	849,865	—	—	849,865

	December 31, 2015					
	Gross amounts of recognize financial assets	Gross amounts of recognized financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Cash collateral	Net amount
Type of financial assets	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Advances to customers . .	62,619,481	—	62,619,481	(50,643,127)	(11,976,354)	—
Derivatives instruments . .	379,259	(4,475)	374,784	—	—	374,784
	62,998,740	(4,475)	62,994,265	(50,643,127)	(11,976,354)	374,784

NOTES TO THE FINANCIAL INFORMATION (Continued)

68 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

The Company

	December 31, 2015					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognize financial liabilities	Gross amounts of recognized financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Financial instruments	Cash collateral	Net amount
Type of financial liabilities	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Derivatives instruments	1,270,996	(45,578)	1,225,418	—	—	1,225,418

	June 30, 2016					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognize financial assets	Gross amounts of recognized financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Financial instruments	Cash collateral	Net amount
Type of financial assets	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Advances to customers	46,568,290	—	46,568,290	(37,842,343)	(8,725,947)	—
Derivatives instruments	310,032	(12,242)	297,790	—	—	297,790
	46,878,322	(12,242)	46,866,080	(37,842,343)	(8,725,947)	297,790

	June 30, 2016					
				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognize financial liabilities	Gross amounts of recognized financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Financial instruments	Cash collateral	Net amount
Type of financial liabilities	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Derivatives instruments	342,757	(38,124)	304,633	—	—	304,633

The Group has entered into master netting arrangements with counterparties for the derivative instruments and also with clearing house for un-settled trades.

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collateral of which, such as financial assets held under resale agreement, financial assets sold under repurchase agreement, secured loan receivables and margin accounts receivable, are disclosed in the corresponding notes, which are generally not on the net basis in financial position. However, assuming the fair value of the collateral is presented on net basis, the risk exposure of the corresponding accounts will be lowered accordingly. As at December 31, 2013, 2014, 2015 and June 30, 2016, due to the fair value of the collateral is higher than the book value of the financial instruments, collateral net exposure after offset and net amount is considered non-significant.

NOTES TO THE FINANCIAL INFORMATION (Continued)

69 CONTINGENCIES

As at December 31, 2013, 2014, 2015 and June 30, 2016, the Group and the Company were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, the Group and the Company expect would materially adversely affect their financial position or results of operations.

B. SUBSEQUENT EVENTS

(1) The approval on the establishment of 26 branches

According to the announcement on July 28, 2016《深圳證監局關於核准招商證券股份有限公司設立26家分支機構的批覆》, the Company recently received approval from the Shenzhen branch of China Securities Regulatory Commission for its application on the establishment of 26 securities branches at Beijing, Liaoning, Heilongjiang, Shanghai, Zhejiang, Jiangxi, Henan, Hubei, Hunan, Sichuan, Shaanxi, Gansu, Shenzhen, Dalian and Qingdao etc. The branches will be allocated with relevant competent staffing, business facilities and information systems according to relevant laws and regulations. The establishment process and application of the business certificate《經營證券業務許可證》will be complete within 6 months from the date of announcement.

(2) 2016 Interim dividend

On the fortieth meeting of the fifth board of directors held on August 25, 2016, it was resolved that the interim profit distribution scheme in 2016 was: total shares of 5,808,135,529 shares with cash dividend RMB1.54 for every 10 shares held (included tax). Total cash dividend declared was RMB894,452,871.47. The proposed distribution was approved on the shareholders' meeting of the Company on September 13, 2016.

C. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Save as disclosed in this report, no other payments have been paid or are payable in respect of the Track Record Period by the Company or any of its subsidiaries to the directors and supervisors.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to June 30, 2016 and up to the date of this report.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number: P03224

Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report prepared by SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of unaudited pro forma statement of adjusted consolidated net tangible assets of China Merchants Securities Co., Ltd. (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 H Shares (the "Global Offering") on the consolidated net tangible assets of the Group attributable to the owners of the Company as at June 30, 2016, as if the Global Offering had taken place on June 30, 2016.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes 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 of June 30, 2016 or at any future date.

	Consolidated net tangible assets of the Group attributable to the owners of the Company as at June 30, 2016	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group	Unaudited pro forma adjusted consolidated net tangible assets per share	
	RMB millions Note(1)	RMB millions Note(2)(5)	RMB millions Note(3)	RMB Note(4)	HK$ Note(5)
Based on the Offer Price of HK$11.54 per Offer Share . . .	47,779.6	8,553.3	56,332.9	8.41	9.77
Based on the Offer Price of HK$12.78 per Offer Share . . .	47,779.6	9,480.8	57,260.4	8.55	9.93

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as of June 30, 2016 is compiled based on the consolidated net assets of the Group attributable to owners of the Company of RMB47,812.7 million less goodwill of RMB9.7 million and other intangible assets of RMB23.4 million as of June 30, 2016 as extracted from the Accountants' Report set out in Appendix I to this Prospectus.

(2) The estimated net proceeds from the Global Offering for the purpose of unaudited pro forma adjusted consolidated net tangible assets of the Group are based on the Offer Price of HK$11.54 (being the low-end of the proposed Offer Price range) and HK$12.78 per H Share (being the high-end of the proposed Offer Price range) and the assumption that there are 891,273,800 newly issued H Shares in the Global Offering, after deduction of the underwriting fees, other related expenses payable by the Company assuming that Over-allotment Option is not exercised.

(3) The unaudited pro forma adjusted consolidated net tangible assets of the Group do not take into account the financial results or other transactions of the Group subsequent to June 30, 2016.

(4) The unaudited pro forma adjusted consolidated net tangible assets per share are arrived on the basis of 6,699,409,329 shares in issue assuming that the Global Offering has been completed on June 30, 2016 and that the Over-allotment Option is not exercised.

(5) The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted net tangible assets per share are translated into Renminbi at the rate of RMB0.8608 to HK$1.00, being the exchange rate set by the People's Bank of China prevailing on September 19, 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.

(6) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company does not take into account a cash dividend of RMB894,452,871 declared by the Company to its A shareholders on September 13, 2016. Had the cash dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share would be RMB8.28 or HK$9.61 (assuming an Offer Price of HK$11.54 per share) and RMB8.41 or HK$9.77 (assuming an Offer Price of HK$12.78 per share), respectively.

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, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose of incorporation in this prospectus.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One,
33 Hysan Avenue
Causeway Bay, Hong Kong

September 27, 2016
The Board of Directors
China Merchants Securities Co., Ltd.

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Merchants Securities Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") by the directors of the Company for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at June 30, 2016 and related notes as set out in Part A of Appendix II to the prospectus dated September 27, 2016 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the directors of the Company 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 of the Company to illustrate the impact of the proposed offering of the H Shares of the Company (the "Global Offering") on the Group's financial position as at June 30, 2016 as if the Global Offering had taken place at June 30, 2016. As part of this process, information about the Group's financial position as at June 30, 2016 has been extracted by the directors of the Company from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

Directors' Responsibility for the Pro Forma Financial Information

The directors of the Company are responsible for compiling the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" (the "AG7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement 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.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" 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 Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 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 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the 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 the Prospectus is solely to illustrate the impact of the Global Offering on unadjusted financial information of the Group as if the Global Offering at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Global Offering as at June 30, 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 accountant's judgment, having regard to the reporting accountant's 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.

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 H 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 29(1) of Chapter 4 of the Listing Rules.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number: P03224
Hong Kong

TAXATION OF SECURITY HOLDERS

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in connection with the Global Offering and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investors, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect on the date hereof, as well as on the Agreement Between the U.S. and the PRC for the Avoidance of Double Taxation (the "Treaty), all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

For purposes of this section of this prospectus, an "Eligible U.S. Holder" is any beneficial owner of H Shares that (i) is a resident of the United States for purposes of the Treaty, (ii) does not maintain a permanent establishment or fixed base in the PRC in connection with H Shares and through which the beneficial owner conducts or had conducted business (or, in the case of an individual, provides or had provided independent personal services) and (iii) is otherwise eligible for benefits under the Treaty with respect to income and gain derived from 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 advised to consult their tax advisors regarding the tax consequences of holding and disposing of H Shares in the PRC, Hong Kong and other jurisdiction.

PRC TAXATION

Taxation of Dividends

Individual Investors

According to the *Individual Income Tax Law of the People's Republic of China* (《中華人民共和國個人所得稅法》) (the "Individual Income Tax Law") enacted by the Standing Committee of the Fifth Session of the National People's Congress on September 10, 1980 and recently amended on June 30, 2011 and effective on September 1, 2011 and the Implementation Rules of Individual Income Tax Law of the People's Republic of China (the "Implementation Rules") recently amended by the State Council on July 19, 2011 and effective on September 1, 2011, dividends paid by PRC companies to individual investors are generally subject to a PRC withholding tax at a flat rate of 20%. For foreign individual investors who is not a resident of the PRC, his/her receipt of dividends from a PRC company is normally subject to a personal income tax of 20% unless specifically exempted by the competent tax authority of the State Council or reduced in accordance with an applicable tax treaty.

Pursuant to the *Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of the file—Guo Shui Fa [1993] No.045* (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) (Guo Shui Han [2011] No.348) promulgated for implementation by the State Administration of Taxation on June 28, 2011, foreign resident individual investors are entitled to enjoy the relevant preferential tax treatments in accordance with the taxation arrangements entered into between their respective countries and the PRC for public offer by non-foreign invested PRC enterprises in Hong Kong. Generally, the PRC individual income tax at the rate of 10% is applicable to dividends paid by a non-foreign invested PRC enterprise (the "Relevant Non-foreign Invested PRC Enterprise") to foreign individual investors (the "Relevant Individual Investors") holding shares publicly offered by the Relevant Non-foreign PRC Enterprise in Hong Kong and no application for approval from the taxation authority in the PRC is required. In case the 10% tax rate is not applicable, the Relevant Non-foreign Invested PRC Enterprise shall: (i) apply on behalf of the investors to seek entitlement of the preferential tax treatment for lower tax rates if the countries of the Relevant Individual Investors have entered into income tax treaties with the PRC with tax rates lower than 10%, and arrange for refund of over payment upon approval by the tax authority; (ii) withhold the tax at such rates as agreed if the countries of the Relevant Individual Investors have entered into income tax treaties with the PRC with tax rates higher than 10% but lower than 20%, and no application is required; (iii) withhold the tax at the rate of 20% if the countries of the Relevant Individual Investors have not entered into any taxation treaties with the PRC or otherwise.

According to the *Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion* (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (Guo Shui Han [2006] No.884) with respect to income tax entered into between mainland China and Hong Kong on August 21, 2006, the PRC government may impose tax on dividends payable by a PRC company to Hong Kong residents subject to a maximum of 10% of the gross amount of dividends payable, or 5% for Hong Kong residents holding not less than 25% equity interest in the PRC company upon approval by the PRC tax authority.

Enterprises

According to the *Enterprise Income Tax Law of the People's Republic of China* (《中華人民共和國企業所得稅法》) (the "EIT Law") and the *Provision for Implementation of Enterprise Income Tax Law of the People's Republic of China* (《中華人民共和國企業所得稅法實施條例》) promulgated by the Standing Committee of the Tenth Session of the National People's Congress on March 16, 2007 and became effective on January 1, 2008, the non-resident enterprises shall be subject to 10% enterprise income tax for income originated from the PRC provided that the non-resident enterprises do not have establishment or premises in the PRC, or that the income has no connection with the establishment or premises of the non-resident enterprises in the PRC. Such withholding tax may be reduced pursuant to an applicable double taxation treaty upon approval.

Tax Treaties

Investors who do not reside in the PRC but reside in countries which have entered into double taxation treaties with the PRC or reside in the Hong Kong SAR or the Macau SAR may be entitled to a reduction of withholding tax on dividends to investors by PRC companies. The PRC currently has double-taxation treaties with the Hong Kong SAR and the Macau SAR respectively and many countries, including but not limited to, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, United Kingdom and the United States.

Taxation of Capital Gains

In accordance with the Implementation Rules, PRC resident individuals are subject to individual income tax at the rate of 20% on gains from the transfer of equity interests in PRC resident enterprises. The Implementation Rules also provide that the MOF shall propose measures for collection of individual income tax on income from the transfer of shares for approval by the State Council. However, as of the Latest Practicable Date no such measures have been proposed and implemented by the MOF. Under the *Circular Declaring that Individual Income Tax Continues to be Exempted over Income of Individuals from Transfer of Shares* (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》)—jointly issued by the MOF and State Administration of Taxation on March 30, 1998, from January 1, 1997, income of individuals from transfer of shares in listed enterprises continues to be exempted from individual income tax. Although the State Administration of Taxation has not stated whether it will continue to exempt individual income tax on income of individuals from transfer of listed shares in the Individual Income Tax Law and the Implementation Rules, on December 31, 2009, the MOF, State Administration of Taxation and CSRC jointly issued the *Circular on Related Issues on the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation* (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》) which states that individuals' income from transfer of listed shares on some particular domestic exchanges shall continue to be exempted from individual income tax, except for the shares of certain specified companies under certain situations which are subject to sales restriction (as defined in the Circular and its supplementary notice issued on November 10, 2010). On February 3, 2013, the State Council approved the *Notice of Suggestions to Deepen the Reform of System of Income Distribution* (《發展改革委等部門關於深化收入分配制度改革若干意見的通知》). The General Office of the State Council issued the *Circular Concerning Allocation of Key Words to Deepen the Reform of Income Distribution* (《關於深化收入分配制度改革重點工作分工的通知》) on February 8, 2013. According to these two documents, the PRC government intends to abolish the tax treatment exempting individuals from individual income tax on the dividends obtained from foreign invested enterprises, and the MOF and the SAT will be responsible for defining the details and formulating the relevant plan thereof. As of the Latest Practicable Date, no legislation has explicitly determined the collection of income tax from non-Chinese resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges. In fact, no such tax has been collected by the PRC tax authority.

Other Chinese Tax Considerations

PRC Stamp Duty

Pursuant to the *Provisional Regulations of the People's Republic of China on Stamp Duty* (《中華人民共和國印花稅暫行條例》) which became effective on October 1, 1988, PRC stamp duty on the transfer of shares of PRC listed companies shall not apply to the acquisition and disposal of H Shares by non-PRC investors outside the PRC. According to the Provisional Regulations, PRC stamp duty shall only be applicable to documents executed or received in the PRC which have legal binding effect in the PRC and are governed by the PRC laws.

Estate Tax

According to the existing laws of the PRC, non-PRC residents are not subject to estate tax for the holding of H Shares.

Tax Policies for Shanghai-Hong Kong Stock Connect

On November 10, 2014, the CSRC and the Securities and Futures Commission granted their approvals to Shanghai Stock Exchange, The Hong Kong Stock Exchange, China Securities Depository and Clearing Company Limited, Hong Kong Securities Clearing Company Limited for formal launch of the Shanghai-Hong Kong Stock Connect pilot program. Trading in shares under the Shanghai-Hong Kong Stock Connect kicked off formally on November 17, 2014. Pursuant to the *Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Program* (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》) (hereinafter as "Tax Policies for Shanghai-Hong Kong Stock Connect"):

- From November 17, 2014 to November 16, 2017, gains on transfer of shares derived by mainland individual investors through investment into shares listed on the Hong Kong

Stock Exchange via the Shanghai-Hong Kong Stock Connect are temporarily exempt from individual income tax. Gains on price difference derived by mainland individual investors through trading in shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are exempt from business tax levying pursuant to current policies. Dividends derived by mainland individual investors through investment into H shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are subject to 20% of withholding income tax by H shares companies. Individual investors who have paid withholding taxes overseas, with effective taxation certificates, can apply to competent taxation authorities under the China Securities Depository and Clearing Company Limited for tax credit. Dividends derived by mainland securities investment funds through investment into shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are subject to individual income tax pursuant to provisions above.

- Pursuant to the Tax Policies for Shanghai-Hong Kong Stock Connect, gains on transfer of shares derived by mainland corporate investors through investment into shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are credited to their total income and subject to corporate income tax in accordance with laws. Gains on price difference derived by mainland corporate investors through trading in shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are exempt from business tax pursuant to current policies. Dividends derived by mainland corporate investors through investment into shares listed into the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are credited to their total income and subject to corporate income tax in accordance with laws. Among them, dividends derived by mainland resident enterprises for holding H shares up to 12 consecutive months are subject to corporate income tax in accordance with laws. For dividends derived by mainland resident enterprises, there will be no withholding tax payable by H shares companies, and these enterprises are liable for tax reporting and payment. For the withholding tax on dividends payable by companies of non-H shares listed on the Hong Kong Stock Exchange, mainland corporate investors can apply for tax credit when reporting and paying corporate income tax.
- Pursuant to the Tax Policies for Shanghai-Hong Kong Stock Connect, mainland investors who transfer shares listed on the Stock Exchange via the Shanghai-Hong Kong Stock Connect are subject to stamp duties in accordance with current taxation requirements in Hong Kong. China Securities Depository and Clearing Company Limited and Hong Kong Securities Clearing Company Limited are authorized to levy stamp duties above on behalf of each other.

MAJOR TAXATION OF THE COMPANY IN THE PRC

Income Tax

In accordance with the EIT Law, enterprises and other institutions established in the PRC shall be subject to enterprise income tax at the rate of 25%.

Business Tax

Pursuant to the *Provisional Regulations of the People's Republic of China on Business Tax* (《中華人民共和國營業稅暫行條例》) recently amended on November 5, 2008 and effective from January 1, 2009 and the relevant implementation rules, a business tax of 3% to 20% shall be imposed on enterprises for taxable services, transfer of intangible property and disposal of real estate in the PRC. Financial insurance enterprises shall be subject to business tax at the rate of 5%.

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 Renminbi, which is subject to foreign exchange controls and is not freely convertible. The SAFE under the PBOC is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated the *Regulation of Foreign Exchange of the People's Republic of China* (《中華人民共和國外匯管理條例》) (the "Foreign Exchange Regulation"), which was subsequently amended on January 14, 1997 and for the second time on August 1, 2008 with effect from August 5, 2008. Pursuant to the Foreign Exchange Regulation, all international payments and transfers are classified into current account items and capital account items. Most of the current account items are no longer subject to approval of the SAFE while capital account items are still subject to approval of the SAFE.

Pursuant 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 the PBOC on June 20, 1996, which took effect on July 1, 1996, the existing restrictions on conversion of foreign exchange in respect of current account items in the PRC were abolished, while the existing restrictions on foreign exchange transactions in respect of capital account items remained unchanged.

Pursuant to the *Notice Concerning Closure of the Foreign Exchange Swap Business Activities* (《關於停辦外匯調劑業務的通知》) promulgated by the PBOC and SAFE in October 25, 1998 and took effect from December 1, 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises was discontinued. Thereafter, trading of foreign exchange by foreign-invested enterprise shall be settled through the banking system.

On July 21, 2005, the PBOC announced that Renminbi was no longer pegged to the U.S. dollar and an adjustable and manageable floating exchange rate system based on market supply and demand and with reference to a basket of currencies was implemented. The PBOC shall announce the closing exchange rates of foreign currencies (including the U.S. dollar) against Renminbi in the interbank foreign exchange market after the closing of the market on each trading day. The closing exchange rates shall be quoted as the middle exchange rate for Renminbi on the next trading day.

Since January 4, 2006, the PBOC improved the quotation of the mid exchange rate of Renminbi by introducing an enquiry system while keeping the match-making system in the interbank foreign exchange spot market. In addition, the liquidity of the foreign exchange market was also improved by adopting a market-making system in the interbank foreign exchange market.

In accordance with the Foreign Exchange Regulation, the foreign exchange income of current account items may be retained or sold to financial institutions engaging in the sales and settlement of foreign exchange. Foreign exchange income of capital account items may be retained or sold to financial institutions engaging in the sales and settlement of foreign exchange if so approved by the competent foreign exchange administrative authority unless it is exempted under the laws of the PRC.

PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items may, without approval of the SAFE, effect payment from their foreign exchange accounts or convert and pay at designated foreign exchange banks with the provision of valid receipts and proof of transactions. Foreign-invested enterprises, which need foreign exchange for distribution of profits, and PRC enterprises, which need foreign exchange for distribution of dividends under applicable regulations, may effect payment from their foreign exchange account or convert and pay at designated foreign exchange banks according to the resolutions of shareholders' meetings or board meetings on the distribution and with the provision of required documents.

Conversion 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 the SAFE or its branches must be sought.

Dividends to investors of H Shares shall be denominated in Renminbi but shall be paid in Hong Kong dollars. The reporting currency of our consolidated financial statements is Renminbi.

The PBOC determines and quotes the daily base exchange rate primarily based on the market supply and demand of Renminbi against the U.S. dollar during the previous day. The PBOC also takes into account other factors such as the general conditions of the international foreign exchange markets. Although the PRC government introduced policies in 1996 to reduce restrictions on the conversion of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign currency for capital account items, such as foreign direct investment, loans or securities, still requires approval of the SAFE and other relevant authorities.

In accordance with the *Notice on Relevant Issues of Foreign Exchange Management of Overseas Listing* (《關於境外上市外匯管理有關問題的通知》) issued by the SAFE and took effect on December 26, 2014, a domestic enterprise shall register with the local branch of the SAFE at the place of its incorporation within 15 working days after the completion of its overseas initial public offering. The proceeds from overseas listing may be remitted to the domestic account or deposited in an overseas account. The proceeds shall be used in accordance with this prospectus, circular to the shareholders, resolution of the directors' meeting or the shareholders' general meeting and other public disclosure documents.

In accordance with the *Decisions on the Cancellation and Adjustment of Various Administrative Approvals* (《國務院關於取消和調整一批行政審批項目等事項的決定》) issued by the State Council and took effect from October 23, 2014, the remittance and settlement of foreign exchange from the proceeds raised from the issue of overseas listed shares by a domestic company are no longer subject to approval by the SAFE or its branches.

This appendix sets forth summaries of certain aspects of PRC laws and regulations which are relevant to the operations and business of the Company. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix III—Taxation and Foreign Exchange" to this prospectus. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain major 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.

THE 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 special rules of autonomous regions and international treaties of which the PRC government is a signatory. Court judgments do not constitute legally binding precedents, although they may be used for the purpose of judicial reference and guidance. The PRC Constitution (《中華人民共和國憲法》), enacted by the National People's Congress of the PRC (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 organizations and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during its adjournment, provided that such supplements and amendments shall not be in conflict with the basic principles of such laws.

Administrative regulations formulated by the State Council according to the constitution and laws

The 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. The people's congresses of major cities and their respective standing committees may also enact local regulations based on the specific circumstances and requirements of the local administrations, which shall come into effect upon approval of 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.

The people's congresses of autonomous regions may enact autonomy regulations and special rules in the light of the local political, economic and cultural characteristics, which shall come into effect upon approval of the Standing Committee of the NPC. The autonomy regulations and special rules may supplement the laws and administrative regulations, provided that the supplements do not contravene the basic principles of the laws and administrative regulations. However, no provisions in constitutions and laws in relation to regional autonomy as well as other special provisions on regional autonomy in other laws and administrative regulations shall be supplemented by autonomy regulations and special rules.

The ministries, commissions, People's Bank of China, Audit Office and institutions with administrative functions directly under the State Council may formulate rules and regulations within their respective jurisdiction based on the laws and the administrative regulations, decisions and orders of the State Council. Departmental rules and regulations shall be formulated for the implementation of the laws and administrative regulations, decisions and orders of the State Council. The people's governments of provinces, autonomous regions, municipalities and major cities may formulate rules and regulations based on the laws, administrative regulations and relevant local regulations.

According to the PRC Constitution, 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 Regulation of Interpretation of Laws passed on June 10, 1981, interpretation of laws and decrees in court trials and procuratorial works shall be given by the Supreme People's Court and the Supreme People's Procuratorate, respectively. Otherwise, interpretation of laws and decrees shall be given by the State Council and the competent ministries and commissions. If clarification and supplement are required for local regulations, the standing committees of the people's congresses of provinces, autonomous regions and municipalities which enacted such regulations shall have the right to interpret and to formulate supplemental provisions. Interpretation of local regulations shall be given by the competent departments under the people's government of the respective provinces, autonomous regions and municipalities.

THE PRC JUDICIAL SYSTEM

Under the PRC Constitution (《中華人民共和國憲法》) and the Law of the PRC on Organization of the People's Courts (《中華人民共和國人民法院組織法》) enacted on July 1, 1979, recently amended on October 31, 2006 and became effective on January 1, 2007, the judicial system of PRC is made up of the Supreme People's Court, 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 include civil, criminal and commercial courts. Structure of the intermediate people's courts is similar to that of the basic people's courts except it may have additional courts to handle other issues. The people's courts of lower levels are subject to supervision of the people's courts of higher levels. The Supreme People's Court is the highest judicial organ of the PRC and has the power to supervise the administration of trials by the local people's courts of all levels and all special people's courts. The people's procuratorates also have the right to supervise the trials of people's courts.

The people's courts adopt a "second instance as final" appellate system. Any party to the case may appeal against the judgment and ruling of the first instance by local people's courts to the people's courts of the immediate higher level in accordance with the legal procedures. The people's procuratorate may appeal to the people's court of the immediate higher level in accordance with the legal procedures. In the absence of appeal by any parties to the case or the people's procuratorate within a stipulated period, the judgment and ruling of the first instance by the local people's courts shall be final and legally binding. Judgments and rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court and the judgments and rulings of the first instance of the Supreme People's Court shall be the final judgments and rulings. Death penalty shall be reported to the Supreme People's Court for approval unless it is 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 "Civil Procedure Law") was adopted on April 9, 1991, recently amended on August 31, 2012 and became effective on January 1, 2013. It sets forth the criteria for instituting a civil case, the jurisdiction of the people's courts, the procedures of a civil case and the enforcement of a civil judgment or order. All parties to a civil action in the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the place in which the defendant resides. The parties to a contract may, as explicitly specified in agreement, select a court to hear their civil case, provided that the court shall has the jurisdiction over the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract, the subject of the case or other locations which have substantial connections with the dispute.

However, such selection shall not violate the rules of jurisdiction of different levels and exclusive jurisdiction.

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 observe 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 demand enforcement. The right to apply for enforcement may be exercised within two years. If a person fails to observe a judgment of the court within the stipulated time, the court will, upon application by either party, enforce the judgment.

A party seeking to enforce a judgment or order of a people's court against a party who is not in the PRC and does not own any property in the PRC, may apply to a competent foreign court for recognition and enforcement of the judgment or order. Upon receipt 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 recognize the validity of the judgment or order if it considers that it will not contravene the principles of the laws of the PRC nor violates its sovereignty, security or social and public interests after having examined the international treaties entered into or acceded to by the PRC or having considered the principle of reciprocity. A writ of enforcement will be issued in accordance with the relevant regulations. If the judgment or order contravenes the principles of the laws of the PRC or violates its sovereignty, security or social and public interests, the people's court shall not recognize and enforce it.

THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

The PRC Company Law (《中華人民共和國公司法》) was promulgated on December 29, 1993 by the Standing Committee of the NPC, amended on December 28, 2013 and became effective on March 1, 2014. It regulates the organization and operation of companies and protects the legal rights and interests of companies and their shareholders and creditors. The latest amendment to the PRC Company Law in 2013 has lifted the requirement of minimum registered capital. Paid-up capital requirement was also replaced by subscribed capital requirement.

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》) ("Special Regulations") were promulgated by the Standing Committee of the State Council, and became effective on August 4, 1994. The Special Regulations are formulated according to the PRC Company Law (1993) in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions for Inclusion in the Articles of Association of Overseas Listed Companies (《到境外上市公司章程必備條款》) ("Mandatory Provisions") were issued jointly by the former Securities

Commission of the State Council and the former State Economic Restructuring Commission on August 27, 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarized in "Appendix V—Summary of Articles of Association" to this prospectus). The word "company" in this appendix refers to a joint stock company established to issue H shares under the PRC Company Law.

Copies of the Chinese versions of the PRC Company Law, Special Regulations and Mandatory Provisions together with copies of their unofficial English translations are available for inspection as mentioned in "Appendix VII—Documents Delivered to the Registrar of Companies and Available for Inspection" to this prospectus.

Major provisions of the PRC Company Law, Special Regulations and Mandatory Provisions are summarized below:

General

A "joint stock company" (hereinafter referred to as "company") is a 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 assets owned by it.

The restructuring of a state-owned enterprise into a company must comply with the certain laws and administrative regulations in relation to the modification of operation mechanisms, management system, evaluation of assets and liabilities and the establishment of internal management structure.

A joint stock limited company shall conduct its business in accordance with laws and professional ethics. It may invest in other limited liability companies and joint stock limited companies and its liabilities with respect to such invested companies are limited to the amount invested. Unless otherwise provided for by law, the joint stock limited company may not be a capital contributor that undertakes joint and several liabilities for the debts of the invested companies.

Incorporation

A company may be incorporated by promotion or subscription. A company may be incorporated by two to 200 promoters and at least half of them must reside in the PRC. Companies incorporated by promotion are companies of which the registered capitals are entirely subscribed for by their promoters. For companies incorporated by subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of the company unless otherwise stipulated by laws and regulations, and the remaining shares shall be offered to the public or targeted persons, unless otherwise required by laws.

For companies incorporated by promotion, the registered capital has to be the total share capital subscribed for by all promoters as registered with the company registration authority. No capital shall be raised from others before the promoters have paid up the share capital subscribed by them. For companies established by public subscription, the registered capital shall be the 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 give notice to all subscribers or make a public announcement of the date of the inaugural meeting 15 days prior to the 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. Matters to be dealt with at the inaugural meeting include the adoption of articles of association proposed by the promoter(s) and the election of members of the board of directors and the supervisory committee of the company. All resolutions shall be passed by a simple majority of the subscribers 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 the establishment of the company. The company shall be formally established and have the status of a legal person when approval for registration is granted and a business license is issued.

Upon establishment, any shortfall of the share capital of a company as determined by its articles of association shall be paid up by the relevant promoters and all promoters shall bear joint and several liabilities. Where the actual value of any non-monetary capital contribution for the establishment of a company is significantly lower than the value required by the articles of association, the promoter of such contribution shall make up the shortfall and all promoters shall bear joint and several liabilities.

Promoter(s) of a company shall have the following liabilities:

They shall bear the joint and several liabilities for all the debts and expenses incurred for the incorporation if the company fails to be incorporated;

They shall bear the joint and several liabilities for refunding the subscription moneys paid by subscribers, plus interest at the prevailing bank deposit rate during the period if the company fails to be incorporated; and

They shall bear the liability to compensate the company if the interests of the company are impaired due to the fault of the promoters in the process of incorporation.

Share Capital

The promoters of a company can make capital contributions in cash or in kind (such as intellectual property rights or land use rights, based on their appraised value) that can be valued in currency and transferable according to laws, except for assets prohibited by laws or administrative regulations to be contributed as capital.

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. If a capital contribution is made with non-monetary assets, a valuation and verification of the asset contributed must be carried out without any overvaluation or undervaluation. Where the laws or administrative regulations in place have any other provisions on valuation, such provisions shall prevail.

A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be 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 the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan and listed overseas are known as overseas listed foreign 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 public in foreign countries with approval by the securities administration department of the State Council subject to special requirement of the State Council. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign shares, to retain not more than 15% of the aggregate number of overseas listed foreign shares proposed to be issued after accounting for the number of underwritten shares.

The issuance of shares shall be conducted in a fair and equitable manner. Shares of the same class shall rank pari passu in all respects and shall be issued on the same conditions and at the same price. Every individual and corporate subscriber shall pay the same price for each share. The shares may be issued at a price equal to or higher than but not less than the par value. A joint stock limited company may issue registered or bearer shares.

Transfer of shares shall be conducted through recognized stock exchange or other methods approved by the State Council. Transfer of registered shares shall be made by endorsement or by other means stipulated by laws or administrative regulations. Bearer shares are transferred by delivery of the share certificates.

Shares held by a promoter of a company shall not be transferred within one year after the incorporation of the company. Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer more than 25% 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 them within one year after the listing. There is no restriction under the PRC Company Law as to the percentage of shareholding of a shareholder 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 for distribution of dividends.

Increase in Capital

Under the PRC Company Law, an increase in the capital of a company by issuing new shares must be approved by shareholders in general meeting.

Save for the above-mentioned shareholder approval requirement, for a public offering of new shares, the Securities Law provides that the company shall: (i) have a sound organizational structure with satisfactory operating records; (ii) have sustainable profitability and a healthy financial position;(iii) have no false statements and other material non-compliance in the financial and accounting documents of last three years; (iv) fulfill other conditions required by the securities administration department of 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 an announcement 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 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 newspaper announcement within 30 days after the resolution approving the reduction has been passed;

(iv) the creditors of the company may, within the statutory prescribed period, demand the company to pay its debts or to provide guarantees for the debts. The creditors of the company may demand the company to pay its debts or to provide guarantees for the debts within 30 days upon receipt of the notice or (if no notice is received) within 45 days from the date of the announcement; and

(v) the company must apply to the company registration authority for registration of the reduction in registered capital.

Repurchase of Shares

A company may not purchase its own shares other than for the purpose of:

(i) reducing its registered capital;

(ii) merging with another company holding its shares;

(iii) granting shares as a reward to its staff;

(iv) purchasing the shares as requested by shareholders who vote against the resolution regarding the merger or division of the company at shareholders' general meeting.

Where the company purchases its own shares for the purposes referred to in (i) to (iii) above, it shall obtain approval of shareholders' general meeting. Following acquisition as aforementioned, the shares shall be canceled within ten days from acquisition under the circumstance referred to in (i) and transferred or canceled within six months under the circumstances referred to in (ii) and (iv) above.

Shares acquired by the company for the purpose referred to in (iii) shall not exceed 5% of the total number of shares of the company in issue. Such acquisition shall be financed by funds from the profit after tax of the company. The shares so acquired shall be transferred to the employees within one year.

The company shall not accept its own shares as the subject of a pledge.

Transfer of Shares

Shares may be transferred in accordance with the relevant laws and regulations.

Registered shares may be transferred by endorsement or by other means specified by the laws or administrative regulations. Following the transfer, the company shall record the name and address of the transferee on the share register. No modifications of registration in the share register shall be made during a period of 20 days prior to the shareholders' general meeting or five days prior to the benchmark date for dividend distribution.

The transfer of bearer share shall take effect by delivery of the share certificate to the transferee.

Shares held by a promoter may not be transferred within one year from the establishment of a company. Directors, supervisors and senior management of a company shall report to the company their shareholdings in the company and changes thereof and shall not transfer more than 25% of the total number of shares they held in the company each year during their terms of office. They shall not transfer the shares of the company held by them within six months from the date they leave the company. The articles of association may have other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and senior management.

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 shareholders' general meetings in person or by proxy, and to vote in respect of the number of shares held;

(ii) to transfer 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 to put forward proposals or raise questions about the operations of the company;

(iv) to lodge an action in the people's court if any directors or senior management damages the shareholder's interests by violating laws or administrative regulations or articles of association of the company;

(v) to receive dividends and other distributions in respect of the number of shares held;

(vi) to receive surplus assets of the company upon its termination in proportion to his or her shareholding; to claim against other shareholders for damages caused by abuse of shareholders' rights; and

(vii) to exercise any other shareholders' rights specified in the articles of association of the company.

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 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 Meeting

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

The shareholders' general meeting exercises the following principal powers:

(i) to decide on the company's operation guidelines and investment plans;

(ii) to elect or replace the directors and supervisors assumed by non-representatives of the employees and deciding the matters relating to their salaries and compensations;

(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 annual financial budget and financial accounts;

(vi) to consider and approve the company's profit distribution and recovery of losses;

(vii) to decide on the increase and reduction in the company's registered capital;

(viii) to decide on the issue of bonds by the company;

(ix) to decide on merger, division, dissolution, liquidation or change of organization and other matters of the company;

(x) to decide on the appointment and dismissal of accounting firm;

(xi) to make resolutions about the issuance of corporate bonds;

(xii) to amend the articles of association of the company; and

(xiii) to exercise other powers specified in the articles of association of the company.

A shareholders' general meeting shall be held once every year. An extraordinary shareholders' general meeting shall be held within two months after the occurrence of any of the following:

(i) the number of directors is less than the number specified in the Company Law or less than two-thirds of the number specified in the company's articles of association;

(ii) the uncovered losses of the company reach one-third of the company's total paid up share capital; a request by the shareholders separately or aggregately holding 10% or more of the company's shares;;

(iii) when deemed necessary by the board of directors;

(iv) when proposed by the supervisory committee; or

(v) under other circumstances specified 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. If the chairman fails to perform his/her duties, the meeting shall be presided over by the vice chairman. If the vice chairman fails to perform his/her duties, a director nominated by more than half of the directors shall preside over the meeting. If the board of directors fails to perform its duties to convene' general meeting, the supervisory committee shall convene and preside over the meeting in a timely manner. If the supervisory committee fails to convene and preside over the meeting, shareholders holding in aggregate more than 10% of the total shares of the company for ninety consecutive days may unilaterally convene and preside over such meeting.

Notice of the shareholders' general meeting shall be given to all shareholders 20 days before the meeting under the Company Law and 45 days before the meeting under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. In accordance with the Special Regulations and the Mandatory Provisions, shareholders who intend to attend shall give written confirmation of their attendance to the company 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 voting right for any of the shares owned by itself.

Resolutions proposed at the shareholders' general meeting shall be approved by shareholders present at the meeting (in person or by proxy) with more than half of the voting rights, except for 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 approved by shareholders present at the meeting (in person or by proxy) with two-thirds or more of the voting rights.

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 the exercise of voting rights.

There is no specific provision in the Company Law regarding the quorum for a shareholders' general meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened if shareholders holding shares representing 50% or more of the voting rights in the company have replied to attend 20 days before the proposed date of meeting. Otherwise, the company shall, within five days after 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. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the rights of a class share. Holders of domestic shares and holders of overseas listed foreign shares are deemed to be different classes of shareholders for this purpose.

Holders of bearer shares who intend to attend the shareholders' general meeting shall deposit their share certificates with the company five days before the meeting. The share certificates shall remain in the custody of the company until the close of the shareholders' general meeting.

Directors

A company shall have a board of directors, which shall consist of five to 19 members, including staff representatives of the company. Under the Company Law, the term of office of each 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 determine the method and period of notice for convening an extraordinary meeting of the board of directors.

Under the Company Law, the board of directors exercises the following powers:

(i) to convene the shareholders' general meeting and report 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 annual financial budget and final accounts;

(v) to formulate the company's proposals for profit distribution and 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 management structure;

(ix) to appoint or dismiss the company's president, and to appoint or dismiss vice presidents and financial officers of the company based on the president's recommendation, and to decide on their remuneration;

(x) to formulate the company's basic management system; and

(xi) to exercise any other power authorized by the articles of association of the company.

In addition, the Mandatory Provisions provide that the board of directors shall also be 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/she may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his/her behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association resulting in serious losses of the company, the directors participating in the resolution shall be 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 objection was recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the Company Law, the following persons may not serve as director of a company:

(i) persons without civil capacity or with restricted civil capacity;

(ii) persons who have committed the offense of corruption, bribery, embezzlement, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;

(iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

(iv) persons who were legal representatives of a company or enterprise which had its business license revoked or operation terminated due to violation of laws and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license;

(v) persons who have a relatively large amount of debt due and outstanding; and

(vi) other persons who are disqualified from acting as director of a company under the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in "Appendix V—Summary of Articles of Association" to this prospectus).

The board of directors shall appoint a chairman, who shall be elected by more than half of all 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 monitor the implementation of the resolutions of the board of directors.

The legal representative of a company shall be its chairman in accordance with the Mandatory Provisions. The Special Regulations provide that a company's directors, supervisors, managers and other senior management 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 Articles of Association" to this prospectus) contain further elaborations of such duties.

Directors shall be accountable to the resolutions of the board of directors. If a resolution of the board of directors violates the laws, administrative regulations or the articles of association of the company, and as a result of which the company sustains serious losses, the directors participating in such resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be relieved from that liability.

Supervisors

A company shall have a supervisory committee composed of not less than three members. The term of office of each supervisor shall be three years, which may be renewed subject to re-election. If the number of supervisors falls below the required number as the result of the resignation of a supervisor during his/her term of office and no supervisor is elected for replacement in a timely manner, the resigning supervisor shall continue to perform his/her duties in accordance with the laws, administrative regulations and articles of association until a supervisor is elected for replacement. The supervisory committee shall be made up of shareholders representatives and an appropriate proportion of the company's staff representatives. The number of the company's staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

The supervisory committee is empowered by the Company Law to perform the following duties:

(i) to examine the company's financial affairs;

(ii) to supervise the performance of the directors and senior management and to propose the removal of any director or senior management who violates the laws, regulations, articles of association or shareholders' resolution;

(iii) to demand remedies for acts of any director or senior management which are detrimental to the company's interests;

(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' general meetings, to convene and preside over shareholders' general meetings;

(v) to make proposal to shareholders' general meetings;

(vi) to bring action against any directors or senior management; and

(vii) to perform other duties 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 shall apply mutates mutandis to supervisors of a company.

The Special Regulations provide that the directors and supervisors of a company 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 attend board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee or (where there is no supervisory committee) the supervisors of a company may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in their work. All expenses incurred by the supervisory committee in exercising their power shall be borne by the company.

Meetings of the supervisory committee shall be convened at least once every six months. Interim meetings of the supervisory committee may be convened by supervisors. Resolutions of the supervisory committee require the approval of more than half of all supervisors in accordance with the Company Law. However, in accordance with the Circular Regarding Comments on the Amendments to Articles of Association of Companies Listed in Hong Kong issued 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 supervisory committee shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory committee are elected with approval of more than half of all supervisors. The chairman of the supervisory committee shall convene and preside over supervisory committee meetings. If the chairman of the supervisory committee fails to perform his/her duties, the vice chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the vice chairman of the supervisory committee is incapable of performing or not performing his/her duties, a supervisor nominated by more than half of supervisors shall convene and preside over supervisory committee meetings.

Managers and other Senior Management

Senior management shall include the manager(s), deputy manager(s), financial controller, secretaries to the board of directors and other personnel as stipulated 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 shall perform the following duties:

(i) to be n charge of the production, operation and management of the company and to arrange for the implementation of resolutions of the board of directors;

(ii) to arrange for the implementation of annual business and investment plans of the company;

(iii) to formulate plans for the establishment of the internal management structure of the company;

(iv) to formulate the basic administration system of the company;

(v) to formulate the internal rules of the company;

(vi) to recommend the appointment and dismissal of deputy managers and financial officers and to appoint or dismiss other senior management (other than those required to be appointed or dismissed by the board of directors);

(vii) to attend the meetings of the board of directors as a non-voting attendant; and

(viii) to perform other duties assigned by the board of directors or the articles of association of the company.

The Special Regulations and the Mandatory Provisions provide that the other senior management of a company includes the financial officer, secretary to 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 described above shall apply mutatis mutandis to managers and senior management 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 institute legal proceedings according to the articles of association of the company. The provisions under 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 Articles of Association" to this prospectus.

Duties of Directors, Supervisors and Senior Management

The following persons are prohibited from acting as a director, supervisor or senior management of a company:

(i) persons without civil capacity or with restricted civil capacity;

(ii) persons who have committed the offense of corruption, bribery, embezzlement, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;

(iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated 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 due to violation of laws and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license; and

(v) persons who have a relatively large amount of debts due and outstanding.

The directors, supervisors and senior management of a company are required by 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 properties of the company.

Directors and senior management are prohibited from:

(i) misappropriating company funds;

(ii) depositing company funds into accounts under their own name or the name of other individuals;

(iii) without consent of the shareholders' meeting, shareholders' assembly, or the board of directors, loaning the company's fund to others or providing any guaranty to any other person by using the company's property as in violation of the articles of association;

(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 commissions from other parties in transactions with the company for their own benefit;

(vii) disclosing confidential information of the company without approval; or

(viii) doing other acts in violation of their duty of loyalty to the company.

The directors, supervisors and senior management are also under a duty of confidentiality to the company.

The directors, supervisors and senior management who contravene any law, regulation or the articles of association of the company in the performance of their duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that the directors, supervisors and senior management 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 the directors, supervisors and senior management is requested by the shareholders' general meeting, such directors, supervisors, and senior management shall attend the meeting as requested and answer enquiries of shareholders. Directors and senior management shall furnish with all facts and information to the supervisory committee without obstructing the discharge of duties by the supervisory committee.

A company shall not directly, or through its subsidiary, provide loans to any director, supervisor or senior management and shall regularly disclose to the shareholders any information regarding remunerations received by the directors, supervisors or senior management of the company.

Finance and Accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the provisions of the supervisory department of the State Council and shall prepare a financial report at the end of each financial year, which shall be audited and verified in accordance with by laws.

A company shall maintain its financial statements at the company for inspection by shareholders at least 20 days before the convening of the annual general meeting. 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 after-tax profits, the company shall set aside 10% of its after-tax profits for the year for its statutory surplus reserve (unless the reserve has reached 50% of the company's registered capital). After making an allocation to its statutory common reserve from its after-tax profits, the company may make an allocation to a discretionary common reserve subject to a resolution of the shareholders' general meeting.

When the statutory surplus reserve of a company is not sufficient to make up its losses of previous years, profits for the current year shall be used to make up the losses before allocations to the statutory surplus reserve.

After the company has made up its losses and make allocations to its statutory surplus reserve, the remaining profits could be available for distribution to shareholders in proportion to the number of shares held by them, except as otherwise provided in the articles of association of such joint stock company.

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 government 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 losses of the company 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 issuing 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 assets of the company 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 engage an independent PRC qualified accounting firm to audit the annual report and to review and check other financial reports of the company.

The term of office of the auditor shall commence from the close of an annual general meeting and expire at the close of the next annual general meeting.

In accordance with the articles of association of the company, the shareholders' general meeting shall determine the appointment and dismissal of accountants who are responsible for the company's auditing issues. The accountant shall be allowed to make representations when the shareholders' general meeting is going to conduct a poll on the dismissal of the accountant. The company shall provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accountant without refusal, concealing and false information. The term of office of the accountant shall commence from the close of an annual general meeting and expire at the close of the next annual general meeting of the company.

If a company removes or does not re-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 at shareholders' general meeting. The appointment, removal or retirement of auditors shall be decided by shareholders in general meetings and shall be filed with the CSRC.

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.

Distribution of Profits

The Company Law provides that a company is restricted from distributing profits before losses have been made up and allocation to statutory common reserve has been made. The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign 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 shall be made in accordance with the procedures set forth in the company's articles of association. Any amendment to the articles of association in connection with the Mandatory Provisions shall only be effective after approval by the companies' approval department under the State Council and the CSRC. If the amendment relates to the registration of the company, the company shall modify its registration with the company registration authority.

Dissolution and Liquidation

Under the Company Law, a company shall be dissolved in any of the following events:

(i) the term of operations set out in the articles of association of the company has expired or events of dissolution specified in its articles of association have occurred;

(ii) the shareholders resolve to dissolve the company at general meeting;

(iii) the company is dissolved as a result of 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 difficulties in its operation and management and its continuance shall cause a significant loss to the interest of its shareholders, and where such circumstance 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 shall 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 determined by the shareholders' general meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors may apply to the people's court for its establishment.

The liquidation committee shall notify the creditors of the company within ten days, and issue newspaper announcement within 60 days after its establishment. A creditor may lodge his/her claim with the liquidation committee within 30 days after receiving notification or within 45 days since the date of the announcement if he/she does not receive any notification. The liquidation committee shall exercise the following powers during the liquidation period:

(i) to dispose of the company's assets and to prepare a balance sheet and an inventory of the assets;

(ii) to notify creditors or issue announcements;

(iii) to deal with and settle any outstanding business of relevant company;

(iv) to pay any outstanding tax;

(v) to settle the creditor's rights and liabilities of the company;

(vi) to handle the surplus assets of the company after settlement of debts; and

(vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be used for the payment of the liquidation expenses, wages and labor insurance expenses, outstanding tax and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to their shareholdings.

During the liquidation period, a company shall not engage in operating activities unrelated to the liquidation.

If the liquidation committee is 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 liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the people's court for approval. Thereafter, the report shall be submitted to the registration authority of the company for cancellation of registration. An announcement on termination shall also be issued.

Members of the liquidation committee shall discharge their duties honestly and in compliance with relevant laws. A member of liquidation committee shall be liable to indemnify the company and its creditors in respect of any loss arising from his/her 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 registered share certificates are stolen or lost, for a declaration of invalidation of such certificates. After the declaration, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for special procedures for the loss of H share certificates. The procedures are incorporated in the Articles of Association and a summary of which is set out in "Appendix V—Summary of Articles of Association."

Merger and Demerger

Companies may merge through absorption or the establishment of a new entity. If it merges by absorption, the company which is absorbed shall be dissolved. If the companies merge by forming a new corporation, the companies shall be dissolved.

For corporate merger, all parties to the merger shall enter into an agreement and prepare balance sheets and checklists of assets. The companies involved shall, within ten days after the decision of merger, notify the creditors, and shall make newspaper announcement within 30 days. The creditors may, within 30 days after the receipt of the notice or (if it fails to receive a notice) within 45 days after the announcement, require the company to settle its debts or to provide guarantees. After the merger, the credits and debts of the companies involved shall be succeeded by the surviving company or by the newly established company.

For division of a company, the properties of the company shall be divided properly, and balance sheets and checklists of assets shall be prepared. The company shall, within ten days after the decision of division, notify the creditors and make newspaper announcement within 30 days. The companies after division shall jointly bear liabilities for the debts of the former companies before division, unless it is otherwise prescribed by written agreements entered into between the companies and their respective creditors for the settlement of debts before the division.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information. In October 1992, the Securities Committee and the CSRC were established by the State Council. The Securities Committee was responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC was the regulatory body of the Securities Committee and responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In 1998, the State Council dissolved the Securities Committee and assigned its functions to the CSRC. The CSRC is also responsible for the regulation and supervision of all stocks and futures market in China according to laws, regulations and authorizations.

The PRC Securities Law took effect on July 1, 1999 and was recently revised on August 31, 2014. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, as well as the duties and responsibilities of the securities exchanges, securities companies and the securities regulatory authorities under the State Council. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that a PRC company must obtain prior approval from the State Council's regulatory authorities to list its shares outside the PRC. Article 239 of the Securities Law provides that specific provisions in respect of shares of companies in the PRC which are to be subscribed and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H Shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

Regulation on Anti-money Laundering

The Anti-money Laundering Law of the PRC (《中華人民共和國反洗錢法》) became effective on January 1, 2007. It provides for the anti-money laundering duties of the relevant financial regulatory authorities, including the monitoring of money flow, formulation of rules and regulations on anti-money laundering of financial institutions, supervision and examination of the fulfillment of anti-money laundering obligations by financial institutions and investigation of suspicious transactions. Heads of financial institutions shall be responsible for the effective implementation of anti-money laundering internal control system. A financial institution shall establish a client identification system and a system for keeping clients' identity information and transaction record, and report major transactions and doubtful transactions according to applicable requirements.

According to the Provisions of 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 provided to the staff in order to strengthen the anti-money laundering works.

According to the Measures on Administration of Identification of Clients and Preservation of Client Identities Information and Trading Records of Financial Institutions (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》) which was jointly enacted by the PBOC, the CBRC, the CSRC and the CIRC 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 headquarters of financial institutions or their department shall provide electronic reports to the China Anti-money Laundering Monitoring and Analysis Centre on all major 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 took effect from October 1, 2010 and provides additional anti-money laundering rules for securities and futures industry, and the anti-money laundering liabilities for funds retailing activities, and the requirement of anti-money laundering internal control system for securities and futures institutions.

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 the procedures specified by the State Council.

According to the Special Regulations, if the plans of a company to issue overseas listed foreign shares and domestic invested shares have been approved by the securities regulatory authority of the State Council, they may be separately implemented by the board of directors, within 15 months from approval of the CSRC.

Suspension and Termination of Listing

The PRC Company Law's provisions on suspension and termination of listing have been removed. The following amendments have been made according to the PRC Securities Law:

In any of the following circumstances, the stock exchange may suspend the listing of the relevant stock:

(i) the total share capital or shareholding structure of the company changes, resulting in the non-compliance of listing requirements;

(ii) 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) activity of the company seriously violates the laws;

(iv) the company has been operating at loss for the last three consecutive years; or

(v) any other circumstances prescribed in the listing rules of the relevant stock exchange.

According to the PRC Securities Law, the relevant stock exchange shall terminate the listing of the relevant stock:

(i) Where the total amount of capital stock or share distribution of the company changes and thus fails to meet the requirements of listing, and where the company fails again to meet the requirements of listing within the period as prescribed by the stock exchange;

(ii) Where the company fails to publicize its financial status according to the relevant provisions or has any false record in its financial statements, and refuses to make any correction;

(iii) Where the company has been operating at a loss for the latest 3 consecutive years and fails to gain profits in last year;

(iv) Where the company is dissolved or is declared bankrupt; or

(v) Under any other circumstance as prescribed in the listing rules of the stock exchange.

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 NPC on August 31, 1994 and was recently revised 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 an arbitration committee constituted in accordance with the Arbitration Law for arbitration. Under the Arbitration Law, an arbitration committee may, before the promulgation of arbitration regulations by the PRC Arbitration Association, formulate provisional arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court shall 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 senior management; or among each shareholder, in respect of any disputes or claims in relation to our senior management; or among each shareholder, in respect of any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under the Articles of Association, the Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are our shareholders, directors, supervisors, senior management, shall be subject to the arbitration. Disputes in respect of the definition of shareholder and disputes in relation to our register of shareholders need not be resolved by arbitration.

In accordance with the Arbitration Regulations of China International Economic and Trade Arbitration Commission (《中國國際經濟貿易仲裁委員會仲裁規則》) amended on November 4, 2014 and implemented on January 1, 2015, CIETAC shall deal with economic and trading disputes over contractual or non-contractual transactions, including disputes involving Hong Kong based on the agreement of the parties. CIETAC is established in Beijing and its branches and centers have been set up in Shenzhen, Shanghai, Tianjin, Chongqing and Hong Kong.

A claimant may choose 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 chooses 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 Civil Procedure Law, an arbitral award shall be 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 laws 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 in 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 NPC 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 NPC simultaneously with the accession of the PRC to the New York Convention 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 arising from contractual and non-contractual mercantile legal relations according to the PRC laws.

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 made pursuant to the Arbitration Ordinance of Hong Kong are also enforceable in the PRC.

RULES AND REGULATIONS ON ESTABLISHMENT OF OVERSEAS OPERATIONS

According to the Provisions for Overseas Investment Management (《境外投資管理辦 法》) which was promulgated by the MOFCOM and became effective 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》) which was issued by the SAFE and became effective on August 1, 2009, upon obtaining approval from the MOFCOM to establish enterprises overseas, PRC enterprises may apply for foreign exchange registration for overseas investments.

According to the Administrative Measures for Approval and Filing of Overseas Investment Projects (《境外投資項目核准和備案管理辦法》) promulgated by the NDRC on May 8, 2014 and amended on December 27, 2014 with immediate effect, overseas investment projects conducted by the PRC enterprises through new establishment, merger, equity participation, capital increase and injection as well as those carried out by their overseas enterprises or institutions through provision of funds or guarantees shall be approved by or filed with the NDRC based on the actual conditions of the overseas investment projects.

According to the PRC Securities Law (《中華人民共和國證券法》) amended and effective on **August 31, 2014** and the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》) amended and became effective on July 29, 2014, the establishment, acquisition of or equity participation in securities institutions overseas by securities companies in the PRC shall be subject to approval by the CSRC.

According to the Measures for Administration of Futures Companies (《期貨公司監督管理辦法》) promulgated and became effective on October 29, 2014, the establishment, acquisition of or equity participation in overseas futures institutions by futures companies in the PRC shall be in compliance with the relevant conditions and subject to approval from the CSRC.

According to the Regulations on the Establishment of Institutions in Hong Kong by Securities Investment Fund Management Companies Issued by the China Securities Regulatory Commission (《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》) which was promulgated and became effective on April 8, 2008, the establishment of institutions or equity participation in assets management institutions in Hong Kong, establishment of institutions and equity participation in assets management institutions in other countries which have entered into regulatory cooperation memorandum with the CSRC by securities investment fund management companies in the PRC are subject to approval from the CSRC.

MATERIAL DIFFERENCES BETWEEN CERTAIN COMPANY LAW MATTERS IN THE PRC AND HONG KONG

Hong Kong company law is primarily set out in the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and supplemented by common law and rules of equity that apply to Hong Kong. There are material differences between Hong Kong company law and the PRC law applicable to a joint stock limited liability company incorporated under the PRC Company Law, to which we are and will be subject. 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 which issues a certificate of incorporation to the Company upon its incorporation and the company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription.

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 provide for authorized share capital. Our registered capital is the amount of our issued share capital. Any increase in our registered capital must be approved by our general meeting and the relevant PRC governmental and regulatory authorities.

Under the 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 nonmonetary assets (other than assets not entitled to be used as capital contributions under relevant laws or administrative regulations). For non-monetary assets to be used as capital contributions, appraisals must be carried out to ensure there is 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, our A Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons, qualified foreign institutional investors, or eligible foreign strategic investors. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors.

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 cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and managers 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 cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and 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 Shareholders' 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 Hong Kong company law.

SHAREHOLDER MEETINGS—NOTICE

Under the PRC Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting. **Whereas notice of a shareholder's special general meeting must be given not less than 15 days before the meeting. If a company issues bearer shares, notice of a shareholder's 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 meeting must reply in writing at least 20 days before the date of the meeting. For a limited company incorporated in Hong Kong, the minimum period of notice of a general meeting, where convened for the purpose of considering ordinary resolutions, is 14 days and, where convened for the purpose of considering special resolutions, is 21 days. The notice period for an annual general meeting is 21 days.

SHAREHOLDER MEETINGS—QUORUM

Under Hong Kong law, the quorum for a meeting of a company is provided for in the articles of association of a company, but must be at least two members. **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 our general meeting may be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, we must within five days notify our shareholders by way of a public announcement and we may hold the shareholders' general meeting thereafter.

SHAREHOLDER MEETINGS—VOTING

Under Hong Kong law, an ordinary resolution is passed by a simple majority of affirmative votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting.

Under the PRC Company Law, the passing of any resolution requires more than one-half of the affirmative votes held by our shareholders present in person or by proxy at a shareholders' meeting except in cases such as proposed amendments to our Articles of Association, increase or decrease of registered capital, merger, division, dissolution or transformation, which require two-thirds of the affirmative votes cast by shareholders present in person or by proxy at a shareholders' general meeting.

VARIATION OF CLASS RIGHTS

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain detailed 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—Summary of Articles of Association."

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting,(ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of the Company or (iv) if there are provisions in the Articles of Association relating to the variation of those rights, then in accordance with those provisions.

As required by the Hong Kong Listing Rules and the Mandatory Provisions, we have adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed shares and domestic listed shares are defined in the Articles of Association as different classes. The special procedures for voting by a class of shareholders shall not apply in the following circumstances: (i) where we issue and allot, either separately or concurrently in any 12-month period, pursuant to a Shareholders' special resolution, not more than 20% of each of the existing issued overseas listed shares and the domestic listed shares; (ii) where the plan for the issue of domestic listed shares and overseas listed shares upon our establishment is implemented within 15 months following the date of approval by the CSRC; and (iii) where the transfer of shares from the holders of domestic listed shares to foreign investors upon receiving the approval of the State Council securities regulatory authority and then listing and transacting in the overseas stock exchange.

DERIVATIVE ACTION BY MINORITY SHAREHOLDERS

Hong Kong law permits minority shareholders to start a derivative action on behalf of the company 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 the company from suing the directors in breach of their duties in its own name.

Although the PRC Company Law gives our Shareholders the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by our shareholders in a general meeting, or by the Board of Directors, that violates any law, administrative rules or Articles of Association or if the Directors or management personnel violate laws, administrative rules or articles of association when performing their duties and cause losses to the company, there is no form of proceedings equal to a derivative action. The Mandatory Provisions, however, provide us with certain remedies against the Directors, Supervisors and officers who breach their duties to us. 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 act against our Directors and Supervisors in default.

MINORITY SHAREHOLDER PROTECTION

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 wind up the 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 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 Company, as required by the Mandatory Provisions, has adopted in its Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under the Hong Kong law. These provisions state that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders, may not relieve a director or supervisor of his duty to act honestly in our best interests or may not approve the expropriation by a director or supervisor of our assets or the individual rights of other shareholders.

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 directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain requirements and restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office.

BOARD OF SUPERVISORS

Under the PRC Company Law, a joint stock limited company's directors and managers are subject to the supervision of a board of supervisors. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

FIDUCIARY DUTIES

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Special Regulations, directors, supervisors are not permitted to engage in any activities which compete with or damage the interests of their company.

FINANCIAL DISCLOSURE

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to 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 such meeting. A joint stock limited liability 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 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 shareholders' rights of Hong Kong companies under Hong Kong law.

RECEIVING AGENT

Under both 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 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 Companies (Winding up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 and Division 2 of Part 13 of the Companies Ordinance, which requires the sanction of the court. Under PRC law, merger, division, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

MANDATORY TRANSFERS

Under the PRC Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

ARBITRATION OF DISPUTES

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior officers may be resolved through the courts. The Mandatory Provisions and our Articles of Association provide that disputes between a holder of H shares and the Company and its directors, supervisors, managers or other members of senior management or a holder of domestic listed shares, arising from the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations which concerns the affairs of the Company should, with certain exceptions, be referred to arbitration at either the Hong Kong International Arbitration Center ("HKIAC") or the China International Economic and Trade Arbitration Commission. Such arbitration is final and conclusive.

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, 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 of the HKIAC, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

REMEDIES OF THE COMPANY

Under the PRC Company Law, if a director, supervisor or manager 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 manager should be responsible to the company for such damages. In addition, the 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).

DIVIDENDS

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

CLOSURE OF REGISTER OF SHAREHOLDERS

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas, as required by the PRC Company Law and the Mandatory Provisions, share transfers shall not be registered within 30 days before the date of a general meeting or within five days before the base date set for the purpose of distribution of dividends.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG LISTING RULES AND SHANGHAI LISTING RULES

As our A Shares are listed on the Shanghai Stock Exchange, we are also subject to Rules Governing the Listing on the Shanghai Stock Exchange ("Shanghai Listing Rules"). Set out below is a summary of material differences between Hong Kong Listing Rules and Shanghai Listing Rules:

- Periodic financial reporting

  There are material differences in financial reporting standards and practices regarding, for examples, industry-specific financial reporting requirements, announcement of preliminary results, form and content of periodic financial reports and post-vetting of periodic financial reports.

- Classification and disclosure requirements for notifiable transactions

  The method of classification of notifiable transactions under Hong Kong Listing Rules and the disclosure requirement pertaining to such transactions differ from those under the Shanghai Listing Rules.

- Connected transactions

  The definition of a connected person under the Hong Kong Listing Rules and the definition of a related party under the Shanghai Listing Rules are different. In addition, the disclosure and shareholder approval requirements for connected transactions under the Hong Kong Listing Rules and for related party transactions under the Shanghai Listing Rules, as well as the respective exemptions are different.

- Disclosure of inside information

  The scope, timing and method of disclosure of inside information are different between Hong Kong Listing Rules and Shanghai Listing Rules.

Set out below 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 this appendix is a summary, it may not contain all the information that is important to potential investors.

Business scope

The business scope of the Company is: securities brokerage, securities investment consulting, financial consulting relating to securities trade and securities investment, securities underwriting and sponsorship, proprietary trading of securities, margin financing and securities lending, proxy sale of securities investment fund, intermediary introduction business for futures company, proxy sale of financial products, insurance agency services, custodian services for securities investment funds, stock options market making and proprietary business for spot gold contracts.

According to laws, administrative regulations and relevant provisions of CSRC, the Company may establish wholly-owned subsidiaries to carry out direct investment business, investment in financial products and other investment business, securities and asset management business and other business approved by regulatory authority.

SHARES

Shares and Registered Capital

The stock of the Company shall take the form of shares. The Company shall have common shares. With the approval of the department authorized by the State Council, the Company may have other forms of shares when needed.

The Company shall issue shares in an open, fair and just manner, and each share of the same class shall have the same rights. All shares of the same class issued at the same time shall be issued under the same conditions and at the same price, and every share purchased by any entity or individual shall be at the same price.

The Board of the Company may make arrangement for separate issue of shares according to the proposals for issue of overseas-listed foreign shares and domestic shares upon approval by the securities regulatory authority of the State Council. If the Company separately issues overseas-listed foreign shares and domestic shares within the total number specified in the issue scheme, the said shares shall be issued respectively at one time. If it is impossible for the shares to be issued at one time for special reasons, the shares may be issued by several batches upon approval by the securities regulatory authority of the State Council.

Share Transfer

Unless otherwise specified by the laws and regulations, regulative documents and relevant provisions of the securities regulatory authority at the location where the Company's shares are listed, shares of the Company may be transferred freely and without any liens. Transfer of overseas-listed foreign shares listed in Hong Kong shall be registered with the share registry in Hong Kong appointed by the Company.

The Company shall not accept its own shares as pledge object.

The shares of the Company held by the promoters shall not be transferred within one year after incorporation of the Company. Shares issued by the Company before the initial public offering of A shares shall not be transferred within one year after A shares of the Company are listed on the stock exchange.

The directors, supervisors and senior management of the Company shall report to the Company about their shareholdings and changes thereof and shall not transfer more than 25% of their shares per annum during their terms of office. Shares of the Company held by them shall not be transferred within six months after they terminate service with the Company.

If the directors, supervisors, senior management of the Company and shareholders holding more than 5% shares of the Company sell shares within six months after buying the same or buy shares within six months after selling the same, the gains arising therefrom shall belong to the Company and the Board of the Company will recover the said gains. However, the 6-month restriction shall not apply to a securities company which holds 5% or more of the Company's shares as a result of its underwriting of the untaken shares in an offer.

The Company or its subsidiaries shall not at any time or in any form provide any financial assistance to purchasers or potential purchasers of the Company's shares for the purpose of the purchase or potential purchase of the Company's shares. The aforesaid purchasers include persons directly or indirectly undertaking obligations because of the purchase of the Company's shares.

The Company or its subsidiaries shall not at any time or in any form provide any financial assistance to the aforesaid obligors for the purpose of reducing or discharging their obligations for the purchase or potential purchase of the Company's shares unless in the following circumstances:

- the Company provides the relevant financial assistance in the interest of the Company in good faith, and the main purpose of the said financial assistance is not to purchase the Company's shares, or the said financial assistance is a part of a general plan of the Company;
- the Company distributes its properties as dividends in accordance with the laws;
- the Company distributes shares as dividends;
- the Company reduces its registered capital, repurchases its shares or adjusts the shareholding structure in accordance with the Articles of Association;
- the Company provides a loan for its normal business operations within its scope of business (but such financial assistance shall not give rise to a decrease in the net assets of the Company, or, despite a decrease, such financial assistance is made out of the distributable profit of the Company);
- the Company provides a loan for employee stock ownership plan (but such financial assistance shall not give rise to a decrease in the net assets of the Company, or, despite a decrease, such financial assistance is made out of the distributable profit of the Company).

Repurchase of Shares

The Company may, in the following circumstances, repurchase its shares pursuant to laws, administrative regulations, departmental rules and the Articles of Association:

- reducing the registered capital of the Company;
- merging with other companies holding shares of the Company;
- awarding shares to employees of the Company;
- shareholders objecting to resolutions of the shareholders' general meeting concerning merger or division of the Company, requiring the Company to buy their shares.

The Company shall not trade its shares unless in the aforesaid circumstances.

The Company may repurchase its shares in any of the following ways:

- making a general offer to repurchase shares from all shareholders in proportion to their shareholdings;
- repurchasing shares through open transactions in the stock exchange;
- repurchasing shares based on an off-market agreement;
- in other forms approved by the laws, regulations, rules, regulative documents and competent authorities of the PRC.

When repurchasing shares based on an off-market agreement, the Company shall obtain prior approval at the shareholders' general meeting in accordance with the Articles of Association.

After repurchasing its shares according to the laws, the Company shall cancel such shares before the deadline specified by laws and administrative regulations and register the change of the registered capital with the original company registration authority. The total par value of the cancelled shares shall be reduced accordingly from the registered capital of the Company.

Increase and Decrease of Shares

According to the operation and development needs of the Company, subject to the applicable laws and regulations, the Company may increase the registered capital by the following ways upon approval by separate resolution of the shareholders' general meeting:

- public issue of shares;
- non-public issue of shares;
- placement of new shares to existing shareholders;
- issue of bonus shares to existing shareholders;
- capitalization of common reserve fund;
- other means stipulated by laws and administrative regulations or approved by the relevant regulatory authority.

Issue of new shares for the increase of capital by the Company shall follow the procedures specified by relevant laws and administrative regulations of China upon approval according to the Articles of Association.

The Company shall prepare a balance sheet and a list of property when reducing its registered capital.

The Company shall notify all creditors within 10 days after adoption of the resolution to decrease the registered capital and shall make announcements in newspapers within 30 days. The creditors shall be entitled to require the Company to repay debts or provide corresponding guarantees for debt repayment within 30 days after the receipt of the notice, or within 45 days after the date of announcement if the creditors have not received the notice.

The Company's registered capital shall not, upon the reduction of capital, be less than the statutory minimum limit.

SHARE CERTIFICATES AND REGISTER OF SHAREHOLDERS

The Company's share certificates are in registered form, shall include the followings:

- the name of the Company;
- the date of incorporation of the Company;
- the class and par value of the shares and the number of shares represented by the certificate;
- the serial number of the share certificate;
- other particulars required by the Company Law, Special Regulations and the securities regulatory authority in the place where the Company's shares are listed;
- for non-voting shares in the share capital of the Company, the words "non-voting" in their designation;
- in case that the share capital includes shares carrying different voting rights, the words "restricted voting right" or "limited voting right" in the designation of each class of shares (except for shares with the most privileged voting rights).

The Company may issue certificates of overseas-listed foreign shares in the form of foreign depository receipts or other derivatives in accordance with the laws and the practice of registration and deposit of securities in the place of its listing.

The Company shall establish a register of shareholders recording the following matters:

- the names or titles, addresses or domiciles, occupations or nature of each shareholder;
- the class and number of shares held by each shareholder;
- the amount paid or payable on the shares held by each shareholder;
- serial numbers of the share certificates held by each shareholder;
- the date of registration;
- the date of deregistration.

The register of shareholders shall be sufficient evidence of the shareholders' shareholding in the Company, unless there is evidence to the contrary.

The Company may keep overseas the register of holders of overseas-listed foreign shares and entrust an overseas agency for its custody 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 on the Hong Kong Stock Exchange shall be kept in Hong Kong.

The Company shall keep at its domicile a copy of the register of holders of overseas-listed foreign shares, and 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 register of shareholders arising from share transfer shall not be registered within 30 days before convening of a shareholders' general meeting or within five days prior to the record date for the purpose of dividend distribution by the Company.

Any person who has objection to the register of shareholders and requests to have his name (title) entered into or removed from the register of shareholders may file a petition to the court of competent jurisdiction for rectification.

Any registered shareholder or any person who claims to have his/her name (title) entered into the register of shareholders in respect of shares in the Company may apply to the Company for a new share certificate for replacement in respect of such shares (the "Relevant Shares"), in the event that his/her share certificate (the "Original Share Certificate") has been lost.

SHAREHOLDERS AND THE SHAREHOLDERS' GENERAL MEETING

Shareholders

The Company has established the register of shareholders according to the documents provided by the securities registration authority. The register of shareholders shall be the sufficient evidence proving the shareholders' holding of the Company's shares. Shareholders of the Company are persons lawfully holding shares of the Company, with names (titles) recorded in register of shareholders. The shareholders are entitled to rights and obligations according to the class of shares they held. Shareholders of the same class shall be entitled to the same rights and the same obligations.

Where two or more persons are registered as joint holders of any shares, they shall be deemed as the common owners of the said shares subject to the following restrictions:

- the Company shall not register more than four persons as joint shareholders of any shares;
- all joint shareholders shall be jointly and severally liable for all relevant costs payable;
- if one of the joint shareholders deceased, only the other existing shareholder(s) shall be deemed as the owners of relevant shares, provided that the Board may require a certificate of death of the relevant shareholder for the purpose of updating the register of shareholders;
- in respect of the joint shareholders of any shares, only the joint shareholder first named in the register of shareholders have the right to receive the certificate of relevant shares and notices of shareholders' general meetings of the Company, and to attend or vote at shareholders' general meetings of the Company. Any notice delivered to the aforesaid shareholder shall be deemed to have delivered to all joint shareholders of the relevant shares. Any of the joint shareholders may sign the proxy form. In case that more than one of the joint shareholders attend the shareholders' general meeting, whether in person or by proxy, the vote of the senior joint shareholder will be accepted to the exclusion of the votes of the other joint shareholder(s), and for this purpose, seniority will be determined by the order in which the names stand in the register of shareholders in respect of the joint shareholding.

Holders of the ordinary shares of the Company shall be entitled to the following rights:

- to receive dividends and other distributions in proportion to the shares they hold;
- to file a petition according to laws, to convene, hold and attend the shareholders' general meetings either in person or by proxy and exercise their corresponding voting right;
- to supervise, present suggestions on or make inquiries about the operations of the Company;

- to transfer, donate or pledge their shares in accordance with laws, regulations, regulatory documents, relevant requirements provided by the securities regulatory authority in the place where the Company's shares are listed and the Articles of Association;
- to gain relevant information in accordance with the Articles of Association, including:

1. receiving the Articles of Association after payment of production cost;
2. being entitled to consult and copy after payment of reasonable fee:
   (1) all parts of the register of shareholders;
   (2) personal data of directors, supervisors, manager and other senior management of the Company, including:
      (a) present and former name and alias;
      (b) principal address (place of residence);
      (c) nationality;
      (d) primary and all other part-time occupations and duties;
      (e) identification documents and the number thereof;
   (3) share capital of the Company;
   (4) report of the total par value, quantity, the highest and lowest price of each class of shares repurchased by the Company from the last fiscal year and the total amount paid by the Company for this purpose;
   (5) minutes of shareholders' general meetings (available for shareholders' inspection only);
   (6) the latest audited financial statements and reports of the Board, of the auditors and of the Board of Supervisors of the Company;
   (7) special resolutions;
   (8) a copy of the latest annual returns filed with the State Administration of Industry and Commerce or other competent authorities
   (9) counterfoils of corporate bonds, resolutions of the Board meetings, resolutions of meetings of the Board of Supervisors and financial statements. Except item (2), documents set out in items (1) to (8) above shall be made available by the Company according to the requirements of the Hong Kong Listing Rules, at the Company's address in Hong Kong, for the public and holders of overseas-listed foreign-invested shares to inspect free of charge.

- to participate in the distribution of the remaining properties of the Company in proportion to their shareholdings in the event of the termination or liquidation of the Company;
- to enjoy other rights stipulated by laws, regulations, rules, regulatory documents, Hong Kong Listing Rules and the Articles of Association.

In the event that any resolution of the shareholders' general meeting or the Board of the Company violates any applicable law or administrative regulations, the shareholders shall have the right to request the People's Court to invalidate the resolution.

In the event that any convening procedure, voting method or any resolution of the shareholders' general meeting or of any Board meeting is found in violation of applicable laws, administrative regulations or the Articles of Association, the shareholders may request the People's Court to invalidate the resolution thereof within 60 days from the date on which such resolution is resolved.

In the event of any loss caused to the Company as a result of violation of applicable laws, administrative regulations or the Articles of Association by the directors or senior management when performing their duties, any of the shareholders who holds 1% or more of the shares individually or jointly for no less than 180 consecutive days shall have the right to request the Board of Supervisors in writing to initiate litigation before the People's Court. In the event of any loss caused to the Company as a result of violation of applicable laws, administrative regulations or the Articles of Association by the Board of Supervisors when performing its duties, any of the shareholders may request the Board in writing to initiate litigation before the People's Court.

In the event that the Board of Supervisors or the Board dismisses the written request of any of the shareholders as specified in the preceding paragraph, or withholds from instituting litigation within 30 days of the receipt of the request, or that the failure to institute litigation immediately may otherwise cause irreparable damage to the interest of the Company in an urgent circumstance, such shareholder(s) as mentioned in the preceding paragraph shall have the right to initiate litigation before the People's Court in the name(s) of such shareholder(s) in the interest of the Company.

In the event of any infringement by a third party to the Company's legitimate rights and interest, resulting in losses to the Company, the shareholder(s) severally or jointly holding 1% or more shares of the Company for no less than 180 days continuously may initiate litigation before the People's Court in accordance with the preceding two paragraphs.

In the event that any director or senior management violates applicable laws, administrative regulations or the Articles of Association to the detriment of the interest of the shareholders, the shareholders may initiate litigation before the People's Court.

The holders of ordinary shares of the Company shall have the following obligations:

- to comply with the laws, administrative regulations and the Articles of Association;
- to make the payment in respect of the shares subscribed for and the method of subscription;
- to be prohibited from claiming the share capital in respect of its shares, unless otherwise specified by the laws or regulations;
- not to abuse rights of shareholder to the detriment of the interest of the Company or other shareholders, or abuse the Company's independent legal person status or the limited liability of the shareholders, to the detriment of the interest of the creditors of the Company.

In the event of any damage caused to the Company or other shareholders arising from any abuse of the shareholder's right, such shareholder shall be liable for compensation in accordance with laws.

In the event of any material damage caused to the interest of the creditors of the Company arising from any abuse of the Company's independent legal person status and the limited liability of the shareholders by any shareholder to evade from debts, such shareholder shall be held liable for the Company's debts; .

- to fulfill other obligations as stipulated by laws, administrative regulations, rules, other regulatory documents and Articles of Association.

Shareholders holding 5% or more voting shares and beneficial owner shall notify the Company in any of the following events:

- the shares of the Company held or controlled by it are subject to any property preservation or other mandatory measures;
- equity of the Company they hold is pledged;
- beneficial owner is changed;
- its name has been changed;
- a merger or division has been effected;
- it is ordered to suspend operation, or is appointed a receiver, or is taken over, subject to revoke or other regulatory measures or in the process of dissolution, bankruptcy or liquidation;
- it is imposed upon administrative penalties or criminal punishment due to serious violation of laws or regulations;
- other circumstances that may result in the transfer of the shares of the Company that it holds or controls or otherwise affect the operation of the Company.

Shareholders and beneficial owner holding 5% or more of shares carrying voting rights shall report to the Company in writing on the day of occurrence of the first, second, third, fifth, sixth or eighth circumstance mentioned above or within five working days from the occurrence of the fourth or seventh circumstance mentioned above. In the event of any circumstances that shall be announced in accordance with relevant provisions of stock exchange of the place where the securities of the Company are listed, the Company shall make timely announcement.

No entities or individuals are allowed to directly or indirectly hold 5% or more of the Company's shares without approval from the CSRC. Otherwise, it shall be rectified within a prescribed period of time, and any voting right in respect of such shares may not be exercised prior to such rectification.

The controlling shareholders and beneficial owner of the Company shall not use the connected relations to harm the interests of the Company; otherwise, they shall make compensation for the loss incurred to the Company.

The controlling shareholder and beneficial owner of the Company shall bear the fiduciary duty to the Company and the public shareholders of the Company. The controlling shareholder shall strictly abide by the laws in exercising the investor's rights and shall not infringe the legitimate rights of the Company and the public shareholders by way of profit distribution, asset reorganization, external investment, use of capital and guarantee for borrowings. Nor shall they take the advantage of their controlling position to the detriment of the Company and public shareholders.

Save for the obligations under laws, administrative regulations or the listing rules of the stock exchange with which the Company's shares are listed, the controlling shareholders, in exercising their rights as shareholders, shall not make any decision detrimental to all or some shareholders on the following matters:

- relieving any directors or supervisor of the obligation to act in good faith for the best interests of the Company;

- approving any director or supervisor to expropriate the assets of the Company (for his own or others' benefits) in any manner, including but not limited to any opportunities which are beneficial to the Company;
- approving any director or supervisor to expropriate the personal interests of other shareholders (for his own or others' benefits), including but not limited to any distribution right and voting right, but excluding reorganization of the Company submitted for approval at the shareholders' general meeting pursuant to the Articles of Association.

The Board of the Company shall establish a "freezing upon misappropriation" mechanism for shares held by the controlling shareholder. Where the controlling shareholder is found to have misappropriated any assets, the Company shall immediately apply for judicial freezing of shares held by controlling shareholders. Where the misappropriated assets of the Company cannot be recovered or compensation in cash or other ways approved by the shareholders' general meeting of the Company is not effected, the misappropriated assets shall be compensated through a realization of shares held by such controlling shareholders.

General Rules of Shareholders' General Meeting

The shareholders' general meeting is the authority of the Company and shall exercise the following functions and powers in accordance with the laws:

- to determine the operating policies and investment plans of the Company;
- to elect and replace any of the directors and supervisors other than those held by staff representatives, and to determine matters relating to the emoluments of the directors and supervisors;
- to consider and approve the reports of the Board;
- to consider and approve the reports of the Board of Supervisors;
- to consider and approve the annual financial budget and final account of the Company;
- to consider and approve the profit distribution plans and plans of deficit coverage of the Company;
- to approve resolutions on increase or reduction of registered capital of the Company;
- to resolve on the issuance of bonds of the Company;
- to resolve on matters such as merger, division, dissolution, liquidation or change of nature of the Company;
- to amend the Articles of Association;
- to resolve on the appointment and removal of any accounting firm;
- to consider and approve any guarantee issue set forth in Article 68 of the Articles of Association;
- To consider and approve any purchase or disposal of material assets by the Company within one year with the transaction amount exceeding 30% of the latest audited total assets (net of customer deposits) of the Company;
- To consider and approve the Company's investment within one year with the transaction amount exceeding 30% of the latest audited total assets (net of customer deposits) of the Company;

- To consider and approve connected transactions which shall be subject to approval of shareholders' general meeting in accordance with the listing rules of securities regulatory authority of the place where the securities of the Company are listed;
- to consider and approve any change of the use of proceeds raised;
- to consider share incentive scheme;
- to deal with such other matters to be resolved at shareholders' general meeting as required by the laws, administrative regulations, departmental rules or the Articles of Association.

The provision of any of the following guarantee for any external party by the Company shall be considered and resolved at shareholders' general meeting:

- Any provision of guarantee, where the total amount of external guarantees provided by the Company and its controlled subsidiaries reaches or exceeds 50% of the latest audited net assets;
- Any provision of guarantee, where the total amount of external guarantees provided by the Company reaches or exceeds 30% of the latest audited total assets (net of customer deposits);
- Provision of guarantee to anyone whose gearing ratio exceeds 70%;
- Provision of a single guarantee the amount of which exceeds 10% of the latest audited net assets;

External guarantees to be approved at general meeting shall be considered and approved by the Board before submission to the general meeting.

Shareholders' general meetings consist of annual general meetings and extraordinary general meetings. The annual general meeting shall be held once every year within six months following the end of the previous financial year.

The Company shall hold an extraordinary general meeting within two months subsequent to the occurrence of any of the following events:

- when the number of incumbent directors falls below the requirement of the Company Law, or is less than two-thirds of the number specified by the Articles of Association;
- when the uncovered loss is more than one-third of the Company's total paid-up share capital;
- when any of the shareholders individually or jointly holding no less than 10% of the Company's shares for not less than 90 consecutive days make(s) any request;
- when the Board considers it necessary;
- The Supervisory Committee proposes to convene such meeting;
- such other circumstances as specified by the laws, administrative regulations, departmental rules, provisions of securities regulatory authority of the place where the securities of the Company are listed or the Articles of Association.

Convening of Shareholders' General Meeting

More than half of independent director may propose to the Board to convene an extraordinary general meeting, and the Board shall reply in writing in response to such proposal, whether consent or not, within 10 days upon receipt of the proposal in accordance with the laws, administrative regulations and the Articles of Association.

If the Board consents to the proposal, a notice on convening such meeting shall be issued within five days following the date of such resolution of the Board. If the Board rejects the proposal, the Board shall provide an explanation and make relevant announcement and the independent director may propose to the Board of Supervisors for the convening of extraordinary general meeting.

The Board of Supervisors may propose in writing to the Board to convene an extraordinary general meeting. The Board shall reply in writing in response to such proposal, whether consent or not, within 10 days upon receipt of the proposal in accordance with the laws, administrative regulations and the Articles of Association.

If the Board consents to the proposal, a notice on convening such meeting shall be issued within five days following the date of such resolution of the Board, provided that any change to the proposal made in notice shall be subject to approval of the Board of Supervisors.

If the Board rejects the proposal or withholds from responding for 10 days following receipt of the proposal, the Board shall be deemed failing to perform the duty of convening a shareholders' general meeting. In such case, the Board of Supervisors may convene and preside over the meeting.

Any of the shareholders individually or jointly holding no less than 10% of the Company's shares for not less than 90 consecutive days may propose in writing to the Board to convene an extraordinary general meeting. The Board shall reply in writing in response to such proposal, whether consent or not, within 10 days upon receipt of the proposal in accordance with laws, administrative regulations and the Articles of Association.

If the Board consents to the proposal, a notice on convening such meeting shall be issued within five days following the date of such resolution of the Board, provided that any change to the proposal made in the notice shall be subject to approval of the relevant shareholders.

If the Board rejects the proposal or withholds from responding for 10 days following the receipt of the proposal, such shareholder(s) individually or jointly holding no less than 10% of the shares of the Company for not less than 90 consecutive days may propose to the Board of Supervisors in writing to convene an extraordinary general meeting.

If the Board of Supervisors consents to the proposal, a notice convening such meeting shall be issued within five days following receipt of the proposal, provided that any change to the proposal made in the notice shall be subject to approval of the relevant shareholder(s).

If the Board of Supervisors has not issued any notice on convening such meeting within the prescribed period, it shall be deemed that the Board of Supervisors will not convene and preside over the shareholders' general meeting. Such shareholder(s) individually or jointly holding 10% or above of the Company's shares for not less than 90 consecutive days shall have the right to convene and preside over a shareholders' general meeting.

If the Board of Supervisors or any such shareholder(s) convene(s) a shareholders' general meeting, the Board shall be notified in writing, and the meeting shall be registered with the local branch of the CSRC and the stock exchange(s) in the place where the Company is located.

The shareholder(s) convening the shareholders' general meeting shall hold no less than 10% of the shares of the Company prior to the announcement of any resolution approved at the shareholders' general meeting.

Such convening shareholder(s) shall submit relevant evidence to the local branch of the CSRC and the stock exchange(s) in the place where the Company is located when issuing the notice of shareholder's general meeting and announcement of any resolution approved at the shareholder's general meeting.

The Board and its secretary shall cooperate with the Board of Supervisors or such shareholder(s) convening the meeting. The Board shall provide the register of shareholders as of the record date.

Any such expense necessary to convene the meeting incurred by the Board of Supervisors or such shareholder(s) shall be reimbursed by the Company, and any sum so reimbursed shall be deducted from the amount payable by the Company to the defaulting directors.

Proposal of Shareholders' General Meeting

As a shareholders' general meeting is convened, the Board, Board of Supervisors and any of the shareholders individually or jointly holding no less than 3% of the shares of the Company for not less than 180 consecutive days may propose any resolution to the Company.

Any of the shareholders individually or jointly holding no less than 3% of the shares of the Company for not less than 180 consecutive days may submit an interim proposal in writing to the convener at least 10 days prior to the convening of the shareholders' general meeting. The convener shall then send a supplemental notice to the shareholders to announce the interim proposal, within 2 days upon receipt of such proposal.

Other than the above circumstances, the convener shall not make any change in the notice of the shareholders' general meeting to the existing proposals or add any new proposal after the publication of the notice.

Resolutions at the Shareholders' General Meeting

Resolutions of the shareholders' general meetings shall be classified into ordinary resolutions and special resolutions. An ordinary resolution shall be passed by votes representing not less than half of the voting rights carried by the shareholders (including proxies) present at the meeting. A special resolution shall be passed by votes representing not less than two-thirds of the voting rights carried by the shareholders (including proxies) present at the meeting.

The following matters shall be approved by special resolutions at the shareholders' general meeting:

- increase or reduction in registered capital of the Company;
- issue of shares of any class, warrants and other securities;
- issue of bonds of the Company;
- division, merger, change of nature, dissolution and liquidation of the Company;
- amendment to the Articles of Association;
- purchase or disposal of material assets or guarantees by the Company within one year of a value exceeding 30% of the Company's latest audited total assets (net of customer deposits);

- adoption of share incentive scheme;
- other matters specified by the laws, administrative rules or the Articles of Association and matters specified by ordinary resolutions of shareholders' general meeting that are considered to be significant to the Company and shall be approved by special resolutions.

Shareholders (including their proxies) shall exercise their voting rights representing by the number of voting shares they represent. Each share shall have one vote.

Shares held by the Company do not carry any voting rights and shall not be counted in the total number of voting shares represented by shareholders present at a shareholders' general meeting.

When a connected transaction is considered at a shareholders' general meeting, the connected shareholders shall abstain from voting. The voting shares held by connected shareholders shall not be counted in the total number of shares with voting rights. The announcement on the resolutions of the shareholders' general meeting shall fully disclose the voting of the shareholders who are not connected parties.

Other than the cumulative voting system, the shareholders' general meeting shall vote on all proposals one by one. For different proposals on the same matter, voting shall be proceeded according to the time order of these proposals. Other than special reasons such as force majeure which results in the interruption of the meeting or makes it impossible to come to resolution, the shareholders' general meeting shall not put aside the proposals or withhold from voting.

When shareholders' general meeting is voting on any proposals, lawyers, shareholders' representatives and supervisors' representatives shall be jointly responsible for vote counting and scrutinizing. The voting results shall be announced in the meeting and recorded in the minutes.

Special Procedures for Voting by Class Shareholders

Shareholders holding different classes of shares shall be class shareholders. Except for holders of shares of other classes, the holders of domestic shares and overseas-listed foreign shares are different classes of shareholders.

Any variation or abrogation of the rights of any class of shareholders proposed by the Company shall be approved by a special resolution at the shareholders' general meeting and by the shareholders of the affected class at a separate class meeting.

The following circumstances shall be deemed to be variation or abrogation of the rights of shareholders of a certain class:

- increase or decrease in the number of shares of that class, or increase or decrease in the number of shares of another class having the same or more rights in voting, distribution or other privileges;
- conversion of all or part of the shares of that class into shares of other classes, or conversion of all or part of the shares of other classes into shares of that class or granting rights of such conversion;
- removal or reduction of the entitlement and rights to receive and retain dividends attributable to shares of that class;

- reduction or removal of the priority of the shares of that class to receive dividends or distribution in the event of liquidation;
- increase, removal or reduction of the right of conversion, options, voting rights, the right to transfer, priority in placement of shares and the right to acquire securities of the Company attached to shares of that class;
- removal or reduction of the right to receive sums payable by the Company in particular currencies attached to shares of that class;
- creation of a new class of shares having the same or more rights in voting, distribution or other privileges;
- imposing or strengthening the restriction on the transfer or holding of the shares of that class;
- issue of rights to subscribe for or convert into shares of that class or other classes;
- increase in the rights and privileges of shares of other classes;
- proposed restructure of the Company which shall result in different classes of shareholders having to assume disproportionate liabilities;
- alteration or cancellation of the provisions set out in Article 4 of the Articles of Association.

Shareholders of the affected class, whether or not having the right to vote at the shareholders' general meetings, shall have the right to vote at the class meeting in relation to any of the matters under circumstances 2 to 8, 11 and 12 above, but interested shareholders shall abstain from voting at the relevant class meeting.

A resolution of a class meeting shall be passed by at least two-thirds of the voting rights held by the shareholders present and entitled to vote at the class meeting.

The special procedures for voting by class shareholders shall not apply in the following circumstances:

- pursuant to a special resolution of shareholders' general meeting, the Company issues domestic shares and overseas-listed foreign shares once every 12 months, either separately or concurrently, and the respective numbers of domestic shares and overseas-listed foreign shares proposed to be issued do not exceed 20% of the respective numbers of the issued domestic shares and overseas-listed foreign shares;
- the Company completes the issue of domestic shares and overseas-listed foreign shares according to the plan adopted upon its establishment within 15 months from the date of approval by the securities regulatory authority of the State Council;
- upon the approval from securities regulatory authority of the State Council, holders of the Company's domestic shares transfer their shares to foreign investors for listing and dealing on overseas stock exchange.

DIRECTORS AND THE BOARD

Directors

Directors shall be elected or replaced by shareholders' general meetings. The term of office of a director shall be three years. The directors may be re-elected upon expiration of their term, provided the term of office of an independent director shall not exceed six years.

The term of office of directors shall begin from the date of appointment to the expiration of term of office of the Board. Where the directors have not been re-elected upon the expiration of term of office, the original directors shall, before their posts are taken up by the re-elected directors, still perform their duties in accordance with the laws, administrative rules, departmental regulations, securities regulatory authorities in the place where the securities of the Company are listed and the Articles of Association.

General manager or other senior management may concurrently serve as a director, provided that the aggregate number of directors who concurrently serve as other positions of the Company shall not be more than one half of all directors of the Company.

The directors shall comply with the laws, administrative rules, relevant rules of securities regulatory authorities in the place where the securities of the Company are listed and the Articles of Association and shall faithfully perform the following obligations to the Company:

- not to abuse their rights to accept bribes or other illegal income and not to misappropriate the properties of the Company;
- not to misappropriate the assets of the Company;
- not to deposit any assets or money of the Company in any accounts under their names or in the names of other persons;
- not to violate the Articles of Association and lend the money of the Company to others or provide guarantee to others by charging the Company's assets without approval of the shareholders' general meetings or the Board;
- not to enter into contracts or transactions with the Company in violation of the Articles of Association or without approval of the shareholders' general meeting;
- not to use their position to obtain business opportunities which should be available to the Company for themselves or others, or to carry out his/her own or others' business which is similar to the Company's business without approval of the shareholders' general meeting;
- not to accept commissions in relation to transactions with the Company;
- not to disclose the secrets of the Company without consent;
- not to use their connections to harm the interests of the Company;
- not to assist or connive the controlling shareholder and his/her subsidiaries in misappropriating the assets of the Company;
- to be bound by other obligations stipulated by the laws, administrative rules, departmental regulations, securities regulatory authorities in the place where the securities of the Company are listed and the Articles of Association.

Income received by any director in violation of this article shall be forfeited by the Company. Any director who acts in violation of this article shall be liable for any losses caused to the Company.

The directors shall diligently perform the following obligations to the Company in compliance with laws, administrative regulations, relevant rules of securities regulatory authorities in the place where the securities of the Company are listed and the Articles of Association:

- to exercise prudently, conscientiously and diligently the rights granted by the Company to ensure that the Company's commercial activities are in compliance with the laws, administrative regulations and the economic policies of the PRC and within the scope stipulated in the business license;

- to treat all shareholders equally and fairly;
- to understand the operation and management of the Company in a timely manner;
- to approve regular reports of the Company in written form and to ensure the integrity, accuracy and completeness of the information disclosed by the Company;
- to provide all relevant information required by the Board of Supervisors and shall not intervene in the performance of the Board of Supervisors or supervisors of their duties;
- to perform other obligations of diligence stipulated by the laws, administrative rules, departmental regulations, securities regulatory authorities in the place where the securities of the Company are listed and the Articles of Association.

No director shall act for the Company or the Board without authorization by the Articles of Association or the Board. Where a director acts in his/her own name in a situation where a third party may reasonably believes that such director is acting for the Company or the Board, such director shall declare in advance his/her stance and capacity.

Where a director fails to attend and fails to delegate any other director to attend the meetings of the Board for continuously two times, it shall be deemed that the director is unable to exercise his/her duties, and the Board shall suggest the shareholders' general meeting to remove such director.

The directors may resign before the expiration of their term of office. Where the number of directors is lower than the quorum due to the resignation of the directors, the original directors shall, before their posts are taken up by the re-elected directors, still perform their duties in accordance with the laws, administrative rules, departmental regulations, relevant rules of securities regulatory authorities in the place where the securities of the Company are listed and the Articles of Association. Otherwise, the resignation of directors shall come into effect upon the service of resignation reports to the Board.

In case of the resignation or the expiration of term of office of the directors, all handover procedures shall be handled with the Board, and the loyalty obligations of the directors to the Company and the shareholders will not necessarily be removed upon the termination of the term of office and will remain effective from the date of resignation until such secrets become publicly known. Other duties may continue for such period as the principle of fairness may require depending on the amount of time which has lapsed between the termination and the act concerned and the specific circumstances under which the relationship between the director and the Company was terminated.

The Board

The Company shall have a board accountable to the shareholders' general meeting.

The Board shall consist of fifteen directors, including independent directors of not less than one-third of total number of directors and at least one independent director who shall be a professional of financial management or accounting. The Board shall have a chairman. The number of directors who concurrently hold other positions in the Company shall be not more than half of total number of directors of the Company.

The Board shall perform the following duties:

- to convene shareholders' general meetings and to report to shareholders' general meetings;
- to implement the resolutions of the shareholders' general meetings;

- to determine business operation plans and investment plans of the Company;
- to formulate annual preliminary and final financial budgets of the Company;
- to formulate the profit distribution plans and plans for recovery of losses of the Company;
- to formulate proposals of the Company regarding increase or reduction of the registered capital, issuance of bonds or other securities and listing;
- to formulate plans for any substantial acquisition by the Company, repurchase of shares or merger, division, dissolution and change of form of the Company;
- to decide on matters relating to the Company's external investments, acquisitions or disposal of assets, mortgage of assets, external guarantees, entrusted wealth management and connected transactions as authorized by the shareholders' general meetings;
- to decide on the establishment of the Company's internal management structure;
- to appoint or dismiss the Company's general manager and secretary to the Board and, based on the nominations of general manager, to appoint or dismiss deputy general manager, chief finance officer, chief compliance officer and other senior management and to determine their remuneration and penalties;
- to formulate the basic management policies of the Company, including the basic compliance management system;
- to formulate proposals for any amendments to the Articles of Association;
- to manage the disclosure of information of the Company;
- to propose to general meetings the adjustment of the size and composition of the Board;
- to propose to the shareholders' general meetings the appointment or change of the accounting firm acting as the auditors of the Company;
- to listen to the work report of the general manager of the Company and examine on the general manager's work; to review compliance reports regularly submitted by the Company in accordance with regulatory requirements and evaluate the effectiveness of compliance management of the Company;
- to ensure the independence of the chief compliance officer, guarantee the independent communication between the chief compliance officer and the Board and safeguard the smooth reporting between the chief compliance officer and the regulatory authority;
- other duties and powers granted by the laws, administrative rules, departmental regulations and the Articles of Association.

Other than "merger, division and dissolution plan of the Company" specified in items 6, 7 and 12 that must be approved by the voting of two-thirds of all directors, resolutions on the above items may be approved by the voting of more than one half of the directors.

Any events beyond the authorization scope of the shareholders' general meeting shall be submitted to the shareholders' general meeting for approval.

The Board shall make explanation at the shareholders' general meeting for the non-standard audit opinions on the financial report of the Company issued by the certified public accountant.

The Board shall formulate the rules of procedures of the Board to ensure the implementation of resolutions of the shareholders' general meeting, enhance the working efficiency and ensure the scientific decision making.

Chairman of the Board shall exercise the following duties and powers:

- to preside the shareholders' general meeting and convene and preside the meeting of the Board;
- to urge and examine the implementation of resolutions of the Board;
- to execute the certificates of securities issued by the Company;
- other duties and powers granted by the Board;
- other functions and powers specified in relevant rules of securities regulatory authorities in the place where the securities of the Company are listed.

The notification forms for holding of extraordinary meetings of the Board shall be delivered by hand, mail, facsimile, e-mail or other means; the time period for notification shall be: three days prior to the date of meeting.

The quorum of the meeting of the Board shall be over half of the directors. Unless otherwise provided in the Articles of Association and relevant rules of securities regulatory authorities in the place where the securities of the Company are listed, the resolutions of the Board shall be passed with the approval of over half of all directors.

Where any directors is related to the enterprises involving in the resolution discussed in the meeting of the Board, such director shall neither exercise his/her voting right on such resolution nor exercise the voting right on behalf of other directors. Such meetings of the Board may be held with the attendance of over half of the non-related directors, and the resolutions made by the meetings of the Board must be passed with the approval of over half of the non-related directors. Where the number of non-related directors is less than three, relevant matters shall be submitted to the shareholders' general meeting for approval.

The meetings of the Board shall be attended in person. Where the directors are unable to attend the meetings, other directors may be delegated to attend the meetings on behalf with written consent.

The meetings of the Board shall make minutes and audio recording, if necessary, for the decisions of the matters discussed in the meetings. The minutes shall truly, accurately and completely record the meeting procedures, resolutions, opinion of directors and voting results and be kept in accordance with laws. Directors attending the meeting and the recorders shall sign on the minutes. The directors shall sign and be responsible for the resolutions passed at Board meetings. Where the resolutions of the Board violate the laws, administrative rules, relevant rules of securities regulatory authorities in the place where the securities of the Company are listed or the Articles of Association, resulting in losses to the Company, the directors participating in the resolutions shall be liable to compensate the Company, but the directors that have expressed their objections which have been recorded on the minutes in the meeting may be exempted from the liabilities.

Committees under the Board

The Board of the Company has set up a risk management committee, an audit committee, a strategies committee, a nomination committee, and a remuneration and appraisal committee. All members of the committees shall be directors, while the independent directors in the audit committee, nomination committee and remuneration and appraisal committee shall be more than half of the total number of members and act as conveners of the committees.

The committees shall be accountable and report to the Board in accordance with the Articles of Association.

Secretary to the Board

The Company shall have a secretary to the Board who shall be a senior management of the Company.

The secretary to the Board shall be nominated by the chairman of the Board and shall be appointed or dismissed by the Board.

The secretary to the Board shall mainly perform the following duties:

- to organize general meetings, Board meetings and meetings of special committees under the Board;
- to ensure that constitutional documents and records of the Company are complete;
- to ensure that the Company legally prepares and submits reports and documents as required by the competent authorities;
- to ensure that the registers of shareholders of the Company are properly maintained and persons entitled to access the records and documents of the Company are promptly furnished with such records and documents;
- to perform other duties required by the Articles of Association and listing rules in the place where the securities of the Company are listed.

General Manager and Other Senior Management

The Company shall have one general manager, who shall be appointed or dismissed by the Board. The Company shall have one deputy general manager, who shall be appointed or dismissed by the Board. A general manager shall serve a term of three years and may serve consecutive terms upon reappointment. A director may serve concurrently as senior management.

A person who holds an office other than that of a director of the controlling shareholder or actual controller of the Company shall not act as the senior management of the Company.

The general manager shall be accountable to the Board and perform the following duties:

- to be in charge of the operation and management of the Company, organize the execution of the resolutions of the Board and report his/her work to the Board;
- to prepare and implement the annual operation plan and investment plan of the Company;
- to formulate the internal management structure of the Company;
- to formulate the basic management system of the Company;
- to formulate rules and regulations for the Company;

- to propose to the Board the appointment or dismissal of the deputy general manager, chief financial officer, chief compliance officer and other senior management (other than the secretary of the Board);
- to appoint or dismiss management members other than those required to be appointed or dismissed by the Board;
- to perform other duties delegated by the Articles of Association or the Board.

The working rules of the general manager shall be prepared by himself/herself for approval of the Board.

If a senior management violates any laws, administrative regulations, departmental rules or the Articles of Association when performing duties of the Company he/she shall be liable personally for losses caused to the Company therefrom.

Chief Compliance Officer

The chief compliance officer shall be in charge of the compliance of the Company. The Company shall have a chief compliance officer who shall examine, supervise and inspect the compliance of the operation management and practice of the Company and its employees. The chief compliance officer shall not concurrently hold other positions with duties in conflict with those of the compliance management and shall not concurrently take charge of the department with duties in conflict with those of the compliance management.

The chief compliance officer be nominated by the general manager of the Company and shall be appointed or dismissed by the Board of the Company.

The Company shall appoint the chief compliance officer in accordance with the qualification requirements of regulations and regulatory departments. The procedures for the appointment and removal of chief compliance officer shall comply with requirements of laws and regulations and regulatory departments.

The chief compliance officer shall perform the following duties:

- to conduct compliance examination on internal management systems, major decisions, new products and new business plans of the Company and issue written compliance examination opinions; examine application materials or reports submitted to securities regulatory authorities by the Company as required and give clear opinions on the application materials or reports with his/her signatory;
- to take effective measures to supervise the compliance of operation management and practices of the Company and its employees, and conduct regular and irregular examinations in accordance with requirements of securities regulatory authorities and regulations of the Company;
- to organize and implement the anti-money laundering and information wall system of the Company;
- to provide compliance consultation and organize compliance trainings for the senior management, various departments and branches;
- to deal with complaints and reports on the conduct of the Company and its employees violating the laws and regulations;

- to formulate and regularly submit compliance reports in accordance with laws, regulations or requirements of securities regulatory authorities;
- to report to the general manager and local branches of the CSRC in a timely manner in the place where the Company operates when violation of laws and regulations or compliance risk is found; report to relevant self-regulatory organizations in the event of violation of industrial standards and self-regulatory rules;
- to propose to the Board or the senior management of the Company in case of changes of laws, regulations and standards in the timely manner, and supervise the relevant department of the Company; assess such effects to the compliance management of the Company; and amend and refine the relevant management system and operational flow;
- to maintain communication with securities regulatory authorities and self-regulatory organizations, take initiative to cooperate with securities regulatory authorities and self-regulatory organizations;
- to handle investigation required by securities regulatory authorities and self-regulatory organizations in the timely manner, cooperate with securities regulatory authorities and self-regulatory organizations in their examination and investigation on the Company, and track and evaluate the implementation of regulatory opinions and requirements;
- in the event that the provisions of laws and regulations are not expressly stated and it is difficult to make accurate judgment about the compliance of the operation management and practices of the Company and its working staff, the chief compliance officer may seek advice from securities regulatory authorities and self-disciplinary organizations;
- to have the right to participate or attend such meeting related to the implementation of his/her duties, locate and read the relevant files and information, and require the Company's relevant personnel to give explanation on the relevant matters.
- where deemed necessary, to engage external professional institutions or personnel for assistance in the name of the Company;
- to exercise other functions and powers specified in laws, regulations, requirements of securities regulatory authorities and the Articles of Association.

The Company shall protect the independence of the chief compliance officer and safeguard the chief compliance officer such that the chief compliance officer can fully exercise such right of information and right of enquiry as required for implementing his/her duties.

Supervisors and Supervisory Committee

Supervisors

Directors, senior management of the Company and their direct relatives and major social connections shall not serve as supervisors of the Company concurrently.

The supervisors of the Company shall be assumed by shareholder representatives and employee representatives of the Company. The supervisors assumed by employee representatives shall not be less than one-third of total number of supervisors. If the number of directors nominated by any particular shareholder is more than half of the members of the Board, the number of supervisors nominated by such shareholder shall not be more than one-third of the members of the supervisory committee.

The term of office of a supervisor shall be three years. Supervisors may be re-elected for successive terms.

Where a supervisor is not re-elected or resigns before the expiration of his/her term resulting in the Board of Supervisors members to be less than the requisite quorum, the original supervisor shall, before his/her post is taken up by the re-elected supervisor, still perform his/her duties in accordance with the laws, administrative rules, relevant rules of securities regulatory authorities in the place where the securities of the Company are listed and the Articles of Association.

The supervisors may attend the board meetings and raise questions or suggestions to the resolutions at the board meetings.

Board of Supervisors

The Company shall have the Board of Supervisors. The Board of Supervisors shall consist of nine supervisors, including a chairman. The election of the chairman of the Board of Supervisors shall be determined by two-thirds or more of the members of the Board of Supervisors. Meetings of the Board of Supervisors shall be convened and presided over by the chairman of the Board of Supervisors. Where the chairman of the Board of Supervisors is incapable of performing or fails to perform his/her duties, a supervisor elected by not less than half of the supervisors shall convene and preside over the meeting of the Board of Supervisors.

Members of the Board of Supervisors shall have six shareholders' representative supervisors, who shall be elected by the shareholders' general meeting, and three staff representatives in the Board of Supervisors, who shall be elected by the staff of the Company by democratic election.

The Board of Supervisors shall perform the following duties:

- to review the periodical reports of the Company prepared by the Board and to provide comments in writing;
- to inspect the financial position of the Company;
- to supervise the performance of the directors and senior management and to advise the dismissal of any director or senior management who violates the laws, administrative regulations, the Articles of Association, relevant rules of securities regulatory authorities in the place where the securities of the Company are listed or resolutions of the shareholders' general meetings or has triggered significant compliance risks;
- to question the conduct of directors and senior management;
- to demand rectification of the directors and senior management where their conducts are detrimental to the interests of the Company and clients;
- to organize the departure audit of senior management;
- to propose to convene an extraordinary general meeting and to convene and preside over the shareholders' general meeting if the Board fails to do so as required by the Company Law;
- to propose motions in a shareholders' general meeting;
- to take legal actions against directors and senior management in accordance with section 151 of the Company Law;

- to attend Board meetings and make inquiries or suggestions in relation to the resolutions of such meetings;
- examine the financial information such as the financial reports, operating reports and distribution plans of profits to be submitted by the Board to the shareholders' general meetings and to investigate any queries or irregularities of the Company and request for the assistance of the compliance officer and compliance department of the Company. If necessary, the Board of Supervisors may engage professional institutions, such as accounting firms or law firms, to assist their work with expenses borne by the Company.
- to supervise the performance of duties by the Board and the management; to examine the compliance of the decision and decision-making process of the Board and to supervise the prompt rectification of compliance defects whether ; to supervise the implementation of the compliance measures of the Company; to evaluate the effectiveness of the compliance risks management system of the Company at least once a year;
- to exercise other duties conferred by laws, regulations, departmental rules, other normative documents and the Articles of Association or approval of the general meeting.

The Board of Supervisors shall discuss matters through meetings. The Board of Supervisors shall convene at least one regular meeting every six months. An extraordinary meeting of the Board of Supervisors shall be convened if so proposed by the supervisors.

Resolutions of the Board of Supervisors

Resolutions of the Board of Supervisors shall be approved by not less than two thirds of the supervisors. Meetings of the Board of Supervisors shall be attended in person or through video or telephone conferencing unless it is impracticable due to emergency, force majeure or other special reasons.

If necessary and if the supervisors are allowed to express their opinions, extraordinary meeting of the Board of Supervisors may also be conducted by fax and e-mail voting or other methods of voting as approved by the convener and proposer.

The Board of Supervisors shall formulate the rules of the meeting of Supervisory Committee to regulate the discussion and voting procedures so as to ensure that the meeting is conducted in a proper manner and the decision of the meeting is reasonable.

Minutes of meetings of the Board of Supervisors shall be prepared and may be recorded in audio form. The minutes shall truly, accurately and completely record the meeting procedures, resolutions, opinion of supervisors and voting results and shall be maintained in accordance with the laws. Supervisors attending the meeting and the recorders shall sign on the minutes.

QUALIFICATION AND DUTIES OF THE DIRECTORS, SUPERVISORS, GENERAL MANAGER AND OTHER SENIOR MANAGEMENT

The following persons shall not serve as directors, supervisors, general manager or other senior management of the Company:

- persons without civil capacity or with limited civil capacity;
- persons who have committed offences relating to corruption, bribery, embezzlement, misappropriation of property or disruption of 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 who have been deprived of their political rights due to the commission of a criminal offense, where less than five years have elapsed since the date of restoring their political rights;

- persons who were former directors, factory managers or general manager of a company or enterprise which was declared bankrupt and was liquidated due to poor operation and who were personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of completion of the bankruptcy and liquidation of the company or enterprise;
- persons who were legal representatives of a company or enterprise which had its business license revoked and operation closed down due to violation of the laws and who were personally liable, where less than three years have elapsed since the date of the revocation;
- persons who have a substantial amount of debts due and outstanding;
- persons who are prohibited from entering into the securities market by the CSRC for a period which has not yet expired;
- persons in charge of stock exchange, securities registration and clearing institutions or directors, supervisors, senior management of securities companies who were dismissed due to illegal or improper behavior, where less than five years have elapsed since the date of the removal;
- persons who have been convicted by the competent authority for violation of securities regulations and acting fraudulently or dishonestly, where less than five years have elapsed since the date of conviction;
- persons who were lawyers, certified public accountants or professionals of investment advisory institutions, financial consultancy institutions, credit rating institutions, assets evaluation or certification institutions and whose qualifications were revoked due to illegal or improper behavior, where less than five years have elapsed since the date of the revocation;
- government officers and other persons who are prohibited by laws, administrative regulations and relevant rules of securities regulatory authorities in the place where the securities of the Company are listed to concurrently take up posts in a company;
- persons who were subject to administrative penalties by the financial regulatory authority due to illegal or improper behavior, where less than three years have elapsed since the date of completion of the penalties;
- persons who are disqualified by the CSRC, where less than three years have elapsed since the date of disqualification;
- persons who are declared to be unfit by the CSRC, where less than two years have elapsed since the date of the declaration;
- persons who are prohibited from acting as a management member of a company by laws or administrative regulations;
- persons who are not natural persons;
- persons who are under investigation by legal authority due to criminal offences;
- other circumstances specified by the CSRC;

- other persons specified by the laws, administrative regulations, relevant rules or departmental rules of securities regulatory authorities where the securities of the Company are listed.

Any election, delegation or appointment of director, supervisor, general manager or other senior management in contravention of this article shall be invalid. Any director, supervisor, general manager or other senior management falling into any of the circumstances set out in this article during his/her term of office shall be dismissed.

The validity of the conduct of directors, general manager or other senior management who act in good faith on behalf of the Company with respect to third parties shall not be affected by any irregularity in their appointment, election or qualification.

The directors, supervisors, general manager and other senior management of the Company shall perform their duties in accordance with the principle of fiduciary and shall not put themselves in a position where their duties and their interests may conflict. These principles include but not limited to the following:

- to act honestly in the best interests of the Company;
- to exercise powers within the scope of their powers;
- to exercise their discretion vested in them and not to allow themselves to act under the control of another and, unless and to the extent permitted by the laws, administrative regulations or with the consent of shareholders' general meeting, not to delegate others to exercise their discretion;
- to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- not to enter into any contract, transaction or arrangement with the Company unless otherwise provided by the Articles of Association or with the consent of shareholders' general meeting;
- not to use the Company's property for their own benefit without the consent of shareholders' general meeting;
- not to exploit their positions to accept bribes or other illegal income or expropriate the property of the Company by any means, including but not limited to opportunities advantageous to the Company;
- not to accept commissions in connection with the transactions of the Company without the consent of shareholders' general meeting;
- to abide by the Articles of Association, perform their official duties faithfully and protect the interests of the Company, and not to exploit their positions and powers in the Company for their own interests;
- not to compete with the Company in any way without the consent of shareholders' general meeting;
- not to misappropriate the Company's funds or lend such funds to others, not to open accounts in their own names or other names for the deposit of the assets of the Company and not to provide guarantee for debts of a shareholder of the Company or other individual(s) with the assets of the Company;

- unless otherwise permitted by shareholders' general meeting, to keep confidential the information acquired by them in the course of and during their tenure and not to use the information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other government authorities is permitted if the disclosure is:
  1. by order of the laws;
  2. in the interests of the public;
  3. in the interest of the relevant director, supervisor, general manager or other senior management.

The fiduciary duties of the directors, supervisors, general manager and other senior management of the Company do not cease with the termination of their tenure. The duty of confidentiality in relation to trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as fairly required depending on the time lapse between the termination and the act concerned and the circumstances under which the relationships between them and the Company are terminated.

Where a director, supervisor, general manager and any other senior management of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (other than his/her contract of service with the Company), he/she shall declare the nature and extent of his/her interests to the Board as soon as possible, whether or not the related matters under normal circumstances is subject to the approval of the Board.

The Company shall not in any manner pay taxes on behalf of a director, supervisor, general manager and other senior management of the Company.

The Company shall not, directly or indirectly, make a loan or provide any guarantee for a loan to a director, supervisor, general manager and other senior management of the Company or the Company's parent company or any of their respective associates. The prohibition mentioned in the preceding paragraph shall not apply to the following circumstances:

- a loan or a guarantee for a loan by the Company to its subsidiaries;
- a loan or a guarantee for a loan or other funds to any of its directors, supervisors, general manager and other senior management by the Company to meet expenditure incurred or to be incurred by him/her in the interests of the Company or for the purpose of enabling him/her to perform duties for the Company in accordance with the terms of an employment contract approved by the shareholders' general meeting;
- the Company can make a loan or provide any guarantee for a loan to a director, supervisor, general manager and other senior management of the Company in the ordinary course of business, provided that the conditions for the loan and the guarantee shall be on normal commercial terms.

A loan made by the Company, regardless of its conditions, in breach of the aforesaid regulations shall be repaid immediately by the recipient of the loan.

In addition to the rights and remedies provided by the laws and administrative regulations, where a director, supervisor, general manager and other senior management of the Company is in breach of his/her duties to the Company, the Company has the right to:

- claim damages from such director, supervisor, general manager and other senior management for losses incurred to the Company as a result of his/her dereliction of duty;
- rescind any contract or transaction entered into by the Company with the director, supervisor, general manager and other senior management or with a third party (where such third party knows or should have known that there is a breach of duties of such director, supervisor, general manager and other senior management);
- require the director, supervisor, general manager and other senior management to surrender the profits made due to a breach of duties;
- recover any money received by the director, supervisor, general manager and other senior management which should have been received by the Company, including but not limited to commissions;
- require the payment of interest earned or which may have been earned by the director, supervisor, general manager and other senior management on the money that should have been paid to the Company.

The Company shall enter into written contracts on issues regarding the remuneration with the directors and supervisors, and submit such contracts to the shareholders' general meeting for approval.

The Company shall specify in the contracts entered into with the directors or supervisors in relation to remunerations that if the Company will be acquired, the directors or supervisors of the Company shall have the right to obtain compensation or other funds for the loss of their positions as directors or supervisors or for retirement, subject to prior approval of the shareholders' general meeting.

FINANCIAL AND ACCOUNTING SYSTEM, PROFIT DISTRIBUTION AND AUDIT

Finance and Accounting Systems

The Company shall establish its financial and accounting systems in accordance with the laws and administrative regulations and the requirements of the relevant governmental authorities.

In addition to the PRC accounting standards and regulations, the financial statements of the Company shall also be prepared in accordance with the international accounting standards or the accounting standards of the place outside the PRC where the securities of the Company are listed. Any material discrepancy between the financial statements prepared in accordance with two different accounting standards shall be explained in the notes to the financial statements. Distribution of profits after tax of the relevant financial year shall be based on the lower of the profits after tax shown in the two financial statements mentioned above.

Interim results or financial information published or disclosed by the Company shall be prepared in accordance with PRC accounting standards and regulations as well as international accounting standards or the accounting standards of the place outside the PRC where the securities of the Company are listed.

The Company shall publish its financial report twice for every financial year. The interim results shall be published within 60 days from the first six months of the end of the financial year. The annual financial report shall be published within 120 days from the end of the financial year. If there is any requirements of the securities regulatory authority in the place where the securities of the Company are listed, such requirements shall apply.

The Board shall submit financial reports prepared by the Company as required by applicable laws, administrative regulations, regulatory documents of any local government and competent authority and relevant rules of securities regulatory authorities where the securities of the Company are listed in each annual general meeting.

The Company shall not keep accounts other than those required by laws. The assets of the Company shall not be kept under the name of any individual.

Profit Distribution

In the distribution of the profit after tax of the year, 10% of the profit shall be contributed to statutory reserve of the Company. When the aggregate statutory reserve of the Company has reached 50% or more of the registered capital, the Company may cease to make further contribution.

Where the statutory reserve is insufficient to recover the losses for the previous year, the losses shall be made up by the profits of that year before using the statutory reserves as stipulated above.

The Company shall appropriate fund to other specific reserve applicable to securities companies from the annual profit after tax in accordance with the laws and regulations.

Subject to the resolution of shareholders' general meeting, the Company may also appropriate fund to discretionary surplus reserve from profit after tax upon the appropriate of fund to statutory reserve and other specific reserves applicable to securities companies from profit after tax.

The Company may distribute profits in accordance with the proportion of shareholdings after making up losses and making allocations to the statutory reserve and other specific reserves applicable to securities companies. The profits distributable to shareholders in cash shall be in compliance with relevant laws and regulations and the Company shall ensure that net capital and other risk control indicators of the Company shall not be lower than the alert level stipulated in the "Measures for the Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》)" upon the implementation of profit distribution plan.

If a shareholders' general meeting violates the provisions in the preceding paragraph and profits are distributed to the shareholders before the Company making up losses and making allocations to the statutory reserve fund and other specific reserves applicable to securities companies or profits are distributed in violation with relevant laws and regulations, the profits distributed in violation of the provisions shall be returned to the Company.

No profit shall be distributed in respect of the shares of the Company which are held by the Company.

The reserves of the Company shall be applied to make up accumulated losses, to expand the production and operation of the Company or to increase the capital of the Company, provided that the capital reserve shall not be applied to make up losses of the Company.

Capital reserves shall include:

- premium on shares issued at premium;
- any other income required to be allocated to the capital reserve by the finance regulatory department of the State Council.

The statutory surplus reserve after capitalization shall not be less than 25% of the registered capital of the Company before the capitalization.

After the profit distribution plan has been adopted at shareholders' general meeting, the Board shall complete the dividend (or share) distribution within two months after the end of the shareholders' general meeting.

The profit distribution policy of the Company shall be as follows: the Company places a great emphasis on the reasonable investment returns of its investors and aims to implement a sustainable and stable profit distribution policy. The profit distributed by the Company shall not exceed its accumulated distributable profit, and the Company shall ensure that, upon the implementation of the profit distribution policy, all risk control indicators shall be in compliance with the requirements of the alert level stipulated in the "Measures for the Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》)"; the Company may distribute its dividends in cash, shares or a combination of both and shall give priority to profit distribution in cash. The profit distributed in cash by the Company for the year shall not be less than 10% of the distributable profit for such year, and the profit distributed in cash by the Company for three consecutive years in aggregate in the past three years shall not be less than 30% of distributable profit for such three years. The Company distributes profit once every year in principle, and the Board may propose an interim cash dividend based on profitability and capital requirement of the Company. Provided that the requirement of above profit distribution in cash is met and reasonable scale of share capital is ensured, and with particular attention paid on maintaining expansion of its capital and business in pace with the growth in operation results, the Company may consider distributing profit by way of share dividends.

The decision-making procedures of the profit distribution policy of the Company are as follows: the profit distribution proposal and plan of the Company shall be reasonably made by the management and the Board of the Company, taking into consideration of profitability, capital requirement and proposed returns for shareholders of the Company. Independent opinions shall be made by independent directors in respect of profit distribution plan and shall be publicly disclosed. The profit distribution plan of the Company shall be submitted to shareholders' general meeting for approval after being adopted by the Board. When considering the specific plan for profit distribution in cash, the shareholders' general meeting shall take the initiative to communicate and interact with shareholders, particularly minority shareholders, through various channels. Opinions and requests of minority shareholders shall be fully considered at the shareholders' general meeting to ensure the rights for the general public to receive reasonable investment returns.

The decision-making procedures of the adjustments to the profit distribution policy of the Company are as follows: in the event that the Company have to made adjustments to its profit distribution plan and proposed returns for shareholders due to changes in the external business environment or significant changes of its operation, the management shall submit detailed argumentation and explanation of the adjustments to the Board. The independent directors shall give independent opinions on the adjustments in the profit distribution policy which shall be submitted to shareholders' general meeting for consideration and approval after being adopted by the Board. The

Company shall take the initiative to communicate and interact with minority shareholders to collect their opinions and requests through various channels. Upon the publishing of shareholders' general meeting notice, the Company shall issue a supplementary notice of shareholders' general meeting within three days after the record date. The adjustment proposal shall be passed by no less than two-thirds of the voting rights represented by the shareholders present at the shareholders' general meeting.

Any amount paid up on any shares before a call is confirmed by the Company shall be entitled to dividends thereon, except for any dividends declared thereafter.

Subject to the relevant laws, regulations, regulative documents and relevant rules of securities regulatory authorities in the place where the securities of the Company are listed, the Company may confiscate any unclaimed dividends after the expiry of the applicable term of validity.

If dividend warrants have been left uncashed on two consecutive occasions, the Company shall be entitled to stop sending dividend warrants to holders of overseas-listed foreign-invested shares by post. However, such power may be exercised after the first occasion on which such a warrant is returned and undelivered.

The Company shall have the power to sell, in such manner as the Board thinks fit, any overseas-listed foreign-invested shares of a holder who is untraceable subject to the following conditions:

- the Company has distributed dividends at least three times in respect of such shares within 12 years, but none of such dividends was claimed;
- the Company, after the expiration of a period of 12 years, made an announcement in one or more newspapers in the place where the Company is listed, stating its intention to sell such shares, and notify the securities regulatory authority of the place where the Company is listed of such intention.

The Company shall appoint receiving agents on behalf of the holders of overseas-listed foreign-invested shares to receive, on behalf of the relevant shareholders, any dividends declared and all other receivables.

The receiving agents appointed for holders of overseas-listed foreign-invested shares listed in the Hong Kong shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

Internal Audits

The Company shall adopt an internal audit system and designate auditors to supervise the internal audits of incomes and expenses as well as the business activities of the Company.

The internal audit system of the Company and the duties of auditors shall come into effect upon the approval of the Board. The person in charge of audits shall be accountable to and report to the Board.

Appointment of Accounting Firm

The Company shall appoint an independent accounting firm which is qualified in accordance with relevant provisions of China to audit the financial statements, verify the net assets and provide other relevant consultancy services. The accounting firm appointed by the Company shall hold office for a period of one year from the end of each annual general meeting to the end of next annual general meeting, subject to renewal.

The accounting firm appointed by the Company shall have the following rights:

- to review the books, records or vouchers of the Company at any time, and to require the directors, general manager or other senior management of the Company to supply relevant information and explanations;
- to require the Company to take all reasonable steps to obtain from its subsidiaries such information and explanation as are necessary for the discharge of the duties of accounting firm;
- to attend shareholders' general meetings and to receive all notices of, and other information relating to, any shareholders' general meeting to which any shareholder shall also be entitled, and to speak at any shareholders' general meeting in relation to matters concerning its role as the accounting firm of the Company.

Notwithstanding the terms set out in the contract between the Company and the accounting firm, shareholders at a shareholders' general meeting may, by way of ordinary resolution, remove the accounting firm before the expiration of its term of office, but without prejudice to the right of the firm to claim for damages in respect of such removal.

Appointment, dismissal or non-renewal of the accounting firm by the Company shall be subject to decision at the shareholders' general meeting and shall be filed with the securities regulatory authority under the State Council.

A 30-day prior notice shall be given to the accounting firm if the Company decides to remove such accounting firm or not to renew the appointment. The accounting firm shall be entitled to make representations when the resolution regarding the removal of the accounting firm is considered at the relevant shareholders' general meeting.

The remuneration of the accounting firm or the way in which the firm is to be remunerated shall be determined by the shareholders' general meeting. The remuneration of the accounting firm appointed by the Board shall be determined by the Board.

If an accounting firm resigns from its position, it shall make representations to the shareholders' general meeting whether there has been any impropriety on the part of the Company.

An accounting firm may resign its office by depositing a written resignation notice at the legal address of the Company. Resignation of the accounting firm shall become effective on the date of such deposit or on such later date stipulated in such notice. Such notice shall contain the following statements:

- a statement to the effect that there are no circumstances in connection with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company;
- a statement of any other circumstances requiring an explanation.

If the notice of resignation of accounting firm contains a statement in respect of any circumstances requiring an explanation, it may require the Board to convene an extraordinary general meeting for the purpose of receiving an explanation of the circumstances in connection with its resignation.

NOTICES AND ANNOUNCEMENTS

Notices of the Company shall be delivered by the following means:

- by hand;
- by mail;
- by fax or email;
- subject to laws, administrative regulations, departmental rules, regulative documents, applicable regulations of relevant regulatory authorities, the Articles of Association and the listing rules of the place where the securities of the Company are listed, by publishing information on the website of the securities regulatory authority or any such website as designated by the stock exchanges;
- by announcement;
- by other means agreed by the Company or the addressees in advance or other means as approved by the addressees after receipt of the notices;
- by other means recognized by regulatory authorities of the place where the securities of the Company are listed or required by the Articles of Association.

Pursuant to the Hong Kong Listing Rules, subject to the laws and regulations and listing rules of the place where the securities of the Company are listed as well as the Articles of Association, corporate communications (as defined in Hong Kong Listing Rules) may be provided or sent to holders of H shares by making announcement on the websites designated by the Company and/or the websites of the Hong Kong Stock Exchange or by other electronic means.

Where a notice is served by way of announcement, upon the publication of such announcement, all relevant persons shall be deemed to have received the notice.

The Company may send only the English or the Chinese version of any corporate documents to its shareholders if it has properly confirmed with the shareholders on such arrangement in accordance with and to the extent permitted by applicable laws and regulations even when corporate documents are required to be sent, distributed, given, published or otherwise provided in both English and Chinese under the listing rules of the place where the securities of the Company are listed.

If a notice of meeting is not sent to a person who is entitled to receive the notice by accident or if such person has not received the notice of meeting, the meeting and any resolutions made therein shall not become void thereby.

MERGER, DIVISION, CAPITAL INCREASE, CAPITAL REDUCTION, DISSOLUTION AND LIQUIDATION

Merger, Division, Capital Increase and Capital Reduction

The merger or division of the Company shall be proposed by the Board and the proposal shall be submitted to the shareholders' general meeting for approval in accordance with the procedures set out in the Articles of Association. Approval for merger or division shall be sought in accordance with the relevant legal requirements. A shareholder who disagrees with the proposed merger or division shall have the right to demand the Company or the consenting shareholders to acquire his shares at a fair price.

Where there is a merger of the Company, the merging parties shall execute a merger agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within 10 days from the date of the merger resolution and shall publish an announcement in newspapers or by other means within 30 days from the date of the merger resolution. The creditors may, within 30 days after receipt of notice or, if the creditors do not receive such notice, within 45 days of the announcement, demand the Company to repay in full or to provide a guarantee. Upon merger, the credits and liabilities of each of the merged parties shall be assumed by the surviving party or the newly established company. Where there is a division of the Company, its assets shall be divided accordingly.

Where there is a division of the Company, the division parties shall execute a division agreement and shall prepare a balance sheet and inventory of assets. The Company shall notify its creditors within 10 days from the date of the division resolution and shall publish an announcement in newspapers or by other means within 30 days from the date of the division resolution. Unless a written agreement has been entered into by the Company and its creditors in relation to the repayment of debts before division, liabilities of the Company prior to the division shall be jointly assumed by the surviving companies after the division.

Where the Company is required to reduce its registered capital, it shall prepare a balance sheet and an inventory of assets.

The Company shall notify its creditors within 10 days from the date of the resolution for reduction of capital and shall publish an announcement in newspapers or by other means within 30 days from the date of such resolution. A creditor has the right within 30 days after receipt of the notice or, in the case of a creditor who does not receive such notice, within 45 days of the date of the announcement, to demand the Company to repay its debts or to provide a guarantee for such debt.

The registered capital of the Company after reduction shall not be less than the statutory minimum amount.

The Company shall apply for change in its registration with the company registration authority in the event of any change in any particulars in its registration as a result of any merger or division. Where the Company is dissolved, the Company shall apply for cancellation of its registration. Where a new company is established, the Company shall apply for registration.

Dissolution and Liquidation

The Company shall be dissolved and liquidated in accordance with the laws upon the occurrence of any of the following events:

- a resolution on dissolution is passed by shareholders at a shareholders' general meeting;
- dissolution is required due to the merger or division of the Company;
- other causes of dissolution set out in the Articles of Association have occurred;
- the Company is declared bankrupt due to its failure to repay debt due;
- the business license of the Company is revoked or the Company is ordered to close down or de-registered;
- where the Company gets into serious trouble in operation and management and its continuation may cause substantial loss in shareholders' interests, and no solution can be found through any other channel, shareholders representing more than 10% of the total voting rights of the Company may request the People's Court to dissolve the Company.

Upon the occurrence of the third situation described above, the Company may continue to exist by amending the Articles of Association subject to the approval by votes representing more than two-thirds of the voting rights of the shareholders' general meeting held by the shareholders. If the Company is being dissolved under the first, third or sixth circumstance described above, a liquidation committee shall be set up within 15 days from the approval of securities regulatory authority under the State Council. Members of the liquidation committee shall be determined by shareholders' general meeting by way of ordinary resolution. If a liquidation committee is not set up within the specified period, the creditors may apply to the People's Court for appointment of relevant persons to form a liquidation committee.

If the Company is dissolved due to the occurrence of the second circumstance described above, it shall apply to the securities regulatory authority under the State Council with the reason of dissolution and relevant documents. The dissolution shall be subject to the approval of securities regulatory authority under the State Council.

If the Company is dissolved due to the occurrence of the fourth circumstance described above, a liquidation committee comprising of securities regulatory authority under the State Council, shareholders, relevant authorities and professional members shall be established by the People's Court in accordance with relevant laws to liquidate the Company pursuant to the laws relating to company bankruptcy.

If the Company is dissolved due to the occurrence of the fifth circumstance described above, a liquidation committee comprising of shareholders of relevant competent authority, relevant authorities and relevant professional member shall be established to perform liquidation.

Upon passing of the resolution at shareholders' general meeting for the liquidation of the Company, all functions and powers of the Board shall be ceased.

The liquidation committee shall perform the following duties:

- to check the assets of the Company and prepare a balance sheet and an inventory of assets;
- to notify the creditors by notice or announcement;
- to deal with and settle the outstanding affairs of the Company;
- to settle outstanding taxes as well as taxes arising in the course of liquidation;
- to settle all creditors' rights and debts;
- to dispose of the remaining assets of the Company after the settlement of debts;
- to represent the Company in any civil proceedings.

The liquidation committee shall notify the creditors within 10 days from the date of its establishment and make public announcement in newspapers or through other channels within 60 days of its establishment. Creditors shall declare their claims to the liquidation committee within 30 days after receipt of the notice, or within 45 days from the date of the announcement if they do not receive the notice.

Creditors shall provide explanation for the relevant particulars and evidence of the claims upon declaration of such claims. The liquidation team shall register the creditors' claims.

The liquidation committee shall not settle the debts to creditors until the expiry of the period for declaration of claims.

After checking the assets of the Company and preparing a balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan for the confirmation of shareholders' general meetings or the People's Court.

The remaining assets of the Company, after payment of liquidation expenses, wages, social insurance contribution and statutory compensation of staff, and taxes and debts of the Company, shall be distributed to shareholders in proportion to their shareholdings.

During the liquidation period, the Company shall continue to exist but shall not carry out any business activities not relating to liquidation. The assets of the Company shall not be distributed to shareholders before the settlement of debts in accordance with the preceding article.

If the liquidation committee, after checking the assets of the Company and preparing a balance sheet and an inventory of assets, discovers that its assets are insufficient to settle its debts, it shall immediately apply to the People's Court for a declaration of bankruptcy.

After the Company is declared bankrupt by the People's Court, the liquidation committee shall hand over the liquidation matters to the People's Court.

Upon completion of liquidation, the liquidation committee shall prepare a liquidation report and a statement of the receipts and payments and the financial accounts for the liquidation period which shall have been audited by PRC certified public accountants for the approval of the shareholders' general meeting or the competent authorities.

The liquidation committee shall submit the aforesaid documents to the company registration authority, apply for deregistration of the Company, and announce the closure of the Company within 30 days after approval is obtained from the shareholders' general meeting or competent authorities.

AMENDMENTS OF THE ARTICLES OF ASSOCIATION

The Company shall amend the Articles of Association in any of the following situations:

- there is a conflict between the Articles of Association and the laws and administrative regulations after the amendment to the Company Law or applicable laws and administrative regulations or relevant rules of securities regulatory authorities in the place where the securities of the Company are listed;
- there are changes in the Company rendering the Articles of Association incorrect;
- the shareholders' general meeting resolves to amend the Articles of Association.

SETTLEMENT OF DISPUTES

The Company shall follow the following rules for settlement of disputes:

- All disputes and claims between shareholders of overseas-listed foreign-invested shares and the Company, between shareholders of overseas-listed foreign-invested shares and directors, supervisors, general manager or other senior management of the Company, or between shareholders of overseas-listed foreign-invested shares and shareholders of domestic shares arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or any other applicable laws and administrative regulations concerning the affairs of the Company shall be referred by the relevant parties to arbitration.

Where a dispute or claim is referred to arbitration, the dispute or claim shall be referred to arbitration as a whole. All parties which have the same cause of action, or are required to participate in the settlement of the dispute or claim, such parties shall be subject to the arbitration if such parties are the Company or the shareholders, directors, supervisors, general manager or other senior management of the Company.

Disputes in relation to the identification of shareholders and register of shareholders need not to be resolved by arbitration.

- A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its Arbitration Rules or 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 body elected by the claimant.

If a claimant elects arbitration at 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.

- If any of above disputes or claims of rights are settled by way of arbitration, the laws of the People's Republic of China shall apply, except as otherwise provided in the laws and administrative regulations.
- The award of an arbitration body shall be final and conclusive and shall be binding on all parties. Any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearing in open session and to publish its award.

1. FURTHER INFORMATION ABOUT OUR COMPANY

A. Incorporation

The predecessor of our Company, the Securities Department of China Merchants Bank (招商銀行證券業務部) was established on August 3, 1991, which was later registered as an enterprise legal person with the approval of Shenzhen Administration of Industry & Commerce on August 1, 1993. On June 28, 2002, we were renamed as China Merchants Securities Co., Ltd. Our registered office is located at 38/F – 45/F, Block A, Jiangsu Tower, Yitian Road, Futian District, Shenzhen, Guangdong Province, PRC.

We have established a place of business in Hong Kong at 48/F, One Exchange Square, 8 Connaught Place, Central, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on August 11, 2015 under the English corporate name of "China Merchants Securities Co., Ltd." and Chinese corporate name of "招商證券股份有限公司". Ms. Kwong Yin Ping Yvonne is the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong. The address for service of process on our Company in Hong Kong is the same as its principal place of business in Hong Kong as set out above.

As our Company was established in the PRC, we are subject to the relevant laws and regulations of the PRC. A summary of the relevant aspects of laws and regulations of the PRC and our Articles of Association is set out in Appendices IV and V to this prospectus.

B. Changes in the Share Capital of Our Company

As approved by the CSRC, our Company issued 358,546,141 A Shares which have been listed on the Shanghai Stock Exchange since November 17, 2009. Immediately following the A Share Offering, the registered capital of our Company was increased from RMB 3,226,915,266 to RMB3,585,461,407.

In August 2011, our Company increased our registered capital to RMB4,661,099,829 through the capitalization of capital reserves.

On May 27, 2014, our Company completed the issuance of 1,147,035,700 A shares by way of private placement. As a result, our registered capital was increased to RMB5,808,135,529 in October 2014.

There has been no alteration in our registered capital since the private placement in May 2014.

Upon completion of the Global Offering and after the conversion of A Shares to H Shares and the transfer to NSSF, but without taking into account any exercise of the Over-allotment Option, our registered capital will increase to RMB6,699,409,329, comprising 5,719,008,149 A Shares and 980,401,180 H Shares fully paid up or credited as fully paid up, representing approximately 85.37% and 14.63% of our registered capital, respectively.

C. Written Resolutions Passed by Our Shareholders

Pursuant to the extraordinary shareholders' meeting held on June 11, 2015, the following resolutions, among others, were duly passed:

(a) the issue by our Company of H Shares of nominal value of RMB1.00 each and such H Shares be listed on the Hong Kong Stock Exchange;

(b) the number of H Shares to be issued shall not be more than 15% of the total issued share capital of our Company as enlarged by the Global Offering, and the grant to the Joint Bookrunners the Over-allotment Option of not more than 15% of the number of H Shares issued pursuant to the Global Offering; and

(c) authorization of the Board and its authorized persons to handle all matters relating to, among other things, the Global Offering, the issue and listing of the H Shares.

The following resolution was duly passed at the extraordinary general meeting held on August 12, 2015:

(a) subject to the completion of the Global Offering, the conditional adoption of the Articles of Association, which shall become effective on the Listing Date.

D. Further Information about Our Subsidiaries

The list of our principal subsidiaries (as defined under the Hong Kong Listing Rules) is set out under the financial statements in the Accountants' Report as included in Appendix I to this prospectus. Save as disclosed below, there has been no alteration in the share capital of any of our principal subsidiaries within the two years immediately preceding the date of this prospectus.

China Merchants Futures

The registered capital of China Merchants Futures was increased from RMB400,000,000 to RMB630,000,000 on July 30, 2014.

CMS Asset Management

The registered capital of CMS Asset Management was approved to be increased from RMB300,000,000 to RMB1,000,000,000 by the Board of Directors on May 20, 2016.

2. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of Our Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this prospectus which are or may be material and a copy of each has been delivered to the Registrar for registration:

(a) a cornerstone investment agreement dated September 25, 2016 entered into among our Company, PICC Life Insurance Company Limited and CMSHK, pursuant to which PICC Life Insurance Company Limited has agreed to subscribe for our 333,300,000 H Shares;

(b) a cornerstone investment agreement dated September 25, 2016 entered into among our Company, Well Ease Limited and CMSHK, pursuant to which Well Ease Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased in the amount of US$50 million;

(c) a cornerstone investment agreement dated September 25, 2016 entered into among our Company, East Pacific (Holdings) Limited and CMSHK, pursuant to which East Pacific (Holdings) Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased in the amount of US$50 million;

(d) a cornerstone investment agreement dated September 25, 2016 entered into among our Company, China Life Insurance (Group) Company and CMSHK, pursuant to which China Life Insurance (Group) Company has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased in the amount of US$10 million;

(e) a cornerstone investment agreement dated September 25, 2016 entered into among our Company, China Life Franklin Asset Management Co., Limited and CMSHK, pursuant to which China Life Franklin Asset Management Co., Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased in the amount of US$20 million;

(f) a cornerstone investment agreement dated September 25, 2016 entered into among our Company, China Reinsurance (Group) Corporation and CMSHK, pursuant to which China Reinsurance (Group) Corporation has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased in the amount of US$30 million;

(g) a cornerstone investment agreement dated September 25, 2016 entered into among our Company, Advance Data Services Limited and CMSHK, pursuant to which Advance Data Services Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased in the amount of US$30 million;

(h) a cornerstone investment agreement dated September 25, 2016 entered into among our Company, Peak Reinsurance Company Limited and CMSHK, pursuant to which Peak Reinsurance Company Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased in the amount of US$15 million;

(i) a cornerstone investment agreement dated September 25, 2016 entered into among our Company, Fosun Hani Securities Limited and CMSHK, pursuant to which Fosun Hani Securities Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased in the amount of US$10 million;

(j) a cornerstone investment agreement dated September 25, 2016 entered into among our Company, Century Surety Company and CMSHK, pursuant to which Century Surety Company has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased in the amount of US$5 million;

(k) a cornerstone investment agreement dated September 25, 2016 entered into among our Company, Yingda International Trust Co., Ltd. and CMSHK, pursuant to which Yingda International Trust Co., Ltd. has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased in the amount of US$30 million;

(l) a cornerstone investment agreement dated September 25, 2016 entered into among our Company, Caiyun International Investment Limited and CMSHK, pursuant to which Caiyun International Investment Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased in the amount of US$30 million;

(m) a cornerstone investment agreement dated September 25, 2016 entered into among our Company, Legit Value Limited, CMSHK and CMB International Capital Limited, pursuant to which Legit Value Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased in the amount of US$30 million;

(n) a cornerstone investment agreement dated September 25, 2016 entered into among our Company, China South Industries Assets Management Co., Ltd. and CMSHK, pursuant to which China South Industries Assets Management Co., Ltd. has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased in the amount of US$20 million; and

(o) the Hong Kong Underwriting Agreement.

B. Our Intellectual Property Rights

As of the Latest Practicable Date, our Company has registered or has applied for the following intellectual property rights which are material to our Company's business.

Trademarks

As of the Latest Practicable Date, we have registered the following trademarks which we consider to be material to our business:

Trademark registered	Trademark registration no.	Registered Owner	Class	Place of registration	Date of registration	Expiry Date
	7347970	the Company	35	China	January 21, 2011	January 20, 2021
	7348085	the Company	38	China	October 21, 2010	October 20, 2020
	7348068	the Company	36	China	October 21, 2010	October 20, 2020
	7348103	the Company	42	China	December 7, 2010	December 6, 2020
CMS	8896398	the Company	36	China	January 7, 2014	January 6, 2024
95565	5986337	the Company	36	China	July 21, 2012	July 20, 2022
95565	5986335	the Company	38	China	July 21, 2012	July 20, 2022
95565	5986336	the Company	42	China	October 21, 2011	October 20, 2022

Trademark registered	Trademark registration no.	Registered Owner	Class	Place of registration	Date of registration	Expiry Date
NEWONE牛网 www.newone.com.cn	1759600	the Company	42	China	April 28, 2012	April 27, 2022
e	2014129	the Company	42	China	March 7, 2013	March 6, 2023
e	1962871	the Company	35	China	February 21, 2013	February 20, 2023
招商证券股份有限公司	5806180	the Company	36	China	January 28, 2010	January 27, 2020
招商证券	5806181	the Company	36	China	February 14, 2010	February 13, 2020
CMSC	5806184	the Company	36	China	March 28, 2010	March 27, 2020
cmsc	5806182	the Company	36	China	March 28, 2010	March 27, 2020
智远理财	6238390	the Company	36	China	March 28, 2010	March 27, 2020
智远理财	6238392	the Company	38	China	March 28, 2010	March 27, 2020
智远理财	6238389	the Company	42	China	June 14, 2010	June 13, 2020
智远理财	6238391	the Company	35	China	June 14, 2010	June 13, 2020
百脑慧	6238394	the Company	42	China	June 14, 2010	June 13, 2020
智远手机证券	6888025	the Company	36	China	May 14, 2010	May 13, 2020
智远手机证券	6888024	the Company	38	China	May 14, 2010	May 13, 2020
	6888023	the Company	36	China	May 14, 2010	May 13, 2020
	6888022	the Company	38	China	May 14, 2010	May 13, 2020
盘中参	5986342	the Company	42	China	April 28, 2010	April 27, 2020

Trademark registered	Trademark registration no.	Registered Owner	Class	Place of registration	Date of registration	Expiry Date
	5986344	the Company	36	China	May 14, 2010	May 13, 2020
	5986343	the Company	38	China	May 14, 2010	May 13, 2020
95565	5986350	the Company	35	China	July 7, 2010	July 6, 2020
组合通	5986340	the Company	42	China	June 7, 2010	June 6, 2020
组合通	5986341	the Company	36	China	August 21, 2010	August 20, 2020
NEWONE牛网	1764344	the Company	36	China	May 7, 2012	May 6, 2022
牛+	1441338	the Company	9	China	September 7, 2000	September 6, 2020
	3418361	the Company	36	China	November 14, 2014	November 13, 2024
牛+	1421816	the Company	36	China	July 14, 2000	July 13, 2020
招易融	16826329	the Company	36	China	June 21, 2016	June 20, 2026
	303418245	the Company	36	Hong Kong	May 22, 2015	May 21, 2025
招商證券 招商证券 招商證券 招商证券	303418254	the Company	36	Hong Kong	May 22, 2015	May 21, 2025
招商證券(香港)	303418308	the Company	36	Hong Kong	May 22, 2015	May 21, 2025
	UK00003129586	CMSUK	36	UK	December 25, 2015	October 1, 2025
招商證券(英國)有限公司	UK00003129579	CMSUK	36	UK	January 8, 2016	October 1, 2025
CHINA MERCHANTS SECURITIES (UK) LIMITED	UK00003129613	CMSUK	36	UK	January 1, 2016	October 1, 2025

As of the Latest Practicable Date, we have applied for the following trademarks, the registration of which has not yet been granted:

Trademark	Application no.	Applicant	Class	Place of application	Date of application
招e融	16826296	the Company	36	China	April 28, 2015
招E融	16826265	the Company	36	China	April 28, 2015
招商证券私募学院	17287504	the Company	36	China	June 25, 2015
招商微证券	19386053	the Company	36	China	March 22, 2016
CHINA MERCHANTS SECURITIES (HK)	303418263	the Company	36	Hong Kong	May 22, 2015
China Merchants Securities	303418290	the Company	36	Hong Kong	May 22, 2015

Domain Names

As of the Latest Practicable Date, we have registered the following domain names:

Domain name	Registered Owner	Date of registration	Expiry Date
newone.com.cn	the Company	January 26, 2000	January 26, 2022
cmsc.com.cn	the Company	September 24, 2004	September 24, 2023
newone.cn	the Company	March 17, 2003	March 17, 2018
ccs.com.cn	the Company	November 17, 1998	November 17, 2021
cmschina.com.cn	the Company	March 25, 2007	March 25, 2020
cmsam.com.cn	the Company	October 22, 2013	October 22, 2023
cmshongkong.com.cn	the Company	April 28, 2008	April 28, 2023
cmshongkong.cn	the Company	April 28, 2008	April 28, 2023
cmschina.com	the Company	December 22, 2002	December 22, 2022
cmsfutures.cn	China Merchants Futures (招商期貨)	August 22, 2013	August 22, 2023
cmsfutures.com	China Merchants Futures (招商期貨)	August 22, 2013	August 22, 2023
cmsfutures.com.cn	China Merchants Futures (招商期貨)	August 22, 2013	August 22, 2023
cmscapital.cn	CMS Zhiyuan (招商致遠)	August 20, 2013	August 20, 2023
zsqh168.com	China Merchants Futures (招商期貨)	November 28, 2007	November 28, 2017
招商证券.cn	the Company	October 10, 2008	October 10, 2018

3. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS

A. Particulars of Directors' and Supervisors' Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things (i) compliance of relevant laws or regulations, (ii) observance of the Articles and Association, and (iii) provisions on arbitration.

Save as disclosed above, none of the Directors or Supervisors has or is proposed to have a service contract with any member of our Group (other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation other than statutory compensation).

B. Remuneration of Directors and Supervisors

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the total remuneration paid to our Directors amounted to RMB10.73 million, RMB6.84 million, RMB11.04 million and RMB2.50 million, respectively.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the total remuneration paid to our Supervisors amounted to RMB8.85 million, RMB12.84 million, RMB7.10 million and RMB2.97 million, respectively.

Under the arrangement currently in force, we estimate the total fixed remuneration (before tax) payable to Directors and Supervisors for the year ending December 31, 2016 is approximately RMB10.00 million.

During the Track Record Period, there is no arrangement under which any Director or Supervisor has waived or agreed to waive any remuneration.

4. DISCLOSURE OF INTERESTS

A. Disclosure of Interests of Directors and Supervisors

Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and no change of shareholdings as of the Latest Practicable Date), the following Directors, Supervisors and the chief executives will have interest and/or short position in the Shares, underlying Shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) (a) which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO); or (b) which will be required, pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules to be notified to our Company and the Hong Kong Stock Exchange, once the Shares are listed:

Name of Director	Nature of interest	Number and Class of securities	Approximate percentage of shareholding in the total share capital of the Company immediately following the completion of the Global Offering	Approximate percentage of shareholding in the underlying Shares of the same class immediately following the completion of the Global Offering
			(assuming the Over-allotment Option is not exercised)	
Yang Jun	beneficial owner	11,800 A Shares	0.00018%	0.00021%

B. Disclosure of Interests of Substantial Shareholders

For information on the persons who will, immediately following the completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of the Company, see "Substantial Shareholders."

So far as is known to our Directors, the following persons (other than Directors, Supervisors and the chief executives) will, immediately following the completion of the Global Offering, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of any other members of the Company:

Interests of substantial shareholders in our member companies (excluding our Company)

Member of the Group	Name of shareholder with 10% or more enquiry interest (other than us)	Approximate percentage of shareholding of the substantial shareholder (%)
Shenzhen Yuansheng Investment Management Co., Ltd. (深圳市遠盛投資管理有限公司)	Shenzhen Wensheng Equity Investment and Funds Management Co., Ltd. (深圳市穩勝股權投資基金管理有限公司)	40%
Jiangxi Zhiyuan Development Investment Management Co., Ltd. (江西致遠發展投資管理有限公司)	Ganzhou Development Investment Holding Group Co., Ltd. (贛州發展投資控股集團有限公司)	49%
Qingdao Guoxin China Merchants and Business Development Investment Management Co., Ltd. (青島國信招商創業投資管理有限公司)	Qingdao Guoxin Capital Investment Co., Ltd. (青島國信資本投資有限公司)	35%
Shenzhen Zhiyuan Business Development and Funds Investment Management Co., Ltd. (深圳市致遠創業投資基金管理有限公司)	China Merchants Capital Management Co., Ltd. (招商局資本管理有限責任公司)	46.15%
Shenzhen China Merchants Zhiyuan Equity Investment and Funds Management Co., Ltd. (深圳市招商致遠股權投資基金管理有限公司)	China Merchants Capital Management Co., Ltd. (招商局資本管理有限責任公司)	30%
Hefei Zhongan Zhiyuan Investment Management Co., Ltd. (合肥中安致遠投資管理有限公司)	Anhui Railway Investment Management Co., Ltd. (安徽省皖投鐵路投資管理有限公司)	49%
Hefei Zhongan Merchants Equity Investment Management Co., Ltd. (合肥中安招商股權投資管理有限公司)	Anhui Railway Investment Management Co., Ltd. (安徽省皖投鐵路投資管理有限公司)	18%
	Hebei Port Group Co., Ltd. (河北港口集團有限公司)	10%

C. Disclaimers

Save as disclosed in this prospectus:

(a) none of our Directors or Supervisors has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(b) none of our Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;

(c) without taking into account any Shares which may be taken up under the Global Offering, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, 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 any member of our Group; and

(d) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

5. OTHER INFORMATION

A. Estate Duty

Our Directors have been advised that no material liability for estate duty under the PRC laws is likely to fall on our Company or our subsidiaries.

B. Litigation

As of the Latest Practicable Date, save as disclosed in the section headed "*Business – Legal and Regulatory*", no member of our Group was engaged in any outstanding material litigation or arbitration of potential loss of RMB10 million or more and may have material adverse effect on the Offering and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

C. Joint Sponsors

CMSHK is a wholly-owned subsidiary of our Company and as such it is not independent of our Company. Each of J.P. Morgan Securities (Far East) Limited and Morgan Stanley Asia Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Stock Exchange for a listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus.

Pursuant to the engagement letter entered into between our Company and each of the Joint Sponsors, we have agreed to pay each of the Joint Sponsors a fee of US$500,000 to act as the sponsors of our Company in connection with the proposed listing on the Stock Exchange.

D. Compliance Advisor

Our Company has appointed J.P. Morgan Securities (Far East) Limited as the compliance advisor upon Listing in compliance with Rule 3A.19 of the Listing Rules.

E. Preliminary Expenses

We have not incurred any preliminary expenses.

F. Promoters

The information of our promoters is as follows:

No.	Name
1	China Merchants Finance Investment Holding Co., Ltd (深圳市招融投資控股有限公司)
2	China Merchants Steam Navigation Co., Ltd. (招商局輪船股份有限公司)
3	China Ocean Shipping (Group) Company (中國遠洋運輸（集團）總公司)
4	Qinhuangdao Port Bureau of Ministry of Transport (交通部秦皇島港務局)
5	China Harbor Construction (Group) Company (中國港灣建設（集團）總公司)
6	Guangzhou Maritime Transport (Group) Co., Ltd. (廣州海運（集團）有限公司)
7	China Merchants Shekou Industrial Zone Co., Ltd (招商局蛇口工業區有限公司)
8	Shenzhen Baoheng (Group) Co., Ltd (深圳市寶恒（集團）股份有限公司)
9	China Shipping Haisheng Co., Ltd. (中海（海南）海盛船務股份有限公司)
10	Shenzhen Huaqiang Holdings Limited (深圳華強集團有限公司)
11	Deer Gongwuji Co., Ltd. (金鹿公務機有限公司)
12	Shenzhen Ocean Shipping Co., Ltd. (深圳遠洋運輸股份有限公司)
13	China Shipping (Group) Company (中國海運（集團）總公司)
14	Shanghai Motor Industry Co., Ltd. (上海汽車工業有限公司)
15	China International Marine Containers (Group) Co., Ltd. (中國國際海運集裝箱（集團）股份有限公司)
16	Shandong Provincial Transport Development Investment Company (山東省交通開發投資公司)
17	Guangzhou Dredging Company (廣州航道局)
18	China Road and Bridge (Group) Corporation (中國路橋（集團）總公司)
19	CNTIC Trading Co., Ltd. (中技貿易股份有限公司)
20	Shanghai Railway Bureau (上海鐵路局)
21	Zhonggang Fourth Harbor Engineering (中港第四航務工程局)
22	Shanghai Municipal Postal Administration (上海市郵政局)
23	China National Electronics Imp. & Exp. Corporation (中國電子進出口總公司)
24	Shenzhen Hongkai (Group) Co. Ltd. (深圳市鴻基(集團)股份有限公司)
25	Zhejiang Transportation Engineering Construction Group (浙江省交通工程建設集團有限公司)
26	Guangzhou Port Bureau (廣州港務局)
27	Wuhan Yancao (Group) Company Limited (武漢煙草（集團）有限公司)
28	Financial Street Holdings Co., Ltd. (金融街控股股份有限公司)
29	Shanghai Huayi (Group) Company (上海華誼（集團）公司)
30	Sichuan Road & Bridge (Group) Co., Ltd. (四川公路橋樑建設集團有限公司)
31	Shanghai Eastern China Electricity Enterprise Co., Ltd. (上海華東電力實業有限公司)
32	Shenyang Liaoneng Investment Co., Ltd. (瀋陽遼能投資股份有限公司)
33	Shenzhen Shatoujiao Free Trade Zone Investment Development Company (深圳市沙頭角保稅區投資開發公司)
34	Shenzhen Sanding Oil Shipping Trade Co., Ltd. (深圳三鼎油運貿易有限公司)
35	Shenzhen Lishengda Enterprise Co., Ltd. (深圳市立盛達實業有限公司)
36	Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)
37	Beijing North Star Industrial Group Company (北京北辰實業集團公司)
38	Shenzhen Shipping Company (深圳船務公司)
39	Shenzhen China Union Holdings Ltd. (深圳市華聯控股股份有限公司)
40	China National Cereals, Oils & Foodstuffs Import & Export Corporation (中國糧油食品進出口（集團）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 nor is any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

G. Qualification of Experts

The qualifications of the experts, as defined under the Hong Kong Listing Rules, who have given opinions in this prospectus, are as follows:

Name	Qualification
CMSHK	Licensed 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 9 (asset management) regulated activities under the SFO
J.P. Morgan Securities (Far East) Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Morgan Stanley Asia Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
SHINEWING (HK) CPA Limited	Certified Public Accountants
King & Wood Mallesons	PRC legal advisors

H. Consents of Experts

Each of the experts named in the paragraph G of this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

None of the experts named above has any shareholding interests 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.

I. Taxation of Holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty if such sale, purchase and transfer is effected on the H Share register of members of our Company, including in circumstances where such transaction is effect on the Hong Kong Stock Exchange. The current rate of Hong Kong stamp duty for such sale, purchase and transfer is HK$2.00 for every HK$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred. For further information in relation to taxation, see “Appendix III—Taxation and Foreign Exchange.”

J. No Material Adverse Change

Save as disclosed in this prospectus, our Directors confirm that there has been no material adverse change in the financial or trading position of our Group since June 30, 2016.

K. Binding Effect

This prospectus shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and

44B of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

L. Related Party Transactions

Our Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in "Appendix I—Accountants' Report—63. Significant Related Party Transactions."

M. Miscellaneous

Save as disclosed in this prospectus:

(a) within the two years immediately preceding the date of this prospectus:

  (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

  (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

  (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share of our Company or any of our subsidiaries; and

  (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any share in or debentures of our Company;

(b) there are no founder, management or deferred shares or any debentures in our Company or any of our subsidiaries;

(c) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;

(d) our Company has no outstanding convertible debt securities or debentures;

(e) there is no arrangement under which future dividends are waived or agreed to be waived;

(f) save for our A Shares which are listed on the Shanghai Stock Exchange, none of our equity and debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(g) the Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited liability company and does not expect to be subject to the Law of the PRC on Sino-foreign Equity Joint Ventures; and

(h) all necessary arrangements have been made to enable the H shares to be admitted into CCASS for clearing and settlement.

N. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(a) copies of the WHITE, YELLOW and GREEN Application Forms;

(b) copies of material contracts referred to in the section headed "2. Further Information About Our Business—A. Summary of Our Material Contracts" in Appendix VI to this prospectus; and

(c) the written consents referred to in section headed "5. Other information—H. Consents of Experts" in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Clifford Chance at 27/F, Jardine House, One Connaught Place, 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 of our Company;

(b) the Accountants' Report from SHINEWING (HK) CPA Limited, the text of which is set out in Appendix I to this prospectus;

(c) the consolidated audited financial statements of our Group for the three years ended December 31, 2015 and the six months ended June 30, 2016;

(d) the report from SHINEWING (HK) CPA Limited relating to the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(e) the material contracts referred to in the section headed "2. Further Information About Our Business—A. Summary of Our Material Contracts" in Appendix VI to this prospectus;

(f) the written consents referred to in the section headed "5. Other information—H. Consents of Experts" in Appendix VI to this prospectus;

(g) the contracts referred to in the section headed "3. Further Information About Our Directors and Supervisors—A. Particulars of Directors' and Supervisors' Contracts" in Appendix VI to this prospectus;

(h) the legal opinions issued by King & Wood Mallesons, our legal advisor as to PRC law in respect of our general matters and property interests of the Group;

(i) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial English translations; and

(j) the SSE Listing Rules, together with an unofficial English translation.

招商证券股份有限公司
China Merchants Securities Co.,Ltd.