



中信建投証券股份有限公司

CSC Financial Co., Ltd.

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

Stock Code: 6066

GLOBAL OFFERING

Joint Sponsors



Joint Global Coordinators and Joint Bookrunners



Joint Bookrunners



Financial Advisor



IMPORTANT

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



中信建投証券股份有限公司 CSC Financial Co., Ltd.

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

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	1,130,293,500 H Shares (comprising 1,076,470,000 H Shares to be offered by the Company and 53,823,500 Sale Shares to be sold by the Selling Shareholders, subject to the Over-allotment Option)
Number of International Offer Shares	:	1,034,218,500 H Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	:	96,075,000 H Shares (subject to adjustment)
Maximum Offer Price	:	HK\$7.26 per H Share, plus brokerage of 1%, 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	:	6066

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Joint Bookrunners



Financial Advisor



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

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" 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 for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Representatives (for themselves and on behalf of, among others, the Joint Bookrunners and the Underwriters) and us (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, December 2, 2016 (Hong Kong time) and, in any event, not later than Sunday, December 4, 2016 (Hong Kong time). The Offer Price will be not more than HK\$7.26 per Offer Share and is currently expected to be not less than HK\$6.36 per Offer Share. If, for any reason, the Offer Price is not agreed by Sunday, December 4, 2016 (Hong Kong time) between the Joint Representatives (for themselves and on behalf of, among others, the Joint Bookrunners and the Underwriters) and us (for ourselves and on behalf of the Selling Shareholders), the Global Offering will not proceed and will lapse.

Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$7.26 for each Hong Kong Offer Share together with brokerage fee of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK\$7.26.

The Joint Representatives (for themselves and on behalf of, among others, the Joint Bookrunners and the Underwriters), and with our consent (for ourselves and on behalf of the Selling Shareholders) 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\$6.36 to HK\$7.26) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such 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.csc108.com and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk. Further details are set forth in "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, in the event that the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications can subsequently be withdrawn.

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

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Representatives (for themselves and on behalf of, among others, the Joint Bookrunners and 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" in this prospectus.

We have not been and will not be registered under the U.S. Investment Company Act. The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered or sold in the United States, or to or for the account or benefit of any U.S. person (as defined in Regulation S), except pursuant to an exemption from, or in a transaction that is not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold (i) to persons in the United States or to U.S. persons who are both QIBs and QPs in reliance on rule 144A, or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and (ii) outside the United States to non-U.S. persons in offshore transactions in accordance with Regulation S.

November 29, 2016

EXPECTED TIMETABLE⁽¹⁾

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, December 2, 2016
Application lists open ⁽³⁾	11:45 a.m. on Friday, December 2, 2016
Latest time for lodging WHITE and YELLOW Application Forms	12:00 noon on Friday, December 2, 2016
Latest time to complete payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, December 2, 2016
Latest time to give electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Friday, December 2, 2016
Application lists close	12:00 noon on Friday, December 2, 2016
Expected Price Determination Date ⁽⁵⁾	Friday, December 2, 2016
Announcement of	
• the Offer Price;	
• the level of applications in the Hong Kong Public Offering;	
• the level of indications of interest in the International Offering; and	
• the basis of allotment 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), and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the Company's website at www.csc108.com ⁽⁶⁾ on or before	Thursday, December 8, 2016
Announcement of results of allocations in the Hong Kong Public Offering (including successful applicants' identification document numbers, where appropriate) will be available through a variety of channels (see "How to Apply for Hong Kong Offer Shares — 11. Publication of Results") from	Thursday, December 8, 2016

EXPECTED TIMETABLE⁽¹⁾

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, December 8, 2016

H Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on or before⁽⁷⁾ Thursday, December 8, 2016

White Form e-Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications to be dispatched on or before⁽⁸⁾⁽⁹⁾ Thursday, December 8, 2016

Dealings in the H Shares on the Hong Kong Stock Exchange expected to commence at 9:00 a.m. on Friday, December 9, 2016

Notes:

- (1) All dates and times refer to Hong Kong local time, except as otherwise stated. For details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, please refer to the section headed “Structure of the Global Offering.”
- (2) You will not be permitted to submit your application to the **White Form eIPO** Service Provider 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 prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, December 2, 2016, the application lists will not open on that day. Please refer to the section headed “How to Apply for the Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus for further details.
- (4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for 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 about Friday, December 2, 2016, and, in any event, not later than Sunday, December 4, 2016. If, for any reason, the Offer Price is not agreed among the Company (for itself and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of, among others, the Joint Bookrunners and the Underwriters) on or before Sunday, December 4, 2016, the Global Offering will not proceed and will lapse.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) No temporary documents of title will be issued in respect of the Offer Shares. H Share certificates will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects and (ii) the Underwriting Agreements have not been terminated in accordance with their respective terms prior to 8:00 a.m. on the Listing Date. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

EXPECTED TIMETABLE⁽¹⁾

- (8) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all required information may collect refund cheque(s) (where applicable) and H Share certificate(s) (where applicable) in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Thursday, December 8, 2016. Applicants being individuals who are eligible for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives each bearing a letter of authorization from their corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity to our H Share Registrar. Uncollected H Share certificates and refund cheques will be dispatched by ordinary post at the applicants' own risk to the addresses specified on the relevant Application Forms. For details of the arrangements, please refer to the section headed "How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies" in this prospectus.

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

- (9) e-Refund payment instructions/refund cheques will be issued by the Company 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.

The above expected timetable is a summary only. For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, see the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus respectively.

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 jurisdictions 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 that contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorized by us, the Selling Shareholders, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, 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.csc108.com, does not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment in the Offer Shares. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading large full-service investment bank in the PRC with superior value creation capabilities. We have a strong client base, a premier investment banking brand, a balanced business structure, and a robust and prudent risk management system. We ranked No. 1 in terms of return on average equity for four consecutive years from 2012 to 2015 among China’s top 20 largest securities firms measured by total assets, consistently generating value for our shareholders.

Our mission is to attract talented people, best serve our clients, create value and contribute to the society. As an outstanding investment bank, we attract top industry talents with market-oriented incentives and provide comprehensive financial services to a diverse group of clients, including individual, corporate, institutional and government clients, which has enabled us to create great value for our clients, our employees, our shareholders and the society at large.

We primarily engage in four business segments: (i) investment banking, (ii) wealth management, (iii) trading and institutional client services, and (iv) investment management.

- *Top-ranked and balanced investment banking business.* We provide a full range of investment banking services including equity and debt underwriting and financial advisory services. We are a leader in terms of our domestic equity and debt underwriting business, and have ranked top for M&A, restructuring and NEEQ businesses in the PRC. We have also built a strong and diverse project pipeline to support our sustainable growth. Our investment banking business has established a distinguished brand and helped us acquire a large group of premier corporate and institutional clients.
- *Leading wealth management business.* We provide our retail clients with excellent wealth management services, primarily including brokerage and investment advisory services, margin financing and securities lending, and securities repurchase services. We have industry-leading financial product sales capabilities. According to Wind Info, we ranked No. 1 in the industry in terms of the number of mutual fund products distributed as of June 30, 2016. We have an extensive branch network, a comprehensive product line, strong client acquisition capability and a team of outstanding financial planners.
- *Strong trading and institutional client service business.* We offer market-making services, conduct proprietary trading, and provide trading advisory, investment research and prime brokerage services to our institutional clients. We have built a strong trading and institutional service platform based on our highly influential research, and industry-leading trading, investment and product design capabilities.

SUMMARY

- *Fast growing investment management business.* We have established a multi-layered and diversified investment management platform to provide asset management, fund management and private equity investment management services. We also conduct private equity and other proprietary investment activities. During the Track Record Period, the AUM of our asset management business grew rapidly and subsequently has ranked among the top securities firms. We pursue a robust and prudent investment style for our fund management business and have generated solid investment returns for our clients. Our private equity investment business has also grown rapidly and achieved substantial investment returns.

As a PRC-based investment bank, we have taken full advantage of the opportunities offered by the growth and innovation of the PRC securities industry. In a decade since our inception, we have grown rapidly and become a leading large full-service investment bank. According to Wind Info, our ranking advanced from No. 12 in 2006 to No. 2 in 2015 in terms of the aggregate amount of equity and debt securities underwritten by us as lead underwriter. Our branch network is rooted in Beijing and spans across the country. As of June 30, 2016, we had 225 securities branches and 20 futures branches in 30 provinces, autonomous regions and directly-administered municipalities in China. Although the PRC securities industry is highly competitive, we achieved a market share of 2.8% by operating revenue and 3.2% by net profit in 2015, both ranking No. 10 in the industry. From 2012 to 2015, our return on average equity was 12.0%, 14.3%, 22.9% and 40.0%, respectively. According to the SAC, we ranked No. 1 for four consecutive years from 2012 to 2015 in terms of return on average equity among China's top 20 largest securities firms by total assets.

We endeavor to make the best enterprises our clients and our clients better enterprises. Leveraging our superior ability to serve clients on a continuous basis, we have acquired a large number of valued clients. Our investment banking clients mainly consist of large SOEs playing key roles in the PRC economy, high-quality non-SOEs with most economic vibrancy, and SMEs with most growth potential, primarily from sectors including financial services, high-end manufacturing, TMT, real estate, natural resources, energy saving and environmental protection, healthcare and new materials. We also have a rapidly growing client base for wealth management business, and high-quality clients in trading and institutional client services and investment management businesses. Our strong financial product distribution capability, influential research, outstanding product design, fast-growing overseas business, as well as prudent and robust risk management system, experienced and entrepreneurial management team, and dedicated and loyal employees, are the driving forces for our future growth.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, our total revenue amounted to RMB7,322.3 million, RMB11,451.6 million, RMB24,512.5 million, RMB11,770.8 million and RMB8,631.5 million, respectively. The profit attributable to equity holders of the Company amounted to RMB1,787.0 million, RMB3,407.1 million, RMB8,638.8 million, RMB4,256.6 million and RMB2,777.2 million, for the same periods, respectively.

SUMMARY

Competitive Strengths

We believe that we will maintain our industry-leading position by leveraging the following competitive strengths:

- Leading large full-service investment bank with unparalleled profitability, rapid growth and balanced business;
- Top-ranked investment banking business with balanced and comprehensive services;
- Competitive wealth management business backed by strong sales capability;
- Highly influential research and comprehensive institutional client services;
- Rapidly growing investment management business with great potential;
- Prudent, robust and industry-leading risk management system; and
- Motivated and entrepreneurial management, dedicated and loyal staff.

For more details about our strengths, please see “Business — Competitive Strengths” of this prospectus.

Business Strategies

We aim to become a large best-in-class full-service investment bank with China roots and global vision. We will adhere to the business model of equal emphasis on capital-light and capital-intensive businesses, continue to strengthen the synergies among business lines and optimize the market incentive mechanism. We will strive to enhance our capabilities for serving our clients, for supporting real economy, and for improving the efficiency of wealth generation and management, through implementing the following strategies.

- Solidify the leading position of our investment banking business, maintain our status as the top choice for clients;
- Strengthen our extensive sales channel, build an industry-leading wealth management platform;
- Enhance our FICC product advantages, build a preferred prime brokerage service platform;
- Optimize the multi-layered investment management platform, become an industry-leading financial product provider;
- Build a leading full-spectrum investment research team;
- Enhance our overseas businesses, develop a full-service international investment bank;

SUMMARY

- Reinforce our IT infrastructure, provide technological foundation for our leading businesses;
- Optimize our risk management system, maintain our industry leadership; and
- Strengthen employee career development, attract and cultivate top talents.

For more details about our strengths, please see “Business — Business Strategies” of this prospectus.

SUMMARY OF FINANCIAL AND OPERATING INFORMATION

You should read the summary of historical consolidated financial statements set forth below in conjunction with our audited consolidated financial statements included in the Accountant’s Report set forth in “Appendix I — Accountant’s Report” to this prospectus, together with the accompanying notes, which have been prepared in accordance with IFRS. The summary of our audited historical consolidated income statements and consolidated statements of cash flows for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016 and the consolidated statements of financial position as of December 31, 2013, 2014 and 2015 and June 30, 2016 set forth below are extracted from the consolidated financial statements, including the notes thereto, which are set forth in “Appendix I — Accountant’s Report” to this prospectus.

Summary of Consolidated Income Statements

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in thousands)				
Revenue					
Fee and commission income	4,387,784	6,540,855	14,900,872	7,125,322	5,127,416
Interest income	1,621,447	2,930,148	5,572,959	2,689,513	2,265,424
Net investment gains	1,246,983	1,902,825	3,979,922	1,943,725	1,164,747
Other income	66,050	77,732	58,713	12,239	73,914
Total revenue	<u>7,322,264</u>	<u>11,451,560</u>	<u>24,512,466</u>	<u>11,770,799</u>	<u>8,631,501</u>
Total expenses	<u>4,901,752</u>	<u>6,908,211</u>	<u>13,050,991</u>	<u>6,103,689</u>	<u>4,887,513</u>
Profit before income tax	<u>2,420,512</u>	<u>4,543,349</u>	<u>11,461,475</u>	<u>5,667,110</u>	<u>3,743,988</u>
Income tax expense	(642,638)	(1,145,156)	(2,809,622)	(1,406,374)	(938,878)
Profit for the year/period	<u>1,777,874</u>	<u>3,398,193</u>	<u>8,651,853</u>	<u>4,260,736</u>	<u>2,805,110</u>

SUMMARY

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Total revenue decreased by 26.7% to RMB8,631.5 million for the six months ended June 30, 2016 from RMB11,770.8 million for the six months ended June 30, 2015. The decrease was primarily attributable to (i) a RMB1,997.9 million decrease in fee and commission income; (ii) a RMB779.0 million decrease in net investment gains; and (iii) a RMB424.1 million decrease in interest income. The A share market experienced a drastic decline from mid-June to end of August in 2015 and remained volatile for the first half of 2016, which had adversely impacted our results of operations.

Comparison between 2014 and 2015. Total revenue increased by 114.1% to RMB24,512.5 million in 2015 from RMB11,451.6 million in 2014. The increase was primarily attributable to (i) a RMB8,360.0 million increase in fee and commission income; (ii) a RMB2,642.9 million increase in interest income; and (iii) a RMB2,077.1 million increase in net investment gains. The favorable A share market condition in the first half of 2015 had facilitated the rapid growth of our business, primarily brokerage business and investment banking business.

Comparison between 2013 and 2014. Total revenue increased by 56.4% to RMB11,451.6 million in 2014 from RMB7,322.3 million in 2013. The increase was primarily attributable to (i) a RMB2,153.1 million increase in fee and commission income; (ii) a RMB1,308.7 million increase in interest income; and (iii) a RMB655.8 million increase in net investment gains. The upward movement of the A share market in the second half of 2014 had enabled our business, especially our brokerage business, to grow steadily.

For details of our results of operations during the Track Record Period, please see “Financial Information — Overall Results of Operations.”

Summary of Consolidated Statements of Financial Position

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB in thousands)			
Current assets	65,333,137	120,050,603	177,550,505	169,346,739
Non-current assets	2,606,375	3,355,523	5,637,870	5,901,940
Total assets	67,939,512	123,406,126	183,188,375	175,248,679
Current liabilities	50,080,369	97,420,723	135,898,952	129,496,569
Non-current liabilities	4,705,567	9,257,490	17,106,520	13,037,549
Total liabilities	54,785,936	106,678,213	153,005,472	142,534,118
Equity	13,153,576	16,727,913	30,182,903	32,714,561
Equity attributable to equity holders of the Company	13,091,071	16,668,965	30,106,165	32,606,318

SUMMARY

Summary of Consolidated Statements of Cash Flows

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
	(RMB in thousands)				
Net cash (outflow)/inflow from operating activities . . .	(4,028,700)	(4,636,120)	(11,417,914)	(8,914,133)	11,390,951
Net cash (outflow)/inflow from investing activities . . .	(5,673,873)	2,815,766	(4,124,052)	(137,613)	(9,020,952)
Net cash inflow/(outflow) from financing activities . . .	9,838,633	7,942,512	20,029,761	19,055,022	(4,616,243)
Net change in cash and cash equivalents	136,060	6,122,158	4,487,795	10,003,276	(2,246,244)
Cash and cash equivalents at beginning of the year/period	5,188,761	5,321,859	11,447,921	11,447,921	15,967,225
Effect of exchange rate changes on cash and cash equivalents	(2,962)	3,904	31,509	(6,412)	19,843
Cash and cash equivalents at end of the year/period	5,321,859	11,447,921	15,967,225	21,444,785	13,740,824

Key Financial and Operating Data

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

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
	(unaudited)				
Profit before income tax (RMB in thousands) ⁽¹⁾	2,420,512	4,543,349	11,461,475	5,667,110	3,743,988
Operating margin ⁽²⁾	33.1%	39.7%	46.8%	48.1%	43.4%
Adjusted operating margin ⁽³⁾	42.5%	52.6%	60.1%	62.7%	57.1%
Net profit for the year/period (RMB in thousands)	1,777,874	3,398,193	8,651,853	4,260,736	2,805,110
Net margin ⁽⁴⁾	24.3%	29.7%	35.3%	36.2%	32.5%
Adjusted net margin ⁽⁵⁾	31.2%	39.4%	45.4%	47.1%	42.8%
Return on average equity of shareholders ⁽⁶⁾	14.3%	22.9%	40.0%	45.1%	21.1%
Return on average total assets ⁽⁷⁾	3.0%	3.6%	5.6%	4.9%	3.1%
Financial leverage ratio ⁽⁸⁾	3.69	4.79	3.69	4.21	3.41

SUMMARY

Notes:

- (1) Represents the difference between revenue and expenses.
- (2) Calculated by dividing profit before income tax by revenue.
- (3) Adjusted operating margin = (total revenue – total expenses)/(total revenue – fee and commission expenses – interest expenses). Adjusted operating margin is not a standard measure under IFRS but is presented here because PRC securities firms present their operating revenues after deduction of fee and commission expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS. We believe that, the adjusted operating margin and adjusted net margin provide appropriate indicators of our results of operations that are more comparable to other PRC securities firms due to different presentation requirements under PRC GAAP. Prospective investors should be aware that adjusted operating margin presented in this prospectus may not be comparable to other similarly titled measures reported by other companies due to different calculation methods or assumptions.
- (4) Calculated by dividing net profit for the year/period by total revenue.
- (5) Adjusted net margin = (net profit for the year/period)/(total revenue – fee and commission expenses – interest expenses). Adjusted net margin is not a standard measure under IFRS but is presented here for the reasons stated in note 3 above.
- (6) Calculated by dividing net profit attributable to ordinary shareholders of the Company by the weighted average balance of equity attributable to ordinary shareholders, deducting the impact of perpetual bond and annualizing the result.
- (7) Calculated by dividing net profit for the year/period by the average balance of total assets at the end of the previous period and the end of the current period, and annualizing the result.
- (8) Financial leverage ratio is calculated by dividing adjusted total assets by net assets attributable to equity holders of the Company, and adjusted total assets are total assets less accounts payable to brokerage clients.

SUMMARY

The following table sets forth the key operation data of our major business lines for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,
	2013	2014	2015	2016
Amount of domestic equity offerings underwritten as a lead underwriter (RMB in billions) ⁽¹⁾	20.0	68.0	82.2	27.7
Amount of domestic debt financing underwritten as a lead underwriter (RMB in billions) ⁽²⁾	202.3	277.0	591.9	363.7
Stock and fund trading volume of our domestic brokerage clients (RMB in billions)	3,295.1	5,336.4	16,946.8	3,892.7
Average stock and fund brokerage commission rate ⁽³⁾	0.76‰	0.63‰	0.49‰	0.49‰
Annualized interest rate for margin financing business	8.5%	8.5%	8.5%	8.3%
Annualized fee rate for securities lending business	7.5%	7.5%	7.2%	8.6%
Balance of domestic margin loans and securities lent (RMB in billions) ⁽⁴⁾	14.9	32.0	35.4	26.8
Average return of proprietary investment ⁽⁵⁾	4.8%	9.6%	12.0%	3.6%
Investment income and other comprehensive income from proprietary trading (RMB in millions)	962.7	2,135.2	3,748.8	769.7
Investment balance of proprietary trading (RMB in millions)	21,840.4	26,194.9	37,600.8	44,218.2
– Stocks ⁽⁶⁾	802.9	2,730.4	2,374.0	1,069.8
– Funds	991.6	1,108.8	4,433.3	3,903.5
– Bonds	19,167.5	18,336.9	19,948.2	25,914.7
– Derivative financial instruments	113.6	150.7	142.0	108.6
– Others ⁽⁷⁾	764.8	3,868.1	10,703.3	13,221.6
Domestic AUM of asset management business (RMB in billions) ⁽⁸⁾	148.1	299.7	551.7	737.3

SUMMARY

Notes:

- (1) Consists of A share IPOs and follow-on offerings.
- (2) Includes the aggregate offering amount of the domestic corporate bonds, enterprise bonds, convertible bonds, medium-term notes, short-term commercial papers, non-public targeted debt financing instruments, government-backed agency bonds for the periods indicated.
- (3) Average stock and fund brokerage commission rate = our domestic commission and fee income on securities brokerage/domestic stock and fund trading volume of our clients.
- (4) Consists of (i) margin loan balance to institutional clients, (ii) market value of securities lent to institutional clients, (iii) margin loan balance to wealth management clients, and (iv) market value of securities lent to wealth management clients.
- (5) Average return of proprietary investment equals to the annualized ratio of net gains from proprietary investment activities to monthly investment amount of proprietary investment. The monthly investment amount of proprietary investment includes external capital used to increase the average return of proprietary investment (for example, the amount earned from the financial assets sold under repurchase agreements). The average rate of return for our proprietary trading business grew rapidly from 4.8% in 2013 to 12.0% in 2015, attributable to various factors, please see “Business — Trading and Institutional Client Services — Proprietary Trading.”
- (6) As of June 30, 2016, mainly including stocks held in relation to our directional trading, market-neutral trading, NEEQ market making and hedging.
- (7) Others mainly represent investments in wealth management products, trust schemes, asset management schemes and investment in the designated account of the CSFCL, etc. As of December 31, 2013, 2014 and 2015 and June 30, 2016, our balance of such others investment, excluding the contribution to the CSFCL, were RMB764.8 million, RMB3,868.1 million, RMB6,663.0 million and RMB9,496.6 million, respectively, representing 3.5%, 14.8%, 17.7% and 21.5%, of the total investment balance of our proprietary trading, and representing 1.1%, 3.1%, 3.6% and 5.4% of our total assets, respectively. Our others investments involve risks, please see “Risk Factors — Risks Relating to Our Business and Industry — We are exposed to risks relating to our investments in the wealth management products, trust schemes and asset management schemes provided by various financial institutions.”
- (8) Consists of our CAM schemes, TAM schemes and SAM schemes.

SUMMARY

Summary Segment Results

The following table sets forth our segment revenue and other income, segment profit before income tax and segment margin for the periods indicated:

	For the year ended December 31,									For the six months ended June 30,					
	2013			2014			2015			2015			2016		
	Revenue	Segment profit before income tax	Segment margin (%)	Revenue	Segment profit before income tax	Segment margin (%)	Revenue	Segment profit before income tax	Segment margin (%)	Revenue	Segment profit before income tax	Segment margin (%)	Revenue	Segment profit before income tax	Segment margin (%)
	(unaudited)														
	(RMB in thousands, except percentage)														
Investment															
Banking	1,011,701	392,004	38.7	1,959,165	969,883	49.5	3,397,595	1,889,978	55.6	773,189	320,023	41.4	2,023,015	1,130,801	55.9
Wealth															
Management	3,964,101	1,166,270	29.4	6,067,195	2,248,469	37.1	13,786,081	5,820,531	42.2	7,671,703	3,785,184	49.3	3,727,922	1,425,903	38.2
Trading and Institutional															
Client Services	1,858,126	559,147	30.1	2,760,192	1,041,254	37.7	5,444,090	2,581,568	47.4	2,658,158	1,180,075	44.4	1,812,139	487,494	26.9
Investment Management	331,239	192,868	58.2	375,218	185,738	49.5	1,400,153	997,282	71.2	472,542	322,606	68.3	810,282	549,543	67.8
Others	157,097	110,223	70.2	289,790	98,005	33.8	484,547	172,116	35.5	195,207	59,222	30.3	258,143	150,247	58.2
Total	7,322,264	2,420,512	33.1	11,451,560	4,543,349	39.7	24,512,466	11,461,475	46.8	11,770,799	5,667,110	48.1	8,631,501	3,743,988	43.4

For details about the segment results of operation during the Track Record Period, please see “Financial Information — Segment Operating Results.”

SUMMARY

RISK MANAGEMENT, CAPITAL ADEQUACY AND LIQUIDITY

We maintain comprehensive risk management and internal control systems. We adhere to the notion of “risk management by all, risk management as priority.” We regard strategic alignment and maintaining risks at a tolerable level as the foundation of our risk management and seek to ensure that risks are measurable, controllable, and commensurate with our returns. We are one of the only three PRC securities firms that were rated “Class A Grade AA” by the CSRC for seven consecutive years from 2010 to 2016, the highest rating ever granted by the CSRC.

The following table sets forth key risk control indicators and liquidity risk regulatory indicators of the Company 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⁾	Required level
	2013	2014	2015	2016		
Net capital (RMB in millions) ⁽²⁾	9,322.0	15,023.8	24,476.6	28,133.1		
Net capital/total risk capital reserves ⁽³⁾	475.7%	468.8%	585.2%	593.3%	>120%	>100%
Net capital/net assets	72.5%	91.9%	83.0%	88.4%	>48%	>40%
Net capital/liabilities ⁽⁴⁾	26.9%	25.9%	36.2%	44.9%	>9.6%	>8%
Net assets/liabilities ⁽⁴⁾	37.0%	28.1%	43.6%	50.7%	>24%	>20%
Proprietary equity securities and securities derivatives/Net capital ⁽⁵⁾	30.8%	58.2%	49.4%	59.2%	<80%	<100%
Proprietary fixed income securities/Net capital	214.5%	126.9%	97.9%	99.6%	<400%	<500%

Notes:

- (1) Pursuant to the Administrative Measures for the Risk Control Indicators of Securities Firms, the CSRC sets warning level for all risk control indicators. If the risk control indicator is required to be “not lower than” a certain level, the warning level is 120% of the stipulated requirement, and if the risk control indicator is required to be “not more than” a certain level, the warning level is 80% of the stipulated 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, derivative financial products, other assets and contingent liabilities, and further adding or subtracting other adjustments authorized or determined by the CSRC.
- (3) For an explanation of how total risk capital reserves are calculated, see “Regulatory Environment — PRC Laws and Regulations — Corporate Governance and Risk Control.”
- (4) For purposes of calculating the risk control index, liabilities mean the external liabilities and do not include accounts payable to brokerage clients.
- (5) We have entered into the Master Agreement on Transactions of OTC Derivatives in PRC Securities and Futures Market and Transaction Confirmation of Income Swaps with the CSFCL in July and September, 2015, respectively, in accordance with which we allotted a total amount of RMB4,244.0 million as investment fund to the CSFCL. The investment will be under the unified operation of the CSFCL through a designated account with the investment risks and gains shared by us based on investment proportion. For the ratio of “proprietary equity securities and securities derivatives/net capital” at the end of the period, we treat such investment fund as stock and include it into the item of “proprietary equity securities” in this ratio at 100% of its ending balance.

SUMMARY

RECENT DEVELOPMENTS

Since the second quarter of 2015, the A share market experienced significant fluctuations, especially from mid-June to the end of August. The PRC Government has taken a series of measures to stabilize the stock market and restore investor confidence. We, together with 20 other major securities firms in the PRC, issued a joint announcement on July 4, 2015, stating that we would contribute an amount of no less than 15% of our net assets (excluding the effect of other equity instruments on our net assets) as of June 30, 2015, or approximately RMB3,075.0 million, to the CSFCL for investing in the PRC blue chips ETF, and we completed such contribution on July 6, 2015. On September 1, 2015, we further decided to raise our total contribution to the CSFCL to up to no more than 20% of our net assets (excluding the effect of other equity instruments on our net assets) as of July 31, 2015, or approximately RMB4,244.0 million. As of the Latest Practicable Date, we have contributed approximately RMB4,244.0 million to the CSFCL in total, which are accounted for as available-for-sale financial assets on our consolidated statements of financial position. Under the relevant agreements, the securities firms will share the risks and returns from the investments in proportion to their respective contributions. Changes in the fair value of such contributions will affect our equity position through other comprehensive income, based on the valuation report from the CSFCL. As of December 31, 2015, June 30, 2016 and September 30, 2016, the fair value of the investment position of the funds contributed to the designated accounts at the CSFCL was RMB4,040.3 million, RMB3,725.0 million and RMB3,854.3 million, respectively. The cumulative decline in the fair value of the investment position amounted to RMB203.7 million (a decrease of 4.8%), RMB519.0 million (a decrease of 12.2%) and RMB389.7 million (a decrease of 9.2%) as of December 31, 2015, June 30, 2016 and September 30, 2016, respectively. The fair value of the investment increased by RMB129.3 million (an increase of 3.5%) between June 30, 2016 and September 30, 2016. Considering the nature and purpose of this investment, its difference from our proprietary trading stock investment, uncontrollable timing for recovery and the movement of its fair value, we recognize that there is not objective evidence of impairment with significant or prolonged decline in the fair value of this investment as of September 30, 2016. As of June 30, 2016, the fair value of our contributions to the designated accounts at the CSFCL represented 14.2%, 2.2% and 11.5% of our total available-for-sale financial assets, total current 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 Shanghai Stock Exchange Composite Index is below 4,500. Because of this commitment, we may lose favorable opportunities to realize gains from our investment. As of July 3, 2015, June 30, 2016 and September 30, 2016, the net investment position of our A share proprietary trading was RMB110.8 million, RMB180.0 million and RMB125.9 million, respectively.

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:

- since it is unclear how the CSFCL will invest the funds contributed and when our investment will be returned, our contribution may result in losses that materially and adversely affect our financial condition and results of operations;

SUMMARY

- we incurred some investment losses in our net long equity trading activities as our ability to reduce our net long trading positions or effectively hedge our exposures through short-selling in a highly volatile market is limited;
- our increased net long equity 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.

The fluctuation of the PRC stock market has continued since June 30, 2016 and Chinese investors have developed a risk-averse sentiment. The poor market conditions have also negatively affected our business operations and financial performance. If the PRC stock market and investment climate fail to improve significantly in the second half of 2016, we anticipate that our financial performance for the year ended December 31, 2016 would decline compared with the year of 2015. The recent market volatility has negatively affected our business operations in the following aspects:

- **Brokerage and wealth management.** Our domestic stock and fund brokerage trading volume decreased from RMB13,553.1 billion for the nine months ended September 30, 2015 to RMB5,849.2 billion for the same period in 2016, primarily because of the decreased trading activity of our brokerage clients resulting from the influence of the A share market conditions and the decline of investor confidence.
- **Margin financing and securities lending.** The daily average balance of the domestic margin financing and securities lending of our brokerage clients remained stable, amounting to RMB27.8 billion for the nine months ended September 30, 2016, approximately the same amount as for the six months ended June 30, 2016. However, the data for the nine months ended September 30, 2016 still demonstrated a downward trend compared with the daily average balance of RMB35.2 billion for the twelve months ended December 31, 2015, mainly because our clients were less active in margin financing and securities lending due to recent market volatility.

Despite the continuous market volatility, our asset management business and investment banking business have continued to grow:

- **Investment banking.** The aggregate amount of domestic equity and debt securities offering underwritten by us as lead underwriter increased from RMB325.8 billion for the nine months ended September 30, 2015 to RMB602.4 billion for the same period in 2016. We recommended 136 companies to be quoted on the NEEQ for the nine months ended September 30, 2016, compared with 71 for the same period in 2015.
- **Asset management.** Our domestic AUM increased from approximately RMB737.3 billion as of June 30, 2016 to approximately RMB782.0 billion as of September 30, 2016, mainly due to the increase in the number of established asset management schemes.

SUMMARY

As a result of the high volatility of the PRC stock market, we recorded significantly decreased revenue from our wealth management and trading and institutional client services businesses for the nine months ended September 30, 2016 as compared to the same period in 2015. Accordingly, our financial performance for the nine months ended September 30, 2016 deteriorated as compared to the same period in 2015. However, such deterioration is partly offset by the increased revenue from our investment banking and investment management businesses. Our consolidated total revenue for the nine months ended September 30, 2016 was RMB12,982.9 million. Our total revenue for the first, second and third quarter ended March 31, June 30 and September 30, 2016 was RMB3,959.7 million, RMB4,671.8 million and RMB4,351.4 million, respectively. Our revenue increased by approximately RMB712.1 million in the second quarter compared with the first quarter, primarily attributable to the revenue increase from our investment banking business and trading and institutional client services business. The growth of our investment banking revenue is primarily due to an increase in the income from our equity and debt offerings underwritten by us in the second quarter due to favorable A share and bond market condition. The growth of the revenue from our trading and institutional client services business is primarily due to the increase of income from our prime brokerage service in the second quarter. Our revenue decreased by approximately RMB320.4 million in the third quarter compared with the second quarter, primarily due to the revenue decrease in our investment banking business. The decrease in our investment banking revenue is primarily attributable to a decrease in the income from the debt offerings underwritten by us in the third quarter due to the slowdown of bond market. Our investment management revenue increased in the third quarter, primarily due to the growth of our AUM in the third quarter. The revenue from our wealth management business remained relatively stable across these three quarters.

The above sets forth the selected unaudited consolidated interim financial data of the Company which were extracted from the condensed unaudited consolidated interim financial statements of the Company as of and for the nine months ended September 30, 2016, which have been reviewed by our reporting accountant in accordance with International Standards on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board.

Our Directors have confirmed, after performing all the due diligence work which the Directors consider appropriate, that, as of the date of this prospectus, there has been no other material adverse change in our financial condition or prospects since June 30, 2016, being the date of our latest audited financial statements.

SUMMARY

USE OF PROCEEDS

Assuming an Offer Price of HK\$6.81 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$6.36 and HK\$7.26 per H Share), we estimate that we will receive net proceeds of approximately HK\$7,097.03 million from the Global Offering after deducting (i) the net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering, and (ii) the underwriting commissions and other estimated expenses in the Global Offering, and assuming that the Over-allotment Option is not exercised.

In line with our strategies, we aim to become a large leading PRC-based investment bank with comprehensive competitiveness and global coverage and intend to use our net proceeds from the Global Offering for the purposes and in the amounts set out below:

<u>Intended use of net proceeds</u>	<u>Percentage of the total estimated net proceeds</u>	<u>Amount</u> (in HK\$ million)
To invest in our wealth management business	35%	2,483.96
To invest in our trading and institutional client services business	20%	1,419.41
To invest in our investment management business	20%	1,419.41
To invest in our overseas business	15%	1,064.55
To use for working capital and general corporate purposes	10%	709.70

We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders. In accordance with the relevant PRC laws and regulations, the net proceeds from the sale of the Sale Shares will be remitted to the NSSF. For more details about our use of proceeds from the Global Offering, please see “Future Plans and Use of Proceeds” in this prospectus.

SUMMARY

OFFER STATISTICS

The statistics in the following table are based on the following assumption that (i) the Global Offering has been completed and 1,076,470,000 H Shares have been newly issued, (ii) the Over-allotment Option is not exercised, and (iii) there are 7,176,470,000 issued and outstanding shares after the Global Offering.

	Based on minimum indicative Offer Price of HK\$6.36	Based on maximum indicative Offer Price of HK\$7.26
Market capitalization of our H Shares ⁽¹⁾ . . .	HK\$7,530.98 million	HK\$8,596.69 million
Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	HK\$6.01	HK\$6.15

Notes:

- (1) The calculation of market capitalization is based on 1,184,117,000 H Shares, 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 attributable to owners of the Company are arrived at after the adjustments referred to in “Appendix II — Unaudited Pro Forma Financial Information — A. Unaudited Pro Forma Statements of Adjusted Consolidated Net Tangible Assets.”

OUR HISTORY AND DEVELOPMENT

The history of our Company can be traced back to November 2, 2005 when China Securities Finance Limited (中信建投証券有限責任公司), our Company’s predecessor, was jointly established by CITIC Securities and China Jiayin. In July 2005, the State Council approved in principle the restructuring plan of Huaxia Securities. As part of the restructuring plan, pursuant to the Asset Acquisition Agreement dated December 12, 2005 and other relevant agreements, newly established China Securities Finance Limited acquired all securities business and related assets originally owned by Huaxia Securities, which primarily included normal brokerage business, investment banking business and fund agency business, and then operated as a comprehensive securities firm. Pursuant to the Asset Acquisition Agreement, except for the accrued salaries and benefits payable to certain employees of the acquired business, China Securities Finance Limited would not assume any responsibility for any debt or legal liabilities of Huaxia Securities. On September 28, 2011, China Securities Finance Limited was converted into a joint stock limited company and renamed China Securities Finance Co., Ltd (中信建投証券股份有限公司). Since establishment, we have grown rapidly into a leading full-service investment bank.

Upon completion of the liquidation of Huaxia Securities, if any creditor of Huaxia Securities is interested in subscribing for our Shares with the net payment they receive from the liquidation, we will consider by taking into consideration various factors including our business development and needs for capital, consult the relevant governmental and regulatory authorities and comply with the applicable laws, regulations, the Listing Rules and the Articles of Association regarding the issue of shares (including seeking the Shareholders’ approval). Such subscription by the creditors (if any) is not expected to result in material share dilution or have a material adverse effect on the Company’s business operations. For more details about our history and development and the Asset Acquisition Agreement, please see “History, Development and Corporate Structure — Our History and Development” in this prospectus.

SUMMARY

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, BSCOMC and Central Huijin held 45% and 40% of the issued Shares of our Company, respectively. Following the completion of the Global Offering, BSCOMC and Central Huijin will hold approximately 37.46% and 33.29% of the issued Shares of our Company, respectively (assuming the Over-allotment Option is not exercised). Please see “Relationship with Our Controlling Shareholders” for more details.

DIVIDENDS

Our Board of Directors is responsible for submitting proposals in respect of dividend payments to the shareholders’ general meeting for approval. We currently do not have any specific dividend policy. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flow, financial condition, net capital, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board deems relevant. All of our shareholders have equal rights to dividends and other distributions proportionate to their shareholdings. The Company’s accumulated undistributed profits shall be shared by all the new and existing Shareholders of the Company in proportion to their shareholding after the Global Offering.

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.

During the Track Record Period, we declared and paid dividend in the amount of RMB390.0 million and RMB180.0 million on ordinary shares in 2013 and 2014 (i.e. dividends of RMB0.06 per share and RMB0.03 per share). Our historical dividends may not be indicative of future dividends payments.

For details about our dividend policy, please see “Financial Information — Dividends.”

RISK FACTORS

Our operations and the Global Offering involve various risks, many of which are beyond our control. These risks can be categorized as (i) risks relating to our business and industry; (ii) risks relating to the PRC; and (iii) risks relating to the Global Offering.

We believe that the main risk factors we face include, but are not limited to:

- General global and PRC economic and market conditions could adversely affect our business;
- Our business may be adversely affected by changes in regulatory environment and measures in the PRC and other jurisdictions where we operate;

SUMMARY

- We face intense competition in existing and new businesses;
- We are subject to strict net capital, risk management, liquidity and other similar regulatory requirements that may restrict our business activities;
- We generate a significant portion of our revenue from our securities brokerage and securities financing businesses, and reduction in our clients' trading activities or decrease in our brokerage commission rates could materially and adversely affect our operating results and financial condition; and
- If we cannot successfully maintain and expand our client base and operational network, our securities brokerage business and its revenue could be materially and adversely affected.

For further information on the risks relating to our business and investing in our shares, please see "Risk Factors."

REGULATORY MATTERS

We are subject to various regulatory requirements and guidelines promulgated by the regulatory authorities and self-regulatory organizations in the PRC and Hong Kong, including but not limited to the CSRC, the PBOC, the SFC, Shanghai Stock Exchange, Shenzhen Stock Exchange, Hong Kong Stock Exchange, the NEEQ Company, the AMAC and the SAC, as well as their respective local branches and offices. Please see "Business — Laws and Regulations" of this prospectus for details.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions, and other fees incurred in connection with the Listing and the Global Offering. We estimate that our listing expenses will be approximately HK\$233.69 million (assuming an Offer Price of HK\$6.81 per H share, being the mid-point of the indicative Offer Price range, and no exercise of the Over-allotment Option), of which approximately HK\$215.11 million is attributable to the issue of H Shares to the public and will be capitalized, and approximately HK\$18.58 million is expected to be expensed in our consolidated income statements. Our Directors do not expect such expenses to materially impact our results of operations for 2016.

DEFINITIONS

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

“AMAC”	Asset Management Association of China (中國證券投資基金業協會)
“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 will become effective on the Listing Date, a summary of which is set out in Appendix V to this prospectus
“Big Five State-owned Commercial Banks”	Industrial and Commercial Bank of China Limited, China Construction Bank Corporation, Agricultural Bank of China Limited, Bank of China Limited and Bank of Communications Limited, if the context requires, including their respective predecessors
“Board” or “Board of Directors”	the Board of Directors of our Company
“BSCOMC”	Beijing State-owned Capital Operation and Management Center (北京國有資本經營管理中心), a whole people-owned enterprise (全民所有制企業) ultimately owned by the PRC Government and incorporated in the PRC on December 30, 2008, which held 45% of the Shares of our Company as of the Latest Practicable Date
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open to the public for normal banking business and which is not a Saturday, Sunday or public holiday in Hong Kong
“CBRC”	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

DEFINITIONS

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a company
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Central Huijin”	Central Huijin Investment Limited (中央匯金投資有限責任公司), a wholly state-owned company ultimately owned by the PRC Government and incorporated in the PRC with limited liability on December 16, 2003, which held 40% of the Shares of our Company as of the Latest Practicable Date
“Century Jinyuan”	Century Jinyuan Investment Group Limited (世紀金源投資集團有限公司), a company incorporated in the PRC with limited liability on July 11, 2001, which held approximately 0.61% of the Shares of our Company as of the Latest Practicable Date
“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“China Financial Futures Exchange”	the China Financial Futures Exchange (中國金融期貨交易所)
“China Futures Association” or “CFA”	the China Futures Association (中國期貨業協會)
“China Jianyin”	China Jianyin Investment Limited (中國建銀投資有限責任公司), a wholly state-owned company ultimately owned by the PRC Government and incorporated in the PRC with limited liability on June 21, 1986
“China Securities Capital”	China Capital Management Limited (中信建投資本管理有限公司), a company incorporated in the PRC with limited liability on July 31, 2009 and a wholly-owned subsidiary of the Company
“China Securities Funds”	China Securities Funds Management Limited (中信建投基金管理有限公司), a company incorporated in the PRC with limited liability on September 9, 2013 and a subsidiary in which the Company held 55% equity interests as of the Latest Practicable Date

DEFINITIONS

“China Securities Futures”	China Futures Co., Ltd. (中信建投期貨有限公司), a company incorporated in the PRC with limited liability on March 16, 1993 and became a wholly-owned subsidiary of the Company in July 2007
“China Securities International”	China Securities (International) Finance Holding Company Limited (中信建投(國際)金融控股有限公司), a company incorporated in Hong Kong on July 12, 2012 and a wholly-owned subsidiary of the Company
“CITIC Group”	CITIC Group Corporation (中國中信集團有限公司), a SOE established in the PRC in 1979, which is the only substantial shareholder of CITIC Securities and an Independent Third Party
“CITIC Securities”	CITIC Securities Co., Ltd. (中信證券股份有限公司), a joint stock company incorporated in the PRC with limited liability on October 25, 1995, which held 7% of the Shares of our Company as of the Latest Practicable Date
“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 632 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company” or “China Securities”	CSC Financial Co., Ltd. (中信建投證券股份有限公司), incorporated in the PRC on November 2, 2005 under the name of China Securities Finance Limited (中信建投證券有限責任公司), and converted into a joint stock company with limited liability and was renamed as China Securities Finance Co., Ltd. (中信建投證券股份有限公司) on September 28, 2011 and further changed its English name to CSC Financial Co., Ltd. on October 20, 2016
“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 and became effective on March 1, 2014

DEFINITIONS

“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholders”	BSCOMC and Central Huijin
“CSDC”	the China Securities Depository and Clearing Corporation (中國證券登記結算有限責任公司)
“CSFCL”	China Securities Finance Corporation Limited (中國證券金融股份有限公司), a national financial institution specialized in securities incorporated on October 28, 2011 with the approval of the State Council and the CSRC to provide, among other functions, margin and securities intermediation service to support the margin financing and securities lending businesses of PRC securities firms
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Dealogic”	Dealogic, an international financial data and information provider, the database of which encompasses information on equity and debt capital markets, syndicated lending, M&As and institutional investors
“Director(s)”	director(s) of our Company
“Domestic Shares”	ordinary shares issued by our Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in Renminbi
“EIT”	enterprise income tax of the PRC
“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
“Financial advisor”	Daiwa Capital Markets Hong Kong Limited
“GDP”	gross domestic product

DEFINITIONS

“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, and their respective predecessors
“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 HK dollars and are to be listed on the Hong Kong Stock Exchange
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“HKD” or “HK dollars” or “Hong Kong dollar”	Hong Kong dollars and cents, respectively, 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 96,075,000 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 “Structure of the Global Offering” in this prospectus)

DEFINITIONS

“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” or “HKEx”	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 November 28, 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 — The Hong Kong Public Offering — Hong Kong Underwriting Agreement” in this prospectus
“Huaxia Securities”	Huaxia Securities Co., Ltd. (華夏證券股份有限公司), a joint stock company incorporated in the PRC with limited liability on October 4, 1992 and an Independent Third Party, which is currently in liquidation
“IFRS”	International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards, and interpretation issued by the International Accounting Standards Committee

DEFINITIONS

“Independent Third Party(ies)”	party(ies) not connected with us within the meaning of the Hong Kong Listing Rules to the knowledge of our Directors after all reasonable enquiries
“International Offer Shares”	the 1,034,218,500 H Shares initially offered by our Company and the Selling Shareholders pursuant to the International Offering together with, where relevant, any additional Shares which may be issued or sold by our Company and the Selling Shareholders pursuant to the exercise of the Over-allotment Option (subject to reallocation as described in “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 (i) outside the United States and to non-U.S. persons in offshore transactions in accordance with Regulation S and (ii) to persons in the United States and to U.S. persons who are both QIBs and QPs in reliance on Rule 144A or any other exemption from, or in a transaction not subject to, the registration requirements under the Securities Act, as further described in “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 December 2, 2016 by our Company, the Selling Shareholders, the Joint Representatives and the International Underwriters in respect of the International Offering, as further described in “Underwriting — Underwriting Arrangements and Expenses — The International Offering” in this prospectus

DEFINITIONS

“Joint Bookrunners”	(In relation to the Hong Kong Public Offering and International Offering) China Securities (International) Corporate Finance Company Limited, UBS AG Hong Kong Branch, ABCI Capital Limited, ICBC International Capital Limited, BOCI Asia Limited, BOCOM International Securities Limited, CCB International Capital Limited, Deutsche Bank AG, Hong Kong Branch, SPDB International Capital Limited, CMB International Capital Limited, China Galaxy International Securities (Hong Kong) Co., Limited, China Merchants Securities (HK) Co., Limited, China Everbright Securities (HK) Limited, Haitong International Securities Company Limited, GF Securities (Hong Kong) Brokerage Limited, SSIF Securities Limited, Guotai Junan Securities (Hong Kong) Limited, Zhongtai International Securities Limited, Guosen Securities (HK) Capital Company Limited and Dongxing Securities (Hong Kong) Company Limited
“Joint Global Coordinators”	China Securities (International) Corporate Finance Company Limited, UBS AG Hong Kong Branch, ABCI Capital Limited, ICBC International Capital Limited, BOCI Asia Limited, BOCOM International Securities Limited, CCB International Capital Limited, Deutsche Bank AG, Hong Kong Branch, SPDB International Capital Limited and CMB International Capital Limited
“Joint Representatives”	China Securities (International) Corporate Finance Company Limited, UBS AG Hong Kong Branch and ABCI Capital Limited
“Joint Sponsors”	China Securities (International) Corporate Finance Company Limited, UBS Securities Hong Kong Limited and ABCI Capital Limited
“Latest Practicable Date”	November 21, 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 December 9, 2016, on which our H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange

DEFINITIONS

“M&A(s)”	merger(s) and acquisition(s)
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market (excluding the option market) operated by the HKEx which is independent from and operated in parallel with the Growth Enterprise Market of the HKEx
“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 (原國務院證券委員會) and the former State Commission for Restructuring the Economic Systems (前國家經濟體制改革委員會) on August 27, 1994
“Ministry of Finance” or “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)
“NAFMII”	National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會)
“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 (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 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) at which Hong Kong Offer Shares are to be subscribed, to be determined in the manner further described in “Structure of the Global Offering — Pricing of the Global Offering” in this prospectus

DEFINITIONS

“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 or sold by the Selling Shareholders pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by our Company and the Selling Shareholders 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 and the Selling Shareholders may be required to allot and issue or sell up to an aggregate of 169,543,500 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 “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
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities
“Price Determination Agreement”	the agreement to be entered into by the Joint Representatives (for themselves and on behalf of, among others, the Joint Bookrunners and the Underwriters) and the Company (for itself and on behalf of the Selling Shareholders) on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around Friday, December 2, 2016 (Hong Kong time) on which the Offer Price is determined, or such later time as the Joint Representatives (for themselves and on behalf of, among others, the Joint Bookrunners and the Underwriters) and our Company (for itself and on behalf of the Selling Shareholders) may agree, but in any event no later than Sunday, December 4, 2016
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering

DEFINITIONS

“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“QP”	a qualified purchaser as defined in Section 2(a)(51) of the U.S. Investment Company Act
“Regulation S”	Regulation S under the U.S. Securities Act
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAC”	the Securities Association of China (中國證券業協會)
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“Sale Shares”	the 53,823,500 H Shares to be converted from an equivalent number of Domestic Shares of the Company held by the Selling Shareholders and offered for sale by the Selling Shareholders as part of the International Offering at the Offer Price, subject to any adjustment and, where relevant, any additional H Shares which may be converted from Domestic Shares and sold pursuant to the exercise of the Over-allotment Option, and references to “Sale Shares” shall include, where the context requires, the Domestic Shares from which the Sale Shares are converted
“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 and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Securities Law”	the Securities Law of the People’s Republic of China (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time
“Securities Times”	Securities Times Newspaper (證券時報) of the PRC

DEFINITIONS

“Selling Shareholders”	the Shareholders of the Company which will be selling the Sale Shares in the International Offering as further described in “Structure of the Global Offering — The Selling Shareholders” in this prospectus
“SFC”	the Securities and Futures Commission of Hong Kong
“Shanghai Securities News”	Shanghai Securities News (上海證券報) of the PRC
“Shanghai Shangyan”	Shanghai Shangyan Investment Center (Limited Partnership), a limited partnership established in the PRC on August 9, 2011, which held approximately 2.47% of the Shares of our Company as of the Latest Practicable Date
“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所)
“Shannan Jinyuan”	Xizang Shannan Century Jinyuan Investment Management Limited (西藏山南世紀金源投資管理有限公司), a company incorporated in the PRC with limited liability on January 31, 2013, which held approximately 4.92% of the Shares of our Company as of the Latest Practicable Date
“Share(s)”	ordinary shares in the capital of our Company with a nominal value of RMB1.00 each, comprising Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange (深圳證券交易所)
“SME(s)”	small- and medium-sized 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
“SSE Main Board”	Main board of the Shanghai Stock Exchange
“Stabilizing Manager”	China Securities (International) Corporate Finance Company Limited
“State Council”	State Council of the People’s Republic of China (中華人民共和國國務院)

DEFINITIONS

“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“Supervisor(s)”	the Supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“SZSE Main Board”	Main board of the Shenzhen Stock Exchange
“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. Investment Company Act”	the United States Investment Company Act of 1940
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“US\$,” “USD” or “US dollars”	United States dollars, the lawful currency of the United States
“ 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 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 and a service provider of financial data, information and software, being an Independent Third Party

DEFINITIONS

“**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” 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 English names of the PRC established companies or entities, laws or regulations are translation and/or transliteration of their Chinese names and have been included in this prospectus for identification purposes only. In the event of any inconsistency between the Chinese names and their English translations and/or transliterations, the Chinese versions shall prevail.

GLOSSARY OF TECHNICAL TERMS

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

“active client(s)”	client(s) other than dormant clients
“actively managed products”	TAM schemes, where the specific investment objects are determined by the manager according to the investment scope and limitation agreed in the contracts signed with clients, CAM schemes and SAM schemes
“asset-backed securitization”	business activities of issuing asset-backed securities with payment support from the cash flows generated from basic assets based on the credit enhancement through measures such as structuralization
“AUM”	assets under management
“average return of proprietary investment”	the annualized ratio of net gains from proprietary investment activities to monthly investment amount of proprietary investment. The monthly investment amount of proprietary investment includes external capital used to increase the average return of proprietary investment
“average stock and fund commission rate”	the commission and fee income on our securities brokerage business as divided by the corresponding brokerage trading volume for stocks and funds
“bifurcated review”	when assessing the application for administrative permits of M&A and restructuring, the CSRC implements differentiated vetting arrangement based on difference in practicing abilities of financial advisor, compliant operation and credit conditions of listed companies, industrial policies and transaction types. Among which, waive of vetting or quick vetting approach will be made on the qualified applications for M&A and restructuring
“bps”	one ten thousandth
“CAGR”	compound annual growth rate
“CAM”	collective asset management
“ChiNext Board”	the growth enterprise board of the Shenzhen Stock Exchange

GLOSSARY OF TECHNICAL TERMS

“collateral ratio”	for margin finance and securities lending business, it refers to the ratio of the fair value of the collateral, including cash and securities held by the clients, to the balance of the sum of the receivables and the securities lent out in the margin accounts of the clients; 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 and interests received, divided by the amount payable by the borrower
“collateralized stock repurchase”	a transaction in which eligible borrowers get financing from eligible lenders by pledging the stocks or other securities they hold and agree to return the borrowed funds and cancel the pledge some day in the future
“Comparable H Share Listed Securities Firms”	securities firms incorporated in the PRC and listed in Hong Kong with size of assets and operating income comparable to the Company, including CITIC Securities Co., Ltd., Haitong Securities Co., Ltd., China Galaxy Securities Co., Ltd., GF Securities Co., Ltd., Huatai Securities Company Limited, Orient Securities Company Limited, Everbright Securities Company Limited, China Merchants Securities Co., Ltd. and China International Capital Corporation Limited
“contractual repurchase transaction”	a transaction in which qualified clients sell securities to their designated securities firms at an agreed-upon selling price, and agree to repurchase the underlying securities at the agreed-upon repurchase price on a specific date in the future
“corporate client(s)”	corporate client(s) other than financial institutions whom we provide services for
“CSI 300 Index”	a capitalization-weighted stock market index designed to replicate the performance of 300 stocks traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange, which is compiled by the China Securities Index Co., Ltd. (中證指數有限公司)
“CSI 500 Index”	a capitalization-weighted stock market index compiled by the China Securities Index Co., Ltd. (中證指數有限公司) and designed to replicate the performance of 500 stocks traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange

GLOSSARY OF TECHNICAL TERMS

“dormant client(s)”	investors with nil market value in securities accounts, balance of not more than RMB100 in capital accounts and no trading in the past one year
“ETF(s)”	exchange-traded fund(s)
“FICC”	fixed-income, currencies and commodities
“futures IB business”	the business activities in which securities firms, as commissioned by futures companies, introduce customers to futures companies to engage in future trading, and provide other related services
“GFA”	gross floor area
“institutional client(s)”	financial institution client(s) whom we provide services for
“IPO”	initial public offering
“margin financing and securities lending”	a transaction in which the investor provides a qualified securities firm with collateral, to borrow funds and purchase securities (margin financing transaction) or borrow securities and sell them (securities lending transaction)
“margin refinancing and securities refinancing”	the operating activities whereby the CSFCL lends the funds or securities which are owned or lawfully raised by it to securities firms for their securities margin financing and securities lending business
“market maker”	independent securities operating legal person with certain strength and reputation as specialists, continue to offer buy and sell quotations for public investors (namely two-way quotations), and accept buy and sell request at such price, trade securities with their own capital and securities with investors
“mid-to-high-end client(s)”	our individual and corporate client(s) with account balance of RMB0.5 million or above, including mid-to-high net worth clients and private banking client(s)
“mid-to-high net worth client(s)”	our individual and corporate client(s) with account balance of RMB0.5 million and above, but less than RMB5.0 million

GLOSSARY OF TECHNICAL TERMS

“NEEQ”	National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
“NEEQ Company”	National Equities Exchange and Quotations Co., Ltd.
“non-actively managed products”	TAM schemes where the investments are carried out in strict accordance with the specific investment instructions of the clients and the manager is exempt by contract of due diligence requirements
“O2O”	online to offline
“operating income”	operating income in the financial statements prepared in accordance with the PRC GAAP
“OTC”	over-the-counter trading
“PB system”	Prime Brokerage system, a trading system used for supporting prime brokerage business
“private banking client(s)”	our individual and corporate client(s) with account balance of RMB5.0 million and above
“project pipeline”	in equity financing, M&A and restructuring, projects with application documents submitted to the CSRC but yet to complete the offering
“QDII”	Qualified Domestic Institutional Investor (合格境內機構投資者)
“QFII”	Qualified Foreign Institutional Investor (合格境外機構投資者)
“regular client(s)”	our individual and corporate client(s) with account balance of less than RMB0.5 million
“retail client(s)”	individual client(s)
“RQFII”	Renminbi Qualified Foreign Institutional Investor (人民幣合格境外機構投資者), a pilot program launched in the PRC which allows Hong Kong subsidiaries of PRC securities and funds companies to facilitate investments of offshore Renminbi into PRC capital markets
“SAM”	specialized asset management

GLOSSARY OF TECHNICAL TERMS

“Shanghai-Hong Kong Stock Connect”	a securities trading and clearing links program developed by Shanghai Stock Exchange, the HKEx, HKSCC and China Securities Depository and Clearing Corporation Limited for the establishment of mutual market access between Hong Kong and Shanghai, including Southbound Trading and Northbound Trading
“Shenzhen-Hong Kong Stock Connect”	a securities trading and clearing links program under development by Shenzhen Stock Exchange, the HKEx, HKSCC and China Securities Depository and Clearing Corporation Limited for the establishment of mutual market access between Hong Kong and Shenzhen, including Southbound Trading and Northbound Trading
“SME Board”	the Small and Medium Enterprises Board of the Shenzhen Stock Exchange (深圳證券交易所中小企業板)
“sponsor representative(s)”	Professional representative(s) qualified for sponsoring offering and listing of securities in the PRC pursuant to the Measures for the Administration of the Sponsorship of Securities Offering and Listing (證券發行上市保薦業務管理辦法)
“SSE 50 Index”	a capitalization-weighted stock market index that selects 50 largest stocks of good liquidity and representatives traded on the Shanghai Stock Exchange
“ST stock(s)”	special treatment stock(s) of companies listed on Shanghai Stock Exchange or Shenzhen Stock Exchange that experience unusual circumstances in their financial condition or operation, exposing them to delisting risks or making it impracticable for investors to evaluate the companies’ business prospects
“stock index futures”	standard future contracts linked to stock index; a kind of financial futures
“structured note(s)”	marketable securities issued by securities firms with the payment of principal and return correlated to specific subjects, which include but not limited to currency interest rate, prices or indexes of basic commodities and securities
“TAM”	targeted asset management
“TMT”	Telecommunication, media and technology

GLOSSARY OF TECHNICAL TERMS

“treasury futures”	standardized futures contracts on treasury bonds; a kind of financial futures
“Type-C branches”	securities brokerage branch(es) that do not provide on-site securities trading services
“VaR”	value at risk
“wealth management clients”	individual and corporate client(s) whom we provide brokerage and wealth management services for

FORWARD-LOOKING STATEMENTS

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

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

- general political and economic conditions;
- macroeconomic measures taken by the PRC Government to manage economic growth;
- future development, trends and environment of the industry and markets in which we operate;
- exchange rate fluctuations and evolving legal systems pertaining to the PRC and the industry and markets in which we operate;
- regulatory environment of the PRC and the industry in which we operate;
- market competition, and actions and development of competitors;
- our business prospects;
- our business plans, strategies and goals and our ability to successfully implement these business plans, strategies and goals;
- our financial condition, operating results and performance;
- our ability to reduce costs;
- fluctuations in our brokerage fee and commission income; and
- our dividend policy.

FORWARD-LOOKING STATEMENTS

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

RISK FACTORS

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. These risks could materially and adversely affect our business, financial condition and operating results. 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 from that of other countries. For more information concerning the PRC and certain related matters discussed below, see “Regulatory Environment,” “Appendix IV — Summary of Principal Legal and Regulatory Provisions” and “Appendix V — Summary of Articles of Association.” You should seek professional advice from relevant advisors regarding your prospective investment in the context of your particular circumstances.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

General global and PRC economic and market conditions could adversely affect our business.

Our businesses are highly dependent on economic and market conditions in the PRC and other jurisdictions where we operate. General economic and political conditions, such as macroeconomic and monetary policies, legislation and regulations on the financial and securities industries, market volatility, upward and downward trends in the industry, currency and interest rate fluctuations, availability of long-term and short-term market funding sources and cost of funding, could affect our business. As a securities firm, our business is directly affected by the inherent risks associated with the securities markets, including market volatility, changes in investment sentiment, fluctuations in trading volume, liquidity changes, and the creditworthiness of the securities industry in the marketplace. Global political and economic conditions may affect the financial market conditions in the PRC. Any sudden and dramatic changes in the global and PRC financial market conditions could materially and adversely affect our operational and financial condition. As the PRC capital market is still evolving, market conditions may change rapidly. For example, the A share market in the PRC has experienced significant volatility in 2015, especially from mid-June to end of August. The CSI 300 Index has declined by 56.7% from 5,335.1 at the closing of June 12, 2015 to 3,025.7 at the closing of August 26, 2015. In response to the sudden and significant market fluctuations, the PRC Government initiated a series of measures to stabilize the market, which have and will continue to impact our business. See “— We contributed capital to the CSFCL in response to government measures for stabilizing the PRC stock market, which may 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 dropped by 15.5%. The average daily trading volume of the PRC stock market decreased from RMB1,172.5 billion for the first half of 2015 to RMB534.6 billion for the first half of 2016. If the PRC stock market continues to experience significant volatility during the rest of 2016, our financial performance in 2016 may be materially and adversely affected. For more details, please see “Summary — Recent Developments” and “Financial Information — Directors’ Confirmation of No Material Adverse Change.”

RISK FACTORS

In addition, continuous downturns in general economic conditions and adverse capital markets conditions in the PRC could materially and adversely affect our business, operating results, financial condition and prospects in various ways, including but not limited to the following:

- the financing demand of our clients could decrease, which could adversely affect our underwriting and sponsor fees from investment banking business further leading to a decline in our revenue from investment banking business;
- the demand of our clients for securities trading could decrease, which could adversely affect our securities brokerage business and securities financing business further leading to a decline in our revenue in related fees, commissions and interest income;
- the value and returns of financial assets we hold for securities trading and investment and the value of our asset management product portfolio may be adversely affected by market volatility, and our opportunities to exit and realize value from our investments may also be reduced;
- we may face increased default risks that our client or counterparty may fail to perform its contractual obligations;
- our financing cost may increase due to our limited access to liquidity and the capital markets, and therefore restricting our ability to raise funds to develop our business; and
- we may not be able to effectively execute our business plans and strategies.

Our business may be adversely affected by changes in regulatory environment and measures in the PRC and other jurisdictions where we operate.

As a securities firm with principal business in the PRC and Hong Kong, we are subject to extensive regulation in these jurisdictions. The regulatory authorities limit the types of products and services we may offer by imposing capital requirements and restrict our business activities by specifying the types of securities we may invest in. Relevant regulatory authorities make inspections, examinations and inquiries on a regular basis in respect of our compliance with relevant regulatory requirements. For example, the CSRC periodically evaluates and assigns a regulatory rating to each securities firm, including us, based on the firm's risk management capabilities, competitiveness and compliance with regulatory requirements. In addition, we may be subject to various regulations as well as inspections and restrictions imposed by relevant regulatory authorities in other countries and jurisdictions where we operate our business. Any 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 carry out pilot programs and conduct new businesses and may harm our reputation. Please see "Business — Laws and Regulations — Regulatory Non-compliance" for more details. For seven consecutive years from 2010 to 2016, we were rated "Class A Grade AA" by the CSRC, the highest rating ever received by PRC securities firms during that period. However, there is no assurance that we will be able to

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maintain such regulatory rating in the future. A downgrade of our regulatory rating may limit our ability to conduct certain businesses or prevent us from obtaining permits or approvals for our new businesses or subject us to a higher risk capital reserve ratio or a higher securities investor protection fund reserve ratio. Any future incidents of non-compliance may have a material and adverse effect on our business, financial condition, operating results, reputation and prospects.

In recent years, regulatory authorities have continuously promulgated new rules and guidances. These new rules and guidances may directly affect our business strategies, competitiveness and prospects. Changes in the rules and regulations could impose more stringent requirements or additional limitations on the business that we conduct, require us to modify our existing business practices and lead to increased compliance costs or competition. Our failure to adapt to the changing regulatory environment and maintain our compliance and competitiveness could have a material and adverse effect on our business, financial condition, operating results and prospects. For example, on April 29, 2016, the CSRC published 2016 Annual Legislative Work Plan, stating it would revise the Administrative Measures for the Issuance of Securities by Listed Companies and strengthened the regulation on the private placements by listed companies. On July 15, 2016, the CSRC issued Interim Provisions on Operation and Management of Privately-raised Asset Management Business of Securities or Futures Institutions, to further implement the “eight bottom lines” prohibitions on the asset management business. The introduction and implementation of foregoing rules may adversely affect our investment banking business and asset management business.

We face intense competition in existing and new businesses.

Our businesses face intense competition from numerous and diverse competitors. We primarily compete with other major securities firms in the PRC and Hong Kong. As of June 30, 2016, there were 126 registered securities firms in the PRC, and the market is not highly concentrated. We compete with other financial institutions such as commercial banks and insurance companies across different business sectors in the PRC. In recent years, in the wake of the development of Internet finance, the online businesses of securities firms also face competition from non-traditional financial institutions such as Internet companies.

Commercial banks, insurance companies and other financial institutions have been venturing into the traditional business sectors of securities firms and competing with securities firms in a number of areas by continuous innovation in their products and services. By leveraging their operational network, client base, capital base, and other advantages, commercial banks pose particular threats to securities firms in bond underwriting, financial advisory services, sales of wealth management products, and other domains. In addition, gradually relaxed PRC securities regulations and the trend towards mixed operations in the PRC's financial industry may enable new competitors (such as foreign financial institutions) to enter into the securities industry.

Some of our competitors may have certain competitive advantages over us, such as more abundant financial resources, greater brand awareness, more diverse product and service offerings and more advanced IT systems. They may also be more experienced than us and offer a broader range of services and financial products. In addition, they may have more competitive compensation and incentive mechanisms, with more qualified, capable and

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experienced employees. We may also face competition from competitors in certain business sectors or geographical regions. While these competitors may have less comprehensive offering of products or services or less extensive geographic coverage than us, they may have more experience, better brand recognition and other competitive advantages in their business sectors or geographical regions. Our failure to compete effectively against our competitors may have a material and adverse effect on our business, financial condition, operating results and prospects.

In addition, along with the evolvement of the PRC securities industry, innovative products and services may emerge in the market. We may not be able to maintain our current market share or leading position due to certain difficulties or challenges we may face in offering new products or services. Our failure to maintain our competitive advantages in this business environment will have a material and adverse effect on our businesses, financial condition, operating results and prospects.

Our businesses also face intense price competition. We will likely continue to experience pricing pressures in the future as some of our competitors seek to increase their market shares by lowering prices. In recent years, there has been considerable pressure on commission rates for some of our businesses. In particular, our securities brokerage commission rates have been in decline in recent years, and may further decline due to intense competition in the future. Brokerage clients generally use the Internet and other alternative trading systems to execute electronic trading, putting more pressure on brokerage commission rates. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, our average stock and fund brokerage commission rate was 0.76‰, 0.63‰, 0.49‰, 0.49‰ and 0.49‰, respectively. In addition, underwriting fees, financial advisory fees and asset management fees also face pricing pressure. We believe that we will continue to face pressure on commission rates if some of our competitors further lower their prices in order to increase their market shares. Please see “— We generate a significant portion of our revenue from our securities brokerage and securities financing business, and reduction in our clients’ trading activities or decrease in our brokerage commission rates could materially and adversely affect our operating results and financial condition” and “— Our investment banking business is subject to various risks and there can be no assurance that the income level of our investment banking business can be sustained.”

We are subject to strict net capital, risk management, liquidity and other similar regulatory requirements that may restrict our business activities.

We are subject to net capital and other risk control indicators, liquidity risk regulatory indicator and other requirements imposed by the CSRC, the SAC, and other regulatory authorities and self-regulatory organizations. According to the CSRC’s requirements, our net capital to net assets ratio, net capital to liabilities ratio, net capital to total risk capital reserve ratio and net assets to liabilities ratio may not be lower than 40.0%, 8.0%, 100.0% and 20.0%, respectively. Pursuant to the CSRC’s Administrative Measures for Risk Control Indicators of Securities Firms, we have established a dynamic net capital and other risk control indicators monitoring mechanism in an endeavor to comply with statutory regulatory standards on risk control indicators based on net capital. In addition, we are required to comply with certain risk indicator requirements to engage in different businesses. For example, if the net capital to total risk capital reserve ratio of a securities firm is less than 200% or if its liquidity

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regulatory indicator is less than 120% (less than 100% before June 30, 2015), its leverage ratio (total asset to net asset) may not exceed 5 times and its application for carrying out innovative business pilot program shall be suspended. We are also subject to various liquidity requirements. For example, in June 2016 and effective from October 1, 2016, the CSRC amended Administrative Measures for Risk Control Indicators of Securities Firms and supporting ancillary measures. This amendment adjusts the calculation basis and method of net capital and risk capital reserve, adds a Capital Leverage Ratio indicator (net core capital to total off- and on-balance-sheet assets), sets a mandatory leverage ratio of no less than 8% and sets up indicators for specific business lines. According to the SAC, both the Liquidity Coverage Ratio (ratio of good quality liquid assets to estimated net cash outflow for the following 30 days) and the Net Stable Funding Ratio (ratio of available stable funding to stable funding required by business) shall reach 100% by June 30, 2015. During the Track Record Period, we have been in compliance with regulatory requirements in terms of major risk control indicators based on net capital. These requirements may restrict the scope and scale of our business activities, and may require us to adjust our existing business in order to be eligible for new and innovative products and services. Our failure to meet such requirements could lead to sanctions, fines, penalties or other disciplinary actions, including a downgrade of our regulatory rating and limitations or prohibitions on our future business activities, which may have a material and adverse effect on our business, financial condition, operating results, reputation and prospects.

We generate a significant portion of our revenue from our securities brokerage and securities financing businesses, and reduction in our clients' trading activities or decrease in our brokerage commission rates could materially and adversely affect our operating results and financial condition.

Changes in the macro market and the intensified competition may have an adverse effect on our securities brokerage and securities financing business. Since we have been generating a significant portion of our revenue from our securities brokerage and securities financing business, any decline or slowdown in our securities brokerage and securities financing business could have a material and adverse effect on our total revenue.

Revenue from our securities brokerage business consists primarily of commissions and fees that we generate by executing trades for our clients. Revenue from our securities financing business consists primarily of interest income generated from margin financing and securities lending as well as repurchase business. Revenue from our securities brokerage business depends significantly on the turnover of trading that we execute for our clients and the brokerage commission rates. Revenue from our securities financing business depends on the size as well as the interest rate of margin financing and securities lending. Trading turnover of securities brokerage business and the financing needs for securities financing business are subject to factors including general economic conditions, macroeconomic and monetary policies, conditions of A share market, fluctuations in interest rates and investor behavior, all of which are beyond our control. Any unfavorable market condition may significantly affect our securities trading, resulting in a decrease in turnover or trading scale and in turn lead to a decrease in the fees and commission income from our securities brokerage business or a drop in the interest income from our securities financing business.

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In addition, the increasing competition in the PRC securities industry may lead to a decrease in our brokerage commission, which will adversely affect our brokerage business. For example, some of our competitors have launched Internet account opening services ahead of us, which significantly lowered the commission rates charged to brokerage clients, resulting in us correspondingly lowering commission rates to maintain competitiveness. We believe that price competition and pricing pressure will continue as investors are increasingly unwilling to pay for brokerage services, and some of our competitors seek to obtain market share by further reducing brokerage fees and commissions. Moreover, the PRC securities markets are emerging markets characterized by short-term investing behavior among investors, which has resulted in a higher frequency of trading activities by our clients. However, as the capital markets in the PRC develop and our clients become more sophisticated, they may reduce the frequency of their trading activities in the future, which could adversely affect the commissions we derive from our brokerage business. As a result, there is no assurance that our brokerage commission rates and commission income scale can be sustained at current levels.

If we cannot successfully maintain and expand our client base and operational network, our securities brokerage business and its revenue could be materially and adversely affected.

The securities brokerage business is highly competitive and we have to maintain our client base and attract new clients. As of June 30, 2016, we had approximately 5,300,000 wealth management clients, including approximately 13,400 corporate clients. However, there is no assurance that we will be able to continue to maintain or grow our client base. In 2015, the CSDC lifted the “one investor one account” restriction upon natural person investors’ opening A share account by allowing them to open multiple A share accounts and exchange traded closed-end fund accounts on the Shanghai Stock Exchange and Shenzhen Stock Exchange based on their actual needs. The individual clients could open accounts with multiple securities firms, which may divert client transactions to other firms. If we are unable to address the needs of our clients by maintaining high-quality client service, continuing product innovation, providing value-added services, or if we otherwise fail to meet our clients’ demands or expectations, we may lose our existing clients to our competitors or fail to attract new clients. As a result, our business, financial condition and operating results may be adversely affected.

We serve clients of our securities brokerage business and manage client relationships primarily through our network of securities branches. As of June 30, 2016, we had 225 securities branches in 30 provinces, autonomous regions and directly-administered municipalities in the PRC. However, there is no assurance that we will be successful in further expanding our operational network due to regulatory changes, difficulties in managing a relatively larger pool of retail brokerage staff and other unforeseeable factors. In March 2013, the CSRC issued the Supervisory Provisions on Branches of Securities Firms, or the Supervisory Provisions on Branches, which removed the limitation on the number of branches that securities firms can establish and allowed qualified securities firms to set up branches nationwide. Under the Supervisory Provisions on Branches, the PRC securities firms may establish more new branches, which may further increase the competition in the securities brokerage business in the PRC and decrease the securities brokerage commission rates. We may not be able to maintain our current market-leading position in the number of operating outlets and any failure to maintain our competitiveness may have a material and adverse effect on our business, financial condition, operating results and prospects.

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In addition, the prevalence of online retail brokerage business in the PRC exposes us to competitive pressure on commission rates from small securities firms with relatively low costs and securities firms which carry out brokerage services primarily through online trading platforms. If we are unable to provide differentiated products and services, our business, financial condition, operating results and prospects may be adversely affected.

Our investment banking business is subject to various risks and there can be no assurance that the income level of our investment banking business can be sustained.

Market fluctuations and changes in regulatory policies may adversely affect our investment banking business. Our investment banking business has been and may in the future be adversely affected by economic and market conditions. Poor economic conditions may adversely affect investor confidence, resulting in significant industry-wide declines in the size and number of securities offerings and M&A transactions, which could have an adverse effect on our revenue from and profit margin for the investment banking business. Adverse capital market conditions and market volatility may also cause delays to, or the termination of, securities offerings underwritten or sponsored by us and M&A transactions advised by us, which may materially and adversely affect our revenue from the investment banking business. In addition, along with the continuous evolution of securities market in the PRC, new products and services in the investment banking business may emerge. We may not be able to maintain our current market share due to certain difficulties or challenges we may face in offering new products or services, which could have a material and adverse effect on our investment banking business.

Transactions we are involved in are subject to uncertainties due to regulatory approvals. IPOs in the PRC and certain types of M&A transactions of listed companies are subject to approvals by various regulatory authorities. Approval processes and the results and timing of the various inspections conducted by the CSRC from time to time are beyond our control and may cause substantial delays to, or the suspension of, securities offerings underwritten by us or M&A transactions advised by us. For example, from October 2012 to January 2014, the CSRC suspended its approval of all A share IPO applications in the PRC. We may experience delay in, or suspension of, securities offerings underwritten and sponsored by us as a result of unfavorable market conditions such as the market volatility in the future.

Furthermore, the PRC regulatory requirements on investment banking business continue to change, including the implementation of a compensation regime in which sponsors are required to compensate investors for their losses resulting from false disclosures in IPOs before issuers' compensation liability can be determined. In addition, PRC securities firms are facing increasing challenges in terms of deal execution, client development, pricing and underwriting capabilities. If we are unable to adjust our business practices and strategies to meet these new challenges, we may not be able to compete effectively in the securities industry, which could in turn materially and adversely affect income from our investment banking business. In addition, if we are under investigation due to fraud committed by our clients, the CSRC may suspend the review of the proposed offerings underwritten or sponsored by us, which may adversely affect our business and operating results.

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In addition, in acting as a sponsor in securities offering and listing, we may be subject to regulatory sanctions, fines, penalties or other disciplinary actions or may be otherwise legally liable in the PRC and in Hong Kong and/or our reputation may be affected due to inadequate due diligence in connection with compliance supervision after the offerings and transactions, fraud or misconduct committed by issuers, other sponsors, their agents or our staff, misstatements and omissions in disclosure documents, or other illegal or improper activities that occur during the course of the underwriting process, which may adversely affect our business and operating results. Please see “Business — Laws and Regulations — Regulatory Non-compliance” for more details. The issuers of the bonds underwritten or sponsored by us may default due to various reasons, which may result in investors’ losses and therefore subject us to the litigation and reputational risks. Our investment banking business may also be affected by new rules and regulations, changes in the interpretation or enforcement of existing rules and regulations relating to the underwriting and sponsorship of securities offerings.

We generally receive underwriting commissions for securities offerings and advisory fees for M&A transactions upon the successful completion of the transactions. If a transaction is not completed as scheduled or at all for any reason, we may not receive underwriting commissions or financial advisory fees for services that we have provided in a timely manner or at all, which could adversely affect our operating results.

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

We trade equity and fixed-income securities as well as derivatives. Our equity and fixed-income securities are subject to market volatility and, therefore, the results of our securities trading activities are generally related to the condition of the PRC securities markets. We also engage in derivative instruments transactions, including stock options, treasury futures and stock index futures and etc. We generally use derivative instruments to hedge against the impact of price volatility on our investment portfolio or adjust the risk exposure of the investment portfolio. However, currently the types of financial investment products available in the PRC securities market remain limited. Although stock index futures provide investors with tools for arbitrage and managing risks related to their investments, such financial instruments for PRC investors remain inadequate, which may make it difficult for us to fully hedge against fluctuations in the price of our investment portfolio, and the derivatives that we use may not be as effective as we would expect. In addition, we are exposed to risks associated with derivatives contracts we enter into, which could result in losses to us. Since the derivative markets on the exchanges are unstable and the OTC derivative markets are under-developed, we may lack experience in managing new products or trading derivative products.

The performance of our proprietary trading business relies on our investment judgments and decisions based on our assessment of current and future market conditions. We closely monitor the market value of our investment portfolio and actively refine the structure of our portfolio based on market conditions and internal risk management guidelines. However, our investment decisions are made based on our judgment, which involves management discretion and assumptions. If our decision-making process fails to effectively minimize losses while capturing gains, or our forecasts do not conform to actual changes in the market conditions, our proprietary trading business may not achieve the investment returns we anticipate or may even suffer material losses, all of which could materially and adversely affect our business, financial condition and operating results.

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In addition, the values of certain classes of our assets, such as our available-for-sale financial assets, are marked to market. A decline in the value of our available-for-sale financial assets can result in the recognition of impairment losses if management determines that such decline in value is not temporary. This impairment recognition shall be based on evaluation of several factors. For more details of the impairment policies, please see “Financial Information — Critical Accounting Policies, Judgments and Estimates.” If we recognize impairment losses, our operating results will be adversely affected.

A significant decline in the size of our AUM or regulatory changes may materially and adversely affect our asset management business.

We charge asset management fees based on the size of each asset management plan under our management. Investment performance may affect investment sentiment of clients and therefore affect our AUM, which in turn affects our management fee income. In addition, the management fee income from actively managed products is higher than income from our non-actively managed products, therefore our management fee income is also affected by the structure of our managed assets. Limited investment options and hedging strategies, as well as market volatility, in the PRC could limit our ability to offer stable returns to our clients, cause us to lose clients and require us to make provisions for the decrease in the value of our investments. Volatility of the PRC capital market, adverse economic conditions or the failure to outperform our competitors or the market may reduce the value of our managed assets or affect the performance of our managed assets or funds, which could adversely affect the amount of asset management fees or performance rewards that we receive. Moreover, with the enforcement of the Interim Provisions on Operation and Management of Privately-raised Assets Management Business of Securities or Futures Institutions since July 18, 2016, the upper limit on the leverage ratio of the structured asset management products has been significantly reduced, and it imposes higher requirement on our own funds when conducting asset management business, which may have an adverse effect on our relevant business.

Moreover, we have high proportion of “channel-based business” in our asset management business. Relevant regulators may promulgate new regulations to restrict the “channel-based business” in the PRC. Therefore, there are still uncertainties on whether we can complete the transition to actively-managed business rapidly while maintaining our AUM. In addition, we may not be able to maintain or increase our AUM or our asset management fee income due to increased competition from insurance companies, trust companies, commercial banks and other competitors. We are still in the process of developing and growing our asset management business. If we fail to increase our AUM, we may not be able to take advantage of potential benefits, such as economies of scale and investment strategies with larger capital requirements. This lack of scale in AUM could adversely affect our competitiveness, operating results and financial condition.

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We may suffer significant losses from our exposure to credit risks.

The credit risks we are exposed to in our business include credit risks incurred from our counterparties, securities issuers of our investment targets and clients of securities financing and futures business. We have net long trading positions in various fixed income securities as part of our investment, and face credit risks that the issuers of the relevant securities may default. Although as of June 30, 2016, none of the bonds we held for proprietary trading were in default, there can be no assurance that there will be no default in the bonds we invest in the future. We also face credit risks as counterparty in derivative contracts. In addition, we conduct OTC trades as counterparty to our clients, to provide them with customized products or services, such as OTC options and equity return swaps. As there is no exchange or clearing agent for these contracts, we may be subject to the credit risk of the counterparties. Any significant non-payment or default by a client or counterparty could adversely affect our financial condition, operating results and cash flows. Although we regularly review our credit exposure to specific clients or counterparties and to specific industries that we have credit concerns for, default risks may arise from events or circumstances that are difficult to detect or foresee. We may also fail to obtain all relevant information with respect to the credit risks of our clients and counterparties.

Our securities financing business is subject to the risks that a client may fail to perform its payment obligations or that the value of collaterals held by us to secure the obligations might become inadequate. We may mandatorily liquidate our clients' collaterals if they are unable to fulfill their payment obligations as scheduled, or if their collateral ratios are lower than our minimum thresholds due to fluctuations in market prices of the collaterals while failing to replenish such collaterals. Such mandatory liquidation mechanism may subject us to significant losses or litigation risks. In addition, the ability to carry out mandatory liquidation of client positions is adversely affected by market volatility. If the market price of securities which we hold as collaterals decreases sharply for an extended period, and when we are unable to liquidate clients' positions in a timely manner due to the daily price fluctuation limitation on the A share market and relevant A share stock suspensions, we may incur significant losses. Moreover, similar to other securities firms, we also accept restricted stocks as collaterals for our collateralized stock repurchase business. If we fail to mandatorily liquidate collaterals comprising restricted stocks within the expected period, we may be subject to significant losses. In addition, the mandatory liquidation mechanism may trigger disputes between clients and us and subject us to litigation risks or significant legal expenses. Please see "Business — Laws and Regulations — Legal Proceedings" for details.

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

Our exposure to interest rate risk is primarily associated with our interest income, interest expenses and fixed income investments. We earn interest income from (i) securities brokerage and securities financing business, including margin financing and securities lending, collateralized stock repurchase and repurchase agreement transactions; (ii) bank balances, including cash held on behalf of brokerage clients as well as our own bank deposits; and (iii) other businesses. We also pay interests on accounts payable to brokerage clients, financial assets sold under repurchase agreements and various indebtedness, including borrowings, short-term commercial papers, structured notes, corporate bonds and subordinated bonds, etc. In addition, we hold net fixed income securities positions, whose market prices are directly affected by the prevailing interest rates. Significant interest rate fluctuations could reduce our

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interest income or returns on fixed income investments, or increase our interest expenses, all of which could materially and adversely affect our business, financial condition and operating results.

Restrictions on our credit financing capability and high level of indebtedness may adversely affect our business.

We rely on bank and other external borrowings and bond offerings to fund a significant portion of our working capital requirements. Our financial condition, liquidity and business operations will be adversely affected to the extent we are not able to pay back or repay our debt in a timely manner because of the unavailability of internal resources or inability to obtain alternative financing.

Even if we are able to honor our debt repayment obligations, the amount of debt we borrow could also adversely affect us in a number of ways, including:

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

Our interest expenses may increase along with the increase of our borrowings.

We have incurred and expect to continue to incur a significant amount of interest expense relating to our borrowings, including corporate bonds, subordinated bonds, short-term financing instruments, financial assets sold under repurchase agreements and others. We also incur interest expenses from accounts payable to brokerage clients and placements from banks and other financial institutions in our operation activities. Our interest expenses increased from RMB1,077.5 million in 2013 to RMB1,960.5 million in 2014, and further to RMB3,218.6 million in 2015. The increase in interest expenses has resulted from our increased borrowings to finance our business expansion and to increase our liquidity reserves during the periods of A share market volatility. We may continue to incur substantial amount of debts, and our interest expenses may continue to increase. Any such increase could adversely affect our business, financial condition, operating results and prospects.

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A significant decrease in our internal or external liquidity could adversely affect our business and reduce clients' confidence in us.

Our liquidity conditions may be adversely affected by the decrease in the cash generated from our operating activities, increased regulatory requirements on capital, substantial investment, market volatility, the loss of client confidence or other factors. Maintaining adequate liquidity is crucial to our business operations as we need large amounts of cash to continue expanding our margin financing and securities lending, collateralized stock repurchase, investment management and other business activities. We meet our liquidity needs primarily through cash generated from operating activities and debt financing. During the Track Record Period, we recorded negative net cash flows generated from operating activities in 2013, 2014 and 2015, amounting to RMB4.0 billion, RMB4.6 billion and RMB11.4 billion, respectively. Although we recorded positive net cash flows generated from operating activities for the six months ended June 30, 2016, there can be no assurance that we may generate positive cash flows from operating activities in the future. A reduction in our liquidity could reduce the confidence of our clients or counterparties in us, which may result in the loss of business and client accounts. In addition, we will need to satisfy various liquidity requirements in order to maintain or expand our scope of business, especially innovative products and services. Failure in the future to comply with the mandatory liquidity requirements, or any heightened requirements for specific businesses, may result in penalty measures imposed by the SAC, including self-regulatory measures and disciplinary action. In addition, the liquidity coverage ratio will be incorporated into the risk control indicator system for securities firms from October 1, 2016, and the failure of the liquidity coverage ratio to comply with the indicator requirement may subject us to the regulatory measures by the CSRC. Any of these could have a material and adverse effect on our business development and reputation.

Furthermore, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time when we seek to sell the assets to increase liquidity, as is likely to occur in a liquidity crunch or other market crisis. 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, potential sources of external financing could be limited and our borrowing costs could increase. Such financing may not be available on acceptable terms or even not at all due to unfavorable capital market conditions.

Our IT systems may be subject to cyber-attacks or risks arising from any system failures or deficiencies.

Our operations rely heavily on our IT systems to record and accurately process a large number of transactions and matters across numerous and diverse markets and different business segments in a timely manner. Our system for processing securities transactions is highly automated. Our IT and related computer systems may be damaged or interrupted by human errors, unauthorized access such as cyber-attacks, natural hazards or disasters or similarly disruptive events. A prolonged interruption or failure of our information processing or communications systems would limit our ability to process transactions. This would impair our ability to serve our clients and execute transactions on behalf of clients and for our own accounts, which could materially and adversely affect our competitiveness, financial condition and operating results.

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The proper functioning of our core IT systems, online trading platform, data processing system, mobile APPs, risk management and legal and compliance system and other data processing systems, together with the communication networks between our headquarters and branches and the storage of our clients' confidential and personal information and other information, are critical to our business and our ability to compete effectively. We have established multi-tiered back up systems to carry on principal functions or restore our systems in the event of a catastrophe or failure of our systems, including those caused by human errors. However, there can be no assurance that our operations will not be materially disrupted if any of our systems fail. In addition, if our trading system is unable to process all trading orders when the securities market experiences high volatility, we may be subject to client complaints, litigations or damage on our reputation.

Our resources and technical sophistication may not be adequate to prevent all types of cyber-attacks or other disruptions to or failures of our IT and related computer systems. A cyber-attack or IT and related computer systems failure could adversely affect our daily operations and lead to the loss of sensitive information, including our own proprietary business information and sensitive information of our customers. Our business continuity procedures, disaster recovery systems and security measures to protect against network or IT and computer systems failure or interruption may not be effective, and we may not anticipate, prevent or divert the material and adverse effect on our business, financial condition and operating results in the event of such failure or interruption.

The securities industry is characterized by rapidly changing technology. Online trading platforms and mobile APPs are becoming increasingly popular among our clients due to their convenience and user-friendliness. We rely heavily on technology, and plan to expand and upgrade our online trading platform and mobile APPs, to provide a wide range of brokerage and securities financing services. However, our technology operations are vulnerable to disruptions from human error, natural disasters, power failure, computer viruses, spam attacks, unauthorized access and other similar events, and we may not be able to adapt to the evolving technology in the industry. Disruptions to, or instability of, our technology or external technology, or failure to timely upgrade our online or mobile platforms could harm our business, reputation and prospects.

Our business may be susceptible to the operational failure of third parties.

We face the risk of operational failure, limited capacity or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. Any operational failure or termination of the particular financial intermediaries that we use could adversely affect our ability to execute transactions, serve our clients and manage our exposure to risks. In addition, as our inter-connectivity with our clients grows, we will increasingly face the risks of operational failure with respect to our clients' systems such as personal computers, mobile devices and tablets, as well as connectivity to and compatibility with our clients' systems. Any operational failure may lead to loss of our clients and give rise to complaints or litigations against us and in turn have a material and adverse effect on our goodwill, financial condition, operating results and reputation.

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We distribute third-party financial products which may involve high risks, and if we are unable to identify, fully understand or disclose these risks, our reputation, relationships with clients, business and prospects may be damaged.

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 in the PRC). As a third-party distributor, we are not subject to any investment losses or default liabilities incurred from third-party financial products. However, we may receive complaints from or be sued by clients which may in turn have an adverse effect on our reputation and business. In addition, the structure of certain types of these third-party financial products (such as trust schemes and structured OTC products) is complicated and involves various risks, including credit, interest rate, liquidity and other risks. Our risk management policies and procedures may fail to identify the risks of such financial products in a sufficient and effective manner, and our sales personnel may not disclose such risks to our wealth management clients adequately. Consequently, clients may invest in financial products that exceed their investment risk tolerance and investment preferences and suffer substantial losses which subject us to the complaints and prosecution of clients. Our reputation, relationships with clients, business and prospects may therefore be materially and adversely affected.

We are exposed to risks relating to our investments in the wealth management products, trust schemes and asset management schemes provided by various financial institutions.

Our proprietary investment portfolio includes wealth management products, trust schemes and asset management schemes provided by commercial banks, trust companies, funds companies and securities firms (including ourselves) in China. As of December 31, 2013, 2014 and 2015 and June 30, 2016, the balance of our investments in such wealth management products, trust schemes and asset management schemes were RMB764.8 million, RMB3,868.1 million, RMB6,663.0 million and RMB9,496.6 million, respectively, representing 3.5%, 14.8%, 17.7% and 21.5% of the total investment balance of our proprietary trading for the respective periods.

The income generated from our investments in various wealth management products, trust schemes and asset management schemes is generally fixed, which may subject us to credit risk. These wealth management products, trust schemes and asset management schemes generally adopt credit enhancement measures, such as guarantees and structural enhancement. However, we are not able to monitor and do not otherwise have control over the counterparties' investment portfolio composition and investment strategies. In addition, there is no assurance that we can correctly anticipate the development of business operations or financial conditions of the commercial banks, securities firms, trust companies, fund companies or the ultimate borrowers, which could be negatively affected by various factors beyond our control, under which situation, the issuers' capacity to repay the principal, fulfill their commitment to deliver the expected investment return or the guarantors' capacity to undertake the guarantee obligations (if applicable), could be materially and adversely affected and we may not be able to recover the principal of and interest on these investments. Also, we do not have direct recourse to the ultimate borrowers in the underlying transactions, and we can only exercise our rights under the related contracts to require the product issuers or scheme managers to perform their obligations, and demand compensation for our losses (if applicable) from the product issuers or scheme managers and the financial institutions that provide relevant guarantee.

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Furthermore, because the guarantees and collaterals are not provided to us but to product issuers or scheme managers we may not be able to directly claim any security interests on these guarantees or collaterals.

While the regulatory authorities currently generally do not prohibit securities firms to invest in wealth management products, trust schemes and asset management schemes provided by various financial institutions, there can be no assurance that there will not be material and adverse changes to the applicable regulations in the future. Any material and adverse regulatory changes could cause the value of our investment portfolio to decline, and may in turn materially and adversely affect our business, financial condition and results of operations.

We contributed capital to the CSFCL in response to government measures for stabilizing the PRC stock market, which may increase our exposure to market and other risks.

Due to the A share market's drastic downturn and fluctuations in 2015, the PRC Government introduced relevant measures to stabilize the market. Correspondingly, we and 20 other major securities firms in the PRC issued a joint announcement on July 4, 2015, stating that each securities firm (i) would contribute an amount of no less than 15% of its net asset value as of June 30, 2015 to the CSFCL for investment in the PRC blue chips ETF; and (ii) undertook not to reduce our position of A share proprietary trading portfolio to the level below the position as of July 3, 2015, if the Shanghai Stock Exchange Composite Index remains below 4,500. On September 1, 2015, we further decided to raise our total contribution to the CSFCL to up to no more than 20% of our net assets as of July 31, 2015. As of June 30, 2016, we have contributed approximately RMB4.2 billion to the CSFCL in total. The investment will be under the unified operation of the CSFCL through a designated account with the investment risks and gains shared by us based on investment proportion. Currently, we cannot control the way and payback time of such investment by the CSFCL. We may incur losses on our contributions or from our undertakings due to disposal or impairment in the future, and our financial condition may fluctuate due to revaluation at the end of the period, which may materially and adversely affect our operating results and financial condition. Going forward, we may also incur losses from similar further contributions that are required or decided to be made during market turmoil in the PRC.

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 continuously expanded our business to include trading of physical precious metals, foreign exchange, OTC options, online collateralized stock repurchase and other businesses in recent years, and further convert our offline business to online business. We will continue to expand our product and service offerings as permitted by relevant regulatory authorities, transact with new clients not in our traditional client base and enter into new markets. Meanwhile, we expect to further expand our overseas business. These activities 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 inexperienced counterparties and clients may harm our reputation;

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- we may be subject to stricter regulatory scrutiny, or increased tolerance of credit risks, market risks, compliance risks and operational risks;
- we may be unable to provide clients with adequate levels of service for our new products and services;
- our new products and services may not be accepted by our clients or meet our profitability expectations;
- our new products and services may be quickly copied by our competitors so that its attractiveness to our clients may be diluted.

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

We are subject to risks related to overseas expansion.

We expect to expand our overseas operations based on business strategy, but the development of global business may face additional risks, including, among others:

- we may have difficulties in managing overseas operations, including the compliance with various regulatory and legal provisions in different jurisdictions;
- risks of fluctuations in the overseas financial markets;
- challenges in providing products, services and supports in the overseas financial markets;
- challenges in managing distribution channels and overseas distribution network effectively;
- the accounting treatment differences between various jurisdictions;
- potential adverse effects of taxation;
- foreign exchange losses;
- inability to effectively enforce contractual or legal rights; and
- local political and economic instability or civil unrest.

If we are unable to effectively avoid or mitigate these risks, we may have difficulties to expand our overseas business, which could have a material and adverse effect on our business, financial condition, operating results and prospects.

RISK FACTORS

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

We operate in a highly regulated financial industry where many aspects of our business depend upon obtaining and maintaining the necessary approvals, licenses, permits or qualifications from relevant PRC and Hong Kong regulators, such as the CSRC and the SFC, and self-regulatory organizations, such as the SAC. We are required to comply with the relevant regulatory requirements when applying for approvals, licenses or permits for conducting new businesses or offering new products. As the legal system and financial service industry in the PRC continue to evolve, changes in the relevant laws and regulations or in their interpretation or enforcement may make them more difficult to comply with, or adversely affect the type and scope of businesses we are permitted to engage in. In addition, further regulatory approvals, licenses, permits or qualifications may be required for new products and services in the future, and some of our current approvals, licenses, permits or qualifications are subject to periodic renewal. If any of our business activities fails to meet the regulatory requirements, or if we fail to obtain or renew the required permits, licenses, approvals or qualifications, our business, financial condition and operating results may be materially and adversely affected.

Our risk management policies, 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.

Currently, we follow our comprehensive internal risk management framework and procedures to manage our risks, primarily including market risk, credit risk, liquidity risk, compliance risk and operational risk. Our risk management policies, procedures and internal controls may not be adequate or effective in mitigating our risks or protecting us against unidentified or unanticipated risks. In particular, some methods of managing risks are based upon observed 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, the capital markets in the PRC are rapidly developing, the information and experience that we rely on for our risk management methods may become quickly outdated as capital markets and regulatory environment in the PRC continue to evolve. Deficiencies in our risk management and internal control systems and procedures may adversely affect our ability to identify or report our deficiencies or non-compliance. Any of these may have a material and adverse effect on our business, financial condition and operating results.

RISK FACTORS

Our operations depend on senior management and key staff and our business may be adversely affected if we are unable to retain them or find their replacements.

The success of our business primarily depends on the stability of our senior management and our ability to attract and retain key personnel who possess in-depth knowledge and understanding of the PRC financial markets. If there are significant personnel changes in our senior management, and we are unable to find replacement, we may not be able to execute our existing business strategy effectively or may have to adjust our existing business, which may materially and adversely affect our business prospects. The aforementioned key personnel include members of our mid-level management, experienced investment and trading managers, risk management officers, research analysts, IT specialists, licensed sponsor representatives and other personnel. Therefore, we devote considerable resources to recruiting and retaining these personnel. However, the competition for quality professionals is rather intense in the PRC capital market and we face increasing competition in recruiting and retaining these individuals as other securities firms and financial institutions are competing for the same pool of talent. Intense competition may require us to offer higher compensation and other benefits in order to attract and retain qualified professionals, which could materially and adversely affect our financial condition and operating results. In addition, we may be unable to attract or retain these personnel which may in turn affect the fulfillment of our business objectives and also materially affect our business and prospects.

If any of our senior management or other key staff joins or establishes a company in competition with our business, we may lose some of our clients, which may have a material and adverse effect on our business.

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

We may be exposed to fraud or other misconduct committed by our employees, representatives, agents, clients or other third parties, including, among others, unauthorized trading, misuse or disclosure of confidential information, providing false information, forging corporate seals, illegal fundraising, improper transfer of interests and insider trading. These incidents of misconduct could subject us to financial losses and sanctions imposed by governmental authorities, as well as adversely affect our reputation. In addition, alleged or actual employee misconduct could result in investigations or prosecutions of the employees engaged in the subject activities or litigation or regulatory sanctions against us, which could cause reputational harm, litigation costs and management distraction to us regardless of whether we are held liable. Please see “Business — Laws and Regulations — Legal Proceedings,” “Business — Laws and Regulations — Regulatory Non-compliance” and “Business — Laws and Regulations — Regulatory Inspections.”

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 incidents of non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud and other misconducts, and the precautions we take to detect and prevent such activities may not be fully effective. There can be no assurance that fraud or other misconducts will not occur in the future. If such fraud or other misconduct does occur, it may cause negative publicity as a result. Our failure to detect and prevent fraud and other misconducts may have a material and adverse effect on our business reputation, financial condition and operating results.

RISK FACTORS

We may be subject to litigation and regulatory investigations and legal 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 clients. We may be subject to lawsuits and arbitration applications in the ordinary course of our business. We may also be subject to inquiries, investigations, and legal proceedings by regulatory and other governmental agencies. Actions 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 legal actions, the costs of such defense may be significant to us. In market downturns of the PRC capital market, the number of legal claims and amount of damages sought in litigation and regulatory proceedings may increase. A significantly adverse judgment, arbitration award or regulatory action against us or a disruption in our business arising from adverse adjudications in proceedings against our directors, senior management or key staff would have a material and adverse effect on our liquidity, business, financial condition, operating results and prospects. For details of our litigations or legal proceedings, see “Business — Laws and Regulations — Legal Proceedings.”

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

We are subject to various laws, regulations and rules governing the protection of personal data and confidential information of our clients. We routinely send and receive personal data and confidential information of our clients through written communication, Internet and other electronic means. We may not be able to ensure that our vendors, service providers, transaction 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 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 impose 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 and adversely affect our reputation, business and prospects.

We may not be able to fully detect money laundering and other illegal or improper activities in our business operations on a timely basis.

We are required to comply with applicable PRC and overseas anti-money laundering, anti-terrorism laws and other regulations. The PRC Anti-money Laundering Law and the relevant anti-money laundering laws and regulations in Hong Kong require financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Such policies and procedures require us to, among other things, establish or designate an independent anti-money laundering department, establish a client identification system in accordance with relevant rules, record the details of client activities and report suspicious transactions to relevant

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authorities. Please see “Regulatory Environment — PRC Laws and Regulations — Other Regulations — Anti-money Laundering” and “Regulatory Environment — Hong Kong Laws and Regulations — Anti-money Laundering and Counter-terrorist Financing.”

While we have adopted relevant 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 completely eliminate instances in which we may be utilized by other parties to engage in money laundering and other illegal or improper activities. 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. Please see “Business — Laws and Regulations — Regulatory Non-compliance.” 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 operating results.

Some of the owners of our leased properties do not have or have not presented to us appropriate title certificates or the titles of leased properties are defective.

As of June 30, 2016, we leased 329 properties in the PRC with a total GFA of approximately 192,618.4 square meters. Among these 329 leased properties, the lessors of 34 leased properties (representing approximately 8.2% of the total GFA of our leased properties) failed to provide the building ownership certificates or other valid title documents for such leased properties, and the lessor of one leased property (representing approximately 0.2% of the total GFA of our leased properties) was not the owner of such leased properties as shown on the building ownership certificates and did not provide proof of lawful authorization from the owner for leasing the property. The aforementioned leased properties with title defects were mainly used as offices and staff dormitory. See “Business — Properties.”

There can be no assurance that our use and occupation of these properties will not be challenged. If our right to use or possess the relevant properties is challenged due to failure of the lessors to obtain relevant building ownership certificates or other valid title documents in a timely manner or due to any title defects, we may have to find alternative properties, incur additional relocation costs, or our business operations may be disrupted, all of which may have an adverse effect on our business, financial condition, operating results and prospects.

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 derecognition 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

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flexibility regarding the types of transactions eligible for hedge accounting. Firstly, one of the major differences between IFRS 9 and IAS 39 is the classification and measurement of financial assets. The classification of financial assets under IFRS 9 will require us to consider the business model and the contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. Secondly, for financial assets classified as “amortized cost” and “fair value through other comprehensive income” under IFRS 9, we will be required to apply a new expected credit loss impairment model, which uses more forward-looking information and does not use the existence of an objective evidence of impairment as a precondition for recognizing impairment losses. Please see note 2 in “Appendix I — Accountant’s Report.” Our Directors anticipate that it is not practicable to provide a reasonable estimate of the effect or quantify the impact on our operating results and financial position until we make a detailed assessment as the new standard requires changes to systems and processes to collect necessary data. 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 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 Accountant’s 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 from RMB206.6 million as of December 31, 2013 to RMB611.8 million as of June 30, 2016. 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 taxable profits 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.

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 RMB32.6 billion and RMB45.4 billion of level 2 financial assets, respectively. Compared to level 1 financial assets, we use valuation technique to estimate the fair value of level 2 financial assets and the fair value measurements for these assets using other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly. When estimating fair value using valuation technique, we consider observable inputs and market data, such as yield curve of

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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.

Our Controlling Shareholders are able to exercise significant influence over us, and their interests may not be aligned with our other Shareholders' interests.

Following the completion of the Global Offering, our Controlling Shareholders will remain as our controlling shareholders. They will in aggregate hold approximately 70.75% of our outstanding shares assuming that the Over-allotment Option is not exercised. The interest of our Controlling Shareholders may not align with that of other Shareholders, and they will have the ability to exercise significant influence over us, including, among others, matters relating to:

- nomination and election of our Directors and Supervisors;
- business strategies and investment plans;
- dividend distribution;
- change of use of proceeds; and
- plans related to major corporate activities, including mergers, acquisitions or investments.

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 naturally exist but are in competition or conflict. We have extensive internal control and risk management procedures that are designed to identify and address conflicts of interest. However, it is complicated and difficult to appropriately identify and address potential conflicts of interest. Conflicts of interest may exist between (i) our different departments; (ii) us and our clients; (iii) our clients; (iv) us and our employees; or (v) our clients and our employees. Our failure to address conflicts of interest could harm our reputation and impair clients' 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 materially and adversely affect our business, financial condition and operating results.

RISK FACTORS

We are subject to risks related to the use of “CITIC” brand.

Since our establishment, we have been using the “CITIC” brand, which provide substantial support to us in enhancing our brand awareness and carrying out our business.

The “CITIC” brand name is also used by the CITIC Group and its affiliated companies. If any of them commits any action that damages the “CITIC” brand name, or any negative publicity is associated with any of these entities, our reputation, business and growth prospects could be harmed, which could adversely affect our operating results and financial condition.

Currently, we are licensed by the CITIC Group to use its certain registered trademarks in the respective registration areas for a term of three years expiring on April 30, 2019. There can be no assurance that the CITIC Group will continue to grant license to us after the expiry of the current license. If we cannot renew the license, we may have to use new trademarks which lack public awareness. As such, change of trademarks may have an adverse effect on maintaining existing customer relationship or developing new customer resources.

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

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

In addition, our financial and operating results may not meet the expectations of public market analysts or investors, which could cause the future price of the Shares to decline. Our revenue, expenses and operating results may vary from period to period due to a variety of factors beyond our control. As a result of these and other factors, there can be no assurance that our future revenues will increase or that we will continue to be profitable. Accordingly, investors should not rely on our historical results as an indication of our future financial or operating performance.

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, operating results 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, level of economic development, growth rate, foreign exchange controls and resources allocation.

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Although the PRC economy has been transitioning from a planned economy to a market-oriented economy for more than three decades, the PRC Government still exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. Some of these policies benefit the overall PRC economy, but may negatively affect us. For example, our financial condition and operating results may be adversely affected by government policies on the securities markets in the PRC or changes in tax regulations applicable to us. If the business environment in the PRC deteriorates, our business in the PRC may also be materially and adversely affected.

PRC has been one of the world's fastest growing economies as measured by GDP growth in the past 30 years and has become the world's second largest economy by GDP since 2010. However, there is no assurance that PRC's economy can sustain historical growth rates in the future. Since the second half of 2008, the global economic slowdown, the weak U.S. economy and the sovereign debt crisis in Europe have collectively increased downward pressure on the PRC's economic growth. PRC's real GDP growth rate has decreased from 10.6% in 2010 to 6.9% in 2015 and PRC's economy is still facing considerable downward pressure. If the economic growth of PRC continues to slow down, our business, financial condition, operating results and prospects will be materially and adversely affected.

The PRC legal system is still evolving with inherent uncertainties that could limit the legal protection available to you.

PRC laws and regulations govern our operations in the PRC. We and most of our operating subsidiaries are organized under PRC laws. PRC's legal system is based on written statutes. Prior guiding cases that the Supreme People's Court of the PRC released are of reference and exemplary value. Since the late 1970s, PRC has promulgated laws and regulations dealing with economic matters, such as issuance and trading of securities, shareholder rights, foreign investment, corporate organization and governance, commerce, taxation and trade.

However, many of these laws and regulations, particularly with respect to the financial service industry, are relatively new and evolving, are subject to different interpretations and may be inconsistently implemented and enforced. In addition, only a limited number of guiding cases were released 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 PRC's laws and regulations may affect the legal remedies and protections available to investors, and can adversely affect the value of your investment.

In particular, the PRC financial service industry is highly regulated. Many aspects of our business depend upon obtaining relevant government authorities' approvals and permits. As PRC's legal system and financial service industry continue to evolve, changes in such laws and regulations or in their interpretation or enforcement could materially and adversely affect our business, financial condition and operating results.

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

We are a company incorporated under PRC laws 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 our Directors, Supervisors and management 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 PRC upon our Directors, Supervisors and management including with respect to matters arising under the U.S. federal securities laws or applicable state securities laws. Moreover, the PRC does not have treaties providing for the recognition and enforcement of court judgments with the United States, the United Kingdom, Japan or most other western countries. In addition, Hong Kong has no arrangement for the recognition and 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 other western countries in relation to any matter that is not subject to a binding arbitration provision may be difficult or impossible.

On July 14, 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (the “**Arrangement**”) pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain.

In addition, although we will be subject to the Hong Kong Listing Rules and the Takeovers Code upon the listing of our H Shares on the Hong Kong Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Hong Kong Listing Rules and must rely on the Hong Kong Stock Exchange or the SFC to enforce its rules. The Hong Kong Takeovers Code does not have the force of law and provides only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

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

Investments in the 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% or more of the registered capital or share capital of a PRC securities firm. If any person or entity holds, directly or indirectly, 5% or more of the registered capital or share capital of a PRC securities firm, without obtaining prior approval from the CSRC, such shareholder shall have no voting right. In addition, our Articles of Association prohibit any entity or individual from directly or indirectly holding 5% or more shares of our Company without the approval of the CSRC. If any violation is not rectified in a timely manner, any corresponding shares 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 and adversely affect the value of your investment.

You will be subject to PRC taxation on dividends received from our Company and on gains realized upon the sale or other disposition of your H Shares.

Non-PRC resident individual holders of H Shares whose names appear on the register of members of H Shares, or non-PRC resident individual holders, are subject to PRC individual income tax withheld at source on dividends received from our Company. Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348), 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%), depending on whether there is any applicable tax treaty between the PRC and the jurisdiction in which the non-PRC resident individual holder of H Shares resides as well as the tax arrangements between the PRC and Hong Kong or between the PRC and Macau. 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 our Company. For additional information, see “Appendix III — Taxation and Foreign Exchange — PRC Taxation of the Non-resident Investors.” In addition, under the Individual Income Tax Law of the PRC 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 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. Although it is not certain whether such exemption is applicable to H Shares, to our knowledge, as of the Latest Practicable Date, in practice the PRC tax authorities have not sought to collect individual income tax on non-PRC resident individual holders for such gains. If such tax is collected in the future, the value of such individual holders’ investments in H Shares may be materially and 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 disposition 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

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resident enterprise resides. Pursuant to the Circular on Questions Concerning Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in the PRC to Non-resident Enterprises Holding H-shares of the Enterprises (Guo Shui Han [2008] No. 897), issued 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). Such withholding tax can be reduced or waived based on applicable tax treaties or arrangement. See “Appendix III — Taxation and Foreign Exchange — PRC Taxation of the Non-resident Investors.” There are uncertainties regarding the interpretation and implementation of the EIT law and its implementing rules by the PRC tax authorities, including whether and how enterprise income tax on gains derived upon sale or other disposition 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 and adversely affected.

Payment of dividends is subject to restrictions under PRC law.

During the Track Record Period, we declared and paid dividends in the amount of RMB390.0 million and RMB180.0 million on ordinary shares in 2013 and 2014, respectively. Under PRC law and our Articles of Association, we may only pay dividends out of our distributable profits. Distributable profits are our after-tax profits as determined by PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. Furthermore, pursuant to the rules issued by the CSRC, we are not allowed to distribute gains from the fair value changes of financial assets that are included in distributable profits as cash dividends. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been unprofitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

In addition, because the calculation of distributable profit under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profit as determined under PRC GAAP, even if they have distributable profits for that year as determined under IFRS, or vice versa. As a result, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay us dividends could negatively impact our cash flow and our ability to make dividend distributions to our Shareholders.

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

Substantially all of our revenue and expenses are denominated in Renminbi, which is currently not a freely convertible currency. Conversion and remittance of foreign currencies are subject to PRC foreign exchange laws and regulations which would affect exchange rates and our foreign exchange transactions. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account, which includes the payment of dividends, do not require prior approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks in the PRC. As a result, following the completion of the Global

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Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. Our foreign exchange transactions under the capital account, however, must be approved in advance by the SAFE. There can be no assurance that we will be able to obtain such approval in a timely manner, or at all.

The policies regarding foreign exchange transactions under the current account and the capital account may not necessarily continue in the future. In addition, these foreign exchange policies may restrict our ability to obtain sufficient foreign exchange, which could have an effect on our foreign exchange transactions and the fulfillment of our other foreign exchange requirements. If there are changes in the policies regarding dividend payments in foreign currencies or other changes limiting the exchange of foreign currency, our payment of dividends in foreign currencies may be affected. If we fail to obtain approval from the SAFE to convert Renminbi into any foreign exchange for foreign exchange transactions, our business, financial condition and operating results may be adversely affected.

Future fluctuations in the exchange rate of the Renminbi could have a material and adverse effect on our financial condition and operating results.

While we generate most of our revenue in the PRC, we also offer securities products and services in Hong Kong to overseas clients. 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 rate of Renminbi to the US dollar is under a managed floating exchange rate system and has gradually risen over the past decade. On August 11, 2015, the PBOC announced an adjustment to the mechanism of determining the midpoint price of Renminbi to the US dollar to make the exchange rate of Renminbi more market-based. The modified mechanism allows traders to consider the closing exchange rate in the previous trading day when they quote the midpoint price for Renminbi against the US dollar. As a result, the midpoint price of Renminbi against the US dollar depreciated by 4.78% from August 10 to August 27, 2015 and experienced further fluctuations in 2016. We cannot predict how the Renminbi will fluctuate in the future. As such, any significant fluctuation in the value of the Renminbi against foreign currencies could lead to fluctuation in the value of our foreign currency-denominated revenue and assets and adversely affect our business, financial condition, operating results and prospects.

In addition, since dividends in respect of our H Shares will be declared in Renminbi and paid in Hong Kong dollars, holders of our H Shares in countries or regions other than PRC are subject to risks arising from adverse movements in the value of the Renminbi against the Hong Kong dollar, which may reduce any dividends paid in respect of the H Shares.

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

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, or SARS, swine influenza caused by the H1N1 virus, or H1N1 influenza, Middle Eastern respiratory syndrome, or MERS, or Ebola virus, may materially and adversely affect our business, financial condition and operating results. 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 and adversely affect our business. Moreover, the PRC has experienced natural disasters like earthquakes, floods and droughts in the past few years. Any future occurrence of severe natural disasters in the PRC may materially and adversely affect its economy and therefore our business. There can be no assurance that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, or the corresponding measures taken by the governments of the PRC or other countries will not seriously disrupt our operations or those of our clients, which may materially and adversely affect our business, financial condition and operating results.

RISKS RELATING TO THE GLOBAL OFFERING

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

Prior to the Global Offering, there has been no public market for our H Shares. The initial issue price range for our H Shares was the result of negotiations among our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of, among others, the Joint Bookrunners and the Underwriters), and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied for listing of, and permission to deal in, our H Shares on the 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 operating results;
- news regarding recruitment or loss of key personnel by us or our competitors;
- announcements of competitive product 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;

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- 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 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 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 the fifth Hong Kong business day after the pricing date. As a result, investors may not be able to sell or deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time trading begins.

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\$0.73 per H Share (assuming an Offer Price of HK\$6.81 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.

Future sales or perceived sales of substantial amounts of our securities in the public market, including any future offerings in the PRC, sale of our H Shares by the NSSF or re-registration of our Domestic Shares into H Shares, could have a material and adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future, and may result in dilution of your shareholdings and failure to recover the full value of your investment.

The market price of our H Shares could decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market or the issuance of new Shares or other securities to interested investors in our company, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of

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substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital in the future at a time and at a price which we deem appropriate. In addition, our Shareholders may experience dilution in their holdings to the extent we conduct A share IPO or issue additional securities in future offerings to investors interested in our Company. Except as otherwise disclosed in this prospectus, we have not reached any agreement with interested investors or are subject to any obligations with respect to the issuance of our securities. See “Share Capital.” A certain amount of our Shares currently outstanding will be subject to contractual and/or legal restrictions on resale for a period of time after completion of the Global Offering. See “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Undertakings pursuant to the Hong Kong Listing Rules and the Hong Kong Underwriting Agreement” of this prospectus. After these restrictions lapse or if they are waived or breached, future sales or perceived sales of substantial amounts of our Shares, or the possibility of such sales by us, could negatively impact the market price of our H Shares and our ability to raise equity capital in the future.

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

During the Track Record Period, we only declared dividends in the amount of RMB390.0 million and RMB180.0 million on ordinary shares in 2013 and 2014, respectively. However, dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future. Our Board of Directors has discretion in determining the frequency and amount of dividend distributions, which will be subject to the approval of our Shareholders at the Shareholders’ meeting. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our operating results, cash flows and financial condition, net capital, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP, our Articles of Association, statutory and regulatory restrictions on the payment of dividends and other factors that our Board of Directors deems relevant. See “Financial Information — Dividends.” There is no assurance that we will adopt the same dividend policy as we have adopted in the past.

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

We plan to use the net proceeds from the Global Offering mainly to further develop our business. See “Future Plans and Use of Proceeds — Use of Proceeds.” However, our management will have discretion as to the actual utilization of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from this Global Offering. Our management may use the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return to our Shareholders.

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Waivers have been 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 from strict compliance with the Hong Kong Listing Rules. Please see “Waivers and Consents from Strict Compliance with the Listing Rules” for further details. There is no assurance 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 by the Hong Kong Stock Exchange or to be subject to certain conditions imposed by the Hong Kong Stock Exchange, we may be subject to additional compliance obligations, incur additional compliance costs and face uncertainties arising from issues of multi-jurisdictional compliance, all of which could adversely affect us and our Shareholders.

FATCA withholding tax may be imposed on payments on the H Shares after 2018.

Provisions under the U.S. Internal Revenue Code of 1986, as amended (the “Code”) and U.S. Treasury regulations promulgated thereunder commonly known as “FATCA,” impose a 30% withholding tax on certain “foreign passthru payments” made by a non-U.S. financial institution (including an intermediary) that has entered into an agreement with the U.S. Internal Revenue Service (the “IRS”) to perform certain diligence and reporting obligations with respect to the financial institution’s U.S.-owned accounts (each such non-U.S. financial institution, a “Participating Foreign Financial Institution”). If the Company or any intermediary through which a holder may hold H Shares is or becomes a Participating Foreign Financial Institution, this withholding may be imposed on payments on the H Shares to any non-U.S. financial institution (including an intermediary) that is not a Participating Foreign Financial Institution or is not otherwise exempt from FATCA and other holders who do not provide sufficient identifying information to the payer, to the extent such payments are considered “foreign passthru payments.” 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 H Shares would be considered foreign passthru payments. Withholding on foreign passthru payments would not be required with respect to payments made before January 1, 2019.

The United States has entered into intergovernmental agreements with certain jurisdictions (including an agreement in substance with the PRC) that modify the FATCA withholding regime described above. It is not yet clear how the intergovernmental agreements between the United States and these jurisdictions will address “foreign passthru payments” and whether such agreements will require the Company or other financial institutions to withhold or report on foreign passthru payments. Prospective investors should consult their tax advisors regarding the consequences of FATCA, or any intergovernmental agreement or non-U.S. legislation implementing FATCA, to their investment in H Shares.

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

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

As we may rely on the exemptions provided by Section 3(c)(7) of the U.S. Investment Company Act, we may be deemed a “covered fund” for purposes of the Volcker Rule. In addition, the H Shares may constitute “ownership interests” for the purposes of the Volcker Rule. If we are deemed to be a “covered fund” and the H Shares are determined to be “ownership interests”, then a banking entity would generally be prohibited from acquiring or retaining the H Shares, unless such a banking entity could rely on an exclusion or exemption from the Volcker Rule’s prohibitions. These limitations could result in some banking entities being restricted in their ability to purchase the H Shares or prohibited from purchasing the H Shares, which, in turn, could diminish the liquidity of the H Shares on the secondary market. Investors that are banking entities (as defined in the Volcker Rule) should carefully review the Volcker Rule and consult with their legal advisors about the potential impact of the Volcker Rule on an investment in the H Shares.

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 PRC, PRC’s economy and the industry in which we operate, from information provided by the PRC and other government agencies, industry associations, independent research institutes or other third-party sources. While we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the underwriters or any of our or their respective affiliates or advisors and, therefore, there can be no assurance 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. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market

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practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and you should not place undue reliance on them. Furthermore, there can be no assurance 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.

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

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

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

WAIVERS AND CONSENTS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rules 8.12 and 19A.15 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

Since most of the business operations of our Company and our subsidiaries are managed and conducted in the PRC, and both of our executive Directors ordinarily reside in the PRC, we do not and, for the foreseeable future, will not contemplate that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rules 8.12 and 19A.15 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rules 8.12 and 19A.15 of the Listing Rules, subject to the following conditions. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures between the Stock Exchange and us:

1. We have appointed Mr. Wang Changqing and Mr. Qi Liang as our authorized representatives (“**Authorized Representatives**”) for the purpose of Rules 3.05 and 19A.07 of the Listing Rules, and have appointed Mr. Wang Guangxue (“**Mr. Wang**”), as the alternate authorized representative. The Authorized Representatives will act as our Company’s principal channel of communication with the Stock Exchange. The Authorized Representatives will be readily contactable by phone, facsimile and email to promptly deal with enquiries from the Stock Exchange, and will also be available to meet with the Stock Exchange to discuss any matters within a reasonable period of time upon request of the Stock Exchange;
2. When the Stock Exchange wishes to contact the 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) and senior management team promptly at all times. Our Company will also inform the Stock Exchange promptly in respect of any changes in the Authorized Representatives. We have provided the Stock Exchange with the contact details (i.e. mobile phone number, office phone number, fax number and email address) of each Director to facilitate communication with the Stock Exchange;
3. In addition to the appointment of the Authorized Representatives, Ms. Wong Wai Ling (“**Ms. Wong**”), as one of our joint company secretaries and a Hong Kong resident, will, among other things, act as our Company’s additional channel of communication with the Stock Exchange and be able to answer queries from the Stock Exchange. Ms. Wong will maintain in contact with our Directors and senior management through various means, including regular meetings and telephone discussions whenever necessary;

WAIVERS AND CONSENTS FROM STRICT COMPLIANCE WITH THE LISTING RULES

4. Each Director who does not ordinarily reside in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period;
5. We have appointed China Securities (International) Corporate Finance Company Limited and ABCI Capital Limited as our joint compliance advisors (the “**Joint Compliance Advisors**”) upon listing pursuant to Rule 3A.19 of the 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 Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date. The Joint Compliance Advisors will have access at all times to our Authorized Representatives, the Directors and other senior management and act as the additional channel of communication with the Stock Exchange when the Authorized Representatives are not available; and
6. We have provided the Stock Exchange with the names, mobile phone numbers, office phone numbers, fax numbers and email addresses of at least two of the Joint Compliance Advisors’ officers who will act as the Joint Compliance Advisors’ contact persons between the Stock Exchange and the Company pursuant to Rule 19A.06(4) of the Listing Rules.

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

WAIVER IN RESPECT OF APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the 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 Listing Rules further provides that the Stock Exchange considers the following academic or professional qualifications to be acceptable:

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

WAIVERS AND CONSENTS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In assessing the “relevant experience,” the Stock Exchange will consider the individual’s:

- (i) length of employment with the issuer and other issuers and the roles he/she played;
- (ii) familiarity with the 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 Listing Rules; and
- (iv) professional qualifications in other jurisdictions.

Our Company has appointed Mr. Wang 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 Listing Rules, and may not be able to solely fulfill the requirements of the Listing Rules. Therefore, we have appointed Ms. Wong, an associate of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom, who fully meets the requirements stipulated under Rules 3.28 and 8.17 of the Listing Rules to act as the other joint company secretary and to provide assistance to Mr. Wang for an initial period of three years from the Listing Date to enable Mr. Wang to acquire the “relevant experience” under Note (2) to Rule 3.28 of the Listing Rules so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

Ms. Wong will work closely with Mr. Wang to jointly discharge the duties and responsibilities as company secretary and assist Mr. Wang to acquire the relevant experience as required under Rules 3.28 and 8.17 of the Listing Rules. Mr. Wang will also be assisted by (a) the Joint Compliance Advisors of the Company for the first full financial year from the Listing Date, particularly in relation to Hong Kong corporate governance practices and compliance issues; and (b) the Hong Kong legal advisors of the Company, on matters concerning the Company’s ongoing compliance with the Listing Rules and the applicable laws and regulations. In addition, Mr. Wang will endeavor to attend relevant trainings and familiarize himself with the Listing Rules and duties required for 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 us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the 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. Wong, who possesses all the requisite qualifications required under Rule 3.28 of the Listing Rules, to assist Mr. Wang in 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 Listing Rules.

WAIVERS AND CONSENTS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Upon the expiration of the initial three-year period, the qualifications of Mr. Wang will be re-evaluated to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied and whether the need for ongoing assistance will continue. In the event Mr. Wang 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.

WAIVER IN RESPECT OF PUBLIC FLOAT REQUIREMENTS

Rule 8.08(1)(a) of the Listing Rules requires that there shall be an open market for the securities for which listing is sought, and that a sufficient public float of an issuer's listed securities shall be maintained. Generally, at least 25% of the issuer's total issued share capital must at all times be held by the public. Pursuant to Rule 8.08(1)(d) of the Listing Rules, the Stock Exchange may, subject to certain conditions and at its discretion, accept a lower percentage of public float between 15% and 25% in the case of issuers with an expected market capitalization at the time of listing of over HK\$10 billion.

Based on the minimum Offer Price HK\$6.36 and assuming no exercise of the Over-allotment Option, we expected that our market capitalization will be not less than approximately HK\$10 billion. We have applied to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 8.08(1)(a) of the Hong Kong Listing Rules. Therefore, the minimum public float of the Company shall be the highest of (1) 15% of the total issued share capital of the Company; (2) such percentage of H Shares to be held by the public immediately after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised); and (3) such percentage of H Shares to be held by the public immediately after the completion of the Global Offering (as increased by the H Shares to be issued upon any exercise of the Over-allotment Option).

In order to support the application of this waiver, our Company has confirmed to the Hong Kong Stock Exchange that:

- (a) the Company will have an expected market capitalization at the time of Listing of over HK\$10 billion;
- (b) the quantity and scale of the issued securities would enable the market to operate properly with a lower percentage of public float;
- (c) our Company will make appropriate disclosure of the lower percentage of public float required by the Hong Kong Stock Exchange in the prospectus; and
- (d) our Company will confirm sufficiency of public float in the successive annual reports of the Company after the Listing.

WAIVERS AND CONSENTS FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVER IN RESPECT OF THE CLAWBACK MECHANISM UNDER PARAGRAPH 4.2 OF PRACTICE NOTE 18 OF THE LISTING RULES

We have applied 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, in the event of over-applications in the Hong Kong Public Offering, the Joint Representatives will apply an alternative clawback mechanism following the closing of the application lists. For further information, please refer to the section headed “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation and Clawback” in this prospectus.

ALLOCATION OF H SHARES TO THREE CLOSE ASSOCIATES OF AN EXISTING SHAREHOLDER UNDER PARAGRAPH 5(2) OF APPENDIX 6 TO THE HONG KONG LISTING RULES

Paragraph 5(2) of Appendix 6 to the 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.

Rule 10.04 of the 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 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.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, consents under Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules to permit the Company to allocate H Shares in the International Offering to Beijing Shunlong Investment and Development Fund (Limited Partnership), Beijing Xianglong Assets Management Co., Ltd and Beijing Capital Development Asset Management, which are close associates of BSCOMC under the Listing Rules, on the conditions above. For further information, please refer to the section headed “Cornerstone Investors” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 our information to the public with regard to the Company. Our Directors, having made all reasonable enquiries confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement set out in this prospectus misleading.

CSRC APPROVAL

The CSRC issued an approval letter on November 3, 2016 for our Global Offering and application to list the H Shares on the Hong Kong Stock Exchange. In granting such approval, neither the CSRC accepts any responsibility for our financial soundness, nor do they accept any responsibility for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

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

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

The Hong Kong Offer Shares are offered for subscription or sale 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 Selling Shareholders, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

OFFER SHARES FULLY UNDERWRITTEN

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Global Offering is managed by the Joint Representatives. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters listed in the section headed "Underwriting" and is subject to the Hong Kong Underwriting Agreement between us and the Joint Representatives (for themselves and on behalf of, among others, the Joint

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Bookrunners and the Hong Kong Underwriters) and the Offer Price to be agreed on the Price Determination Date. The International Offering is expected to be fully underwritten by the International Underwriters pursuant to the International Underwriting Agreement.

If, for any reason, the Offer Price is not agreed among us (for ourselves and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of, among others, the Joint Bookrunners and the Underwriters) on or before December 4, 2016, the Global Offering will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, please see the section headed “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 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

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

In connection with the Global Offering, our Company and the Selling Shareholders are expected to grant to the International Underwriters the Over-allotment Option, which is exercisable in full or in part by the Joint Representatives (on behalf of the International Underwriters) no later than 30 days after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Company and the Selling Shareholders may be required to issue or sell at the Offer Price up to an aggregate of additional 169,543.500 H Shares, representing approximately 15.0% of the total number of H Shares initially available under the Global Offering to, among other things, cover over-allotment in the Global Offering, if any.

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in 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/her/its acquisition of the Hong Kong Offer Shares to, confirm that he/she/it is aware of the restrictions on offers and sales of the Hong Kong Offer Shares described in this prospectus and the Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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

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

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, our H Shares to be issued pursuant to (i) the Global Offering (including any additional H Shares which may be issued or sold pursuant to the exercise of the Over-allotment Option) and (ii) the H Shares to be converted from the Domestic Shares and transferred to NSSF pursuant to the relevant PRC regulations relating to reduction of state-owned shares.

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

COMMENCEMENT OF DEALING IN THE H SHARES

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 a.m. on December 9, 2016. Except for our application to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares, no part of our share or loan capital is listed on or dealt in on the Hong Kong Stock Exchange or any other stock exchange and, saved as disclosed in the “Share Capital” section of this prospectus, no such listing or permission to list is being or proposed to be sought in the near future.

H SHARE REGISTER AND STAMP DUTY

All of the Offering 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.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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 H Shares holders thereof; and
- (iv) authorizes us to enter into a contract on his/her/its 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 defined in the Hong Kong Listing Rules) of any of the Directors of the Company or an existing Shareholder of the Company or a nominee of any of the foregoing.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and our compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between 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.

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 disposal of, and/or dealing in the H Shares or exercising rights attached to them. None of us, the Selling Shareholders, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, 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

Unless otherwise specified, amounts denominated in Renminbi and US dollars have been converted, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

- RMB0.88932 to HK\$1.00 (being the prevailing exchange rate on November 21, 2016 set by the PBOC)
- HK\$7.7572 to US\$1.00 (being the exchange rate in effect on November 18, 2016 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States on November 21, 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.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Provided, however, that translated English names of Chinese laws and regulations, governmental authorities, departments, entities (including our subsidiary), 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 such inconsistency, the Chinese name prevails.

ROUNDING

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

INFORMATION AND STATISTICS RELATING TO OUR INDUSTRY RANKING

This prospectus contains certain industry ranking information and statistics about our various business lines. These industry ranking information and statistics are based on data from Wind Info, Dealogic and certain publicly available government sources. Unless otherwise expressly specified, all the industry rankings are rankings for the PRC securities industry. For more details, please see “Industry Overview.”

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
Mr. Wang Changqing (王常青)	Yard 3, Ganhua Hutong Xicheng District Beijing, PRC	Chinese
Mr. Yu Zhongfu (于仲福)	50-504 Haite Garden Shijingshan District Beijing, PRC	Chinese
Ms. Hu Donghui (胡冬辉)	No. 601, Door 3, Building 5 District 2, Shuangyushu South Lane Haidian District Beijing, PRC	Chinese
Mr. Qi Liang (齐亮)	1506-3, Building 2 District 1, Fangchengyuan Fengtai District Beijing, PRC	Chinese
Mr. Wang Chenyang (王晨阳)	No. 704, Unit 2, Building 8 Dongzhimennan Avenue Dongcheng District Beijing, PRC	Chinese
Mr. Wang Shouye (王守业)	No. 25, Qinghe Zhufangxiyao Haidian District Beijing, PRC	Chinese
Mr. Liu Dingping (刘丁平)	No. 28, West Chang'an Street Xicheng District Beijing, PRC	Chinese
Ms. Wang Shumin (王淑敏)	35-1-5 Sanlihe 3rd Court Xicheng District Beijing, PRC	Chinese
Mr. Qiu Jianyang (邱剑阳)	6-401, Floor 2 Debaoxinyuan Xicheng District Beijing, PRC	Chinese
Mr. Feng Genfu (冯根福)	No. 1, Floor 5, Unit 1, Building 18 No. 105 South Cuihua Road Yanta District Xi'an, Shaanxi, PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Ms. Zhu Shengqin (朱聖琴)	Flat C, 16/F Axeford Villa 3 Sands Street Hong Kong	Chinese Hong Kong
Mr. Dai Deming (戴德明)	12D, Unit 2, Floor 11, Building 2 Landianchang Shiyuyuan Haidian District Beijing, PRC	Chinese
Mr. Bai Jianjun (白建軍)	No. 1306, Building 24 No. 15 Xueyuan Road Haidian District Beijing, PRC	Chinese
Mr. Liu Qiao (劉俏)	3-25D, Yard 6 Chaoyang Park South Road Chaoyang District Beijing, PRC	Chinese Hong Kong

SUPERVISORS

Name	Address	Nationality
Mr. Li Shihua (李士華)	No. 1601, Building 2, Yard 6 Xinghua Road Dongcheng District Beijing, PRC	Chinese
Ms. Wang Jing (王京)	No. 601, Building 12, Yard 20 Chegongzhuang West Road Haidian District Beijing, PRC	Chinese
Ms. Ai Bo (艾波)	No. 156 Jinshifang Street Xicheng District Beijing, PRC	Chinese
Mr. Liu Hui (劉輝)	A25 Jinrong Avenue Xicheng District Beijing, PRC	Chinese
Ms. Lu Ya (陸亞)	No. 1207, Building 4, Yard 8 Weigongcun Road Haidian District Beijing, PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Mr. Wu Lili (吳立力)	No. 292 Guloudong Avenue Dongcheng District Beijing, PRC	Chinese

Further information is disclosed in the section headed “Directors, Supervisors and Senior Management” of this prospectus.

PARTIES INVOLVED IN THE GLOBAL OFFERING**Joint Sponsors****China Securities (International) Corporate Finance Company Limited**

18/F, Two Exchange Square
Central, Hong Kong

UBS Securities Hong Kong Limited

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

ABCI Capital Limited

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

Joint Global Coordinators**China Securities (International) Corporate Finance Company Limited**

18/F, Two Exchange Square
8 Connaught Place
Central, Hong Kong

UBS AG Hong Kong Branch

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

ABCI Capital Limited

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

ICBC International Capital Limited

37/F, ICBC Tower
3 Garden Road
Hong Kong

BOCI Asia Limited

26/F, Bank of China Tower
1 Garden Road
Central, Hong Kong

BOCOM International Securities Limited

9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
Hong Kong

Deutsche Bank AG, Hong Kong Branch

52/F, International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

SPDB International Capital Limited

Room 1005B-06A
10/F, Bank of America Tower
12 Harcourt Road
Central, Hong Kong

CMB International Capital Limited

Units 1803-04, 18/F, Bank of America Tower
12 Harcourt Road
Central, Hong Kong

Joint Bookrunners

*In relation to the Hong Kong Public Offering and
International Offering*

**China Securities (International) Corporate
Finance Company Limited**

18/F, Two Exchange Square
8 Connaught Place
Central, Hong Kong

UBS AG Hong Kong Branch

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

ABCI Capital Limited

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

ICBC International Capital Limited

37/F, ICBC Tower
3 Garden Road
Hong Kong

BOCI Asia Limited

26/F, Bank of China Tower
1 Garden Road
Central, Hong Kong

BOCOM International Securities Limited

9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
Hong Kong

Deutsche Bank AG, Hong Kong Branch

52/F, International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

SPDB International Capital Limited

Room 1005B-06A
10/F, Bank of America Tower
12 Harcourt Road
Central, Hong Kong

CMB International Capital Limited

Units 1803-04, 18/F, Bank of America Tower
12 Harcourt Road
Central, Hong Kong

China Galaxy International Securities (Hong Kong) Co., Limited

Units 3501-7 & 3513-14
35/F, Cosco Tower
183 Queen's Road Central
Hong Kong

China Merchants Securities (HK) Co., Limited

48/F, One Exchange Square
Central, Hong Kong

China Everbright Securities (HK) Limited

24/F, Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

GF Securities (Hong Kong) Brokerage Limited

29–30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

SSIF Securities Limited

Unit A, 29/F, Tower 1, Admiralty Center
18 Harcourt Road
Admiralty, Hong Kong

Guotai Junan Securities (Hong Kong) Limited

27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Zhongtai International Securities Limited

7th Floor, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Guosen Securities (HK) Capital Company Limited

42/F, Two International Finance Centre
8 Finance Street
Central, Hong Kong

Dongxing Securities (Hong Kong) Company Limited

6805–6806A, International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Financial Advisor	Daiwa Capital Markets Hong Kong Limited Level 28 One Pacific Place 88 Queensway Hong Kong
Legal Advisors to our Company	<i>As to Hong Kong and United States laws</i> Davis Polk & Wardwell 18th Floor, The Hong Kong Club Building 3A Chater Road Hong Kong <i>As to PRC law</i> Tian Yuan Law Firm 10/F, China Pacific Insurance Plaza 28 Fengsheng Hutong Xicheng District Beijing, PRC
Legal Advisors to the Joint Sponsors and the Underwriters	<i>As to Hong Kong and United States laws</i> Clifford Chance 27th Floor, Jardine House One Connaught Place Central, Hong Kong <i>As to PRC law</i> King & Wood Mallesons 40th Floor, Office Tower A, Beijing Fortune Plaza 7 Dongsanhuan Zhonglu Chaoyang District Beijing, PRC
Reporting Accountant	PricewaterhouseCoopers <i>Certified Public Accountants</i> 22/F, Prince's Building Central, Hong Kong
Joint Compliance Advisors	China Securities (International) Corporate Finance Company Limited 18/F, Two Exchange Square Central, Hong Kong ABCI Capital Limited 10/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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

1 Garden Road
Hong Kong

Bank of Communications Co., Ltd. Hong Kong Branch

20 Pedder Street
Central, Hong Kong

Industrial and Commercial Bank of China (Asia) Limited

33/F, ICBC Tower
3 Garden Road
Central
Hong Kong

China CITIC Bank International Limited

61–65 Des Voeux Road Central
Hong Kong

Wing Lung Bank Limited

Wing Lung Bank Building
45 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered Office	Unit 4, No. 66 Anli Road Chaoyang District Beijing PRC
Headquarters and Principal Place of Business in the PRC	No. 188 Chaonei Avenue Dongcheng District Beijing PRC
Principal Place of Business in Hong Kong	18/F, Two Exchange Square Central, Hong Kong
Company's Website	<u>www.csc108.com</u> <i>(information contained in this website does not form part of this prospectus)</i>
Joint Company Secretaries	Mr. Wang Guangxue No. 188 Chaonei Avenue Dongcheng District Beijing PRC Ms. Wong Wai Ling (ACIS, ACS) 18/F, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong
Authorized Representatives	Mr. WANG Changqing (王常青) Mr. QI Liang (齊亮)
Development Strategy Committee	Mr. WANG Changqing (王常青) (<i>Chairman</i>) Mr. YU Zhongfu (于仲福) Ms. HU Donghui (胡冬輝) Mr. QI Liang (齊亮) Mr. WANG Shouye (王守業) Ms. WANG Shumin (王淑敏) Mr. QIU Jianyang (邱劍陽) Mr. FENG Genfu (馮根福)

CORPORATE INFORMATION

Risk Management Committee

Ms. HU Donghui (胡冬輝) (*Chairwoman*)
Mr. QI Liang (齊亮)
Mr. WANG Chenyang (王晨陽)
Mr. LIU Dingping (劉丁平)
Mr. QIU Jianyang (邱劍陽)
Mr. BAI Jianjun (白建軍)
Mr. LIU Qiao (劉俏)

Audit Committee

Mr. DAI Deming (戴德明) (*Chairman*)
Mr. WANG Chenyang (王晨陽)
Ms. WANG Shumin (王淑敏)
Mr. FENG Genfu (馮根福)
Ms. ZHU Shengqin (朱聖琴)

Remuneration and Nomination Committee

Mr. BAI Jianjun (白建軍) (*Chairman*)
Mr. WANG Changqing (王常青)
Mr. YU Zhongfu (于仲福)
Mr. LIU Dingping (劉丁平)
Ms. ZHU Shengqin (朱聖琴)
Mr. DAI Deming (戴德明)
Mr. LIU Qiao (劉俏)

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Principal Bankers

Industrial and Commercial Bank of China Limited
Beijing Dongcheng Branch
24 Dongsishitiao
Dongcheng District
Beijing, PRC

Agricultural Bank of China Limited
Beijing Chaoyang Branch
East 2, Gongti Road
Chaoyang District
Beijing, PRC

INDUSTRY OVERVIEW

This section contains information and statistics of the industry in which we operate. We have extracted and derived such information and statistics from various official or publicly available sources. In addition to statistics, market share information and industry data derived from publicly available government sources, the information and data contained in this section are derived from Wind Info and Dealogic. Wind Info is an integrated service provider of financial data, information and software that caters to the Chinese domestic market. Historical data provided by Wind Info are collected by Wind Info independently from various public sources, including, among others, the industry associations, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Dealogic is an international financial data and information provider. The database of Dealogic encompasses information on equity and debt capital markets, syndicated lending, M&A transactions and institutional investors. The information provided by Wind Info and Dealogic is not prepared by us, the Selling Shareholders, or the Joint Sponsors, and it can be accessed by any person who is a subscriber of Wind Info and Dealogic. We did not commission such institutions to provide the information and data presented.

We believe that the sources of the information as stated above are appropriate and have exercised reasonable care in extracting and reproducing such information. We have no reason to believe that the information is false or materially misleading or that any fact has been omitted that would render the information false or materially misleading. None of us, the Selling Shareholders, the Joint Sponsors, Joint Representatives, Joint Global Coordinators, Joint Bookrunners, Underwriters, any of their respective directors, management, employees, advisors, agents or representatives, or any of other parties involved in the Global Offering has independently verified the information, or made any representation as to its accuracy. The information may not be consistent with, and may not have been compiled with the same degree of accuracy or completeness as, other information compiled within or outside China. Accordingly, the information contained in this section, which is derived from official government or other third party sources, may not be accurate and should not be unduly relied upon.

OVERVIEW OF THE PRC ECONOMY

China is currently the world's second largest economy. In 2015, China maintained steady economic growth, with its nominal GDP reaching RMB68.6 trillion, according to the NBSC. China's nominal GDP grew at a CAGR of 7.3% from 2013 to 2015. As the PRC economy continued to grow, the living standards of Chinese citizens have improved, and their wealth has steadily grown. From 2013 to 2015, the per capita disposable income of Chinese urban households grew at a CAGR of 7.6% from RMB26,955 to RMB31,195.

China's economy has entered a "New Normal" phase of development after 30 years of rapid economic growth. China's real GDP growth rate has slowed from 7.3% in 2014 to 6.9% in 2015, and from 7.0% for the first half of 2015 to 6.7% for the first half of 2016. The PRC Government is committed to maintaining stable economic growth while optimizing and upgrading its economic structure. The "Supply-side Reforms," "Belt & Road" initiative, as well as the expansion of the Shanghai Free Trade Zone and the establishment of other free trade zones provide new driving forces for China's economic growth. In the financial sector, the PRC Government continues to launch various initiatives to facilitate the transformation and

INDUSTRY OVERVIEW

upgrade of the financial system. These initiatives include promoting the internationalization of the Renminbi, liberalizing interest rates and exchange rates, simplifying the approval requirements for capital market transactions, as well as diversifying investment channels. With a view to meeting the growing financing needs of PRC enterprises, the PRC Government is also dedicated to accelerating the building of a multi-level capital market, promoting the development of direct financing, and fostering the integration of industry and finance.

THE PRC CAPITAL MARKETS

Overview

In recent years, the PRC capital market has developed into a multi-level market, driven by a variety of favorable conditions, such as active trading activities, ongoing product innovation, enhanced market mechanism, improving regulatory environment, as well as an increasing number of market participants.

Stock Market

The PRC stock market has grown rapidly since its formation in 1990. The PRC stock market includes the SSE and SZSE Main Boards, the SME Board and the ChiNext Board of the Shenzhen Stock Exchange, the NEEQ, as well as the regional equity exchanges. As of June 30, 2016, the total market capitalization of the companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange amounted to RMB46.3 trillion, ranking second in the world, only after the United States. In the first half of 2016, the total trading volume of stocks traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange amounted to RMB64.2 trillion, ranking second in the world, only after the United States. From 2013 to 2015, the average daily trading volume of stocks traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange increased from RMB196.9 billion to RMB1,047.5 billion.

Equity financing in China has developed rapidly, driven by favorable government policies that encourage direct financing. From 2013 to 2015, the total amount of equity financing of the Shanghai Stock Exchange and the Shenzhen Stock Exchange increased from RMB396.8 billion to RMB1,545.9 billion, representing a CAGR of 97.4%. In the first half of 2016, the total amount of equity financing of the Shanghai Stock Exchange and the Shenzhen Stock Exchange was RMB819.2 billion. China's equity financing market is dominated by follow-on offerings. The amount of follow-on offerings as a percentage of the total amount of equity financing rose from 89.8% for 2015 to 96.0% for the first half of 2016.

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The following table sets forth the number and market capitalization of the companies listed on the SSE and SZSE Main Boards, the SME Board and the ChiNext Board, the number of stock trading accounts, and the value of Shanghai Stock Exchange Composite Index and Shenzhen Stock Exchange Component Index as of the dates indicated:

	As of the Last Trading Day of				CAGR 2013–2015
	2013	2014	2015	The first half of 2016	
Number of Listed Companies:					
SSE and SZSE Main Boards ·	1,433	1,475	1,559	1,584	4.3%
SME Board ······	701	732	776	791	5.2%
ChiNext Board ······	355	406	492	512	17.7%
Total ······	2,489	2,613	2,827	2,887	6.6%
(RMB in billions, except percentages)					
Market Capitalization:					
SSE and SZSE Main Boards ·	18,682.1	29,963.8	37,143.7	31,700.6	41.0%
SME Board ······	3,716.4	5,105.8	10,395.0	9,412.0	67.2%
ChiNext Board ······	1,509.2	2,185.1	5,591.6	5,179.3	92.5%
Total ······	23,907.7	37,254.7	53,130.4	46,292.0	49.1%
(in thousands, except percentages)					
Number of investor trading accounts:					
Shenzhen Stock Exchange:					
Institutional investors ····	380.5	415.8	492.2	522.9	13.7%
Individual investors ·····	110,475.0	119,952.9	168,397.0	187,202.4	23.5%
Shanghai Stock Exchange:					
Institutional investors ····	433.0	460.5	523.7	550.3	10.0%
Individual investors ·····	92,101.4	96,914.7	136,989.4	153,128.5	22.0%
Total ······	203,389.9	217,743.9	306,402.3	341,404.1	22.7%
Value of Indices:					
Shanghai Stock Exchange					
Composite Index ······	2,116.0	3,234.7	3,539.2	2,929.6	
Shenzhen Stock Exchange					
Component Index ······	8,121.8	11,014.6	12,664.9	10,490.0	

Source: Shanghai Stock Exchange, Shenzhen Stock Exchange

The “Non-listed Company Stock Transfer System” was established in January 2006 to supplement the SSE and SZSE Main Boards, the SME Board and the ChiNext Board. It was inherited by the NEEQ which commenced operation nationally in 2013. The NEEQ provides a platform for share transfers and financing activities of non-listed joint stock companies and enables micro-, small-, and medium-sized enterprises to access the capital markets. The

INDUSTRY OVERVIEW

number of NEEQ quoted companies increased from 356 as of December 31, 2013 to 7,685 as of June 30, 2016. From 2013 to 2015, the total amount of funds raised on the NEEQ increased from RMB1.0 billion to RMB121.6 billion. In addition, there are regional equity exchanges throughout the country that primarily provide share transfer services to non-listed micro- and small-sized enterprises.

Bond Market

A wide variety of bond products have become available in the PRC market in recent years, such as short-term commercial papers and corporate asset-backed securities launched in 2005, corporate bonds in 2007, medium-term notes in 2008, private placement bonds for small- and medium-sized enterprises in 2012, special enterprise bonds and panda corporate bonds in 2015, and corporate green bonds and renewable corporate bonds in 2016. The PRC bond market has grown rapidly with the increasing diversity of bond products. As of December 31, 2015, the PRC has become the world's third largest bond market in terms of amount of bonds outstanding.

The following table sets forth the amount of proceeds raised from the offerings of certain major types of bond in the PRC for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	CAGR 2013–2015
	2013	2014	2015	2016	
	(RMB in billions, except percentages)				
Short-term commercial papers and medium-term notes	2,311.3	3,163.0	4,557.6	2,388.9	40.4%
Corporate bonds	172.2	144.2	1,033.7	1,428.2	145.0%
Enterprise bonds	475.2	697.2	342.1	325.7	(15.2)%
Financial bonds	2,681.4	3,570.8	4,284.7	2,585.0	26.4%
Convertible bonds and exchangeable bonds	54.7	38.1	33.8	27.9	(21.4)%
Bonds issued by government-backed agencies and local governments	500.0	550.0	4,015.1	3,575.5	183.4%
Asset-backed securities	28.0	331.0	613.4	296.9	368.3%
Private placement notes	564.8	1,023.7	887.3	317.1	25.3%
Total	6,787.7	9,517.9	15,767.7	10,945.2	52.4%

Source: Wind Info

INDUSTRY OVERVIEW

Funds Market

In recent years, the PRC funds market has experienced significant growth driven by accumulating personal wealth and favorable regulatory environment. According to the AMAC, from December 31, 2013 to June 30, 2016, the number of mutual fund management companies in the PRC increased from 89 to 103, with the number of mutual fund products increasing from 1,552 to 3,114 and total AUM increasing from RMB3.0 trillion to RMB7.9 trillion.

The Measures for the Registration of Private Investment Fund Managers and Filing of Funds (Trial Implementation) became effective in February 2014, which stipulate the registration requirements of private investment fund managers and the filing procedures for private funds. These measures have given rise to more standardized market practices and have driven the PRC private fund industry to further expand in size. According to the AMAC, as of June 30, 2016, there were 24,094 private fund management companies (including private securities investment fund management companies, private equity investment fund management companies, venture capital fund management companies and other types of fund management companies) registered with the AMAC, and total AUM was RMB6.8 trillion, representing a 34.7% increase from RMB5.1 trillion as of December 31, 2015.

Derivatives Market

The PRC has become one of the world's largest commodity futures markets. The PRC financial futures market also grew rapidly in recent years. The following table sets forth the total trading turnover of major types of exchange-traded derivatives for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	CAGR 2013-2015
	2013	2014	2015	2016	
	(in billions of RMB, except percentages)				
Commodity futures	126,467.3	127,969.7	136,470.7	90,021.2	3.9%
Financial futures	141,006.6	164,017.0	417,760.5	9,320.1	72.1%
Stock index futures	140,700.2	163,138.5	411,749.8	5,230.9	71.1%
Treasury futures	306.4	878.5	6,010.7	4,089.2	342.9%
Total	<u>267,474.0</u>	<u>291,986.7</u>	<u>554,231.2</u>	<u>99,341.3</u>	<u>43.9%</u>

Source: China Futures Association

Apart from exchange-traded derivatives, the PRC OTC options market has also experienced rapid growth. According to the SAC, the increase in the original notional principal amount of OTC options was RMB401.3 billion in 2015, representing a 260.0% increase as compared to the same figure for 2014. In the first half of 2016, the increase in the original notional principal amount of OTC options was RMB223.8 billion. The growth in OTC derivatives will further increase the diversity of derivatives products and promote the expansion of the PRC derivatives market.

INDUSTRY OVERVIEW

THE PRC SECURITIES INDUSTRY

Overview

According to the SAC, as of June 30, 2016, there were 126 registered securities firms operating in the PRC. As of the same date, the total assets, equity and net capital of PRC securities firms was RMB5.8 trillion, RMB1.5 trillion and RMB1.2 trillion, respectively. From 2013 to 2015, the total operating revenue of PRC securities firms increased from RMB159.2 billion to RMB575.2 billion, representing a CAGR of 90.1%, while their total net profit increased from RMB44.0 billion to RMB244.8 billion, representing a CAGR of 135.9%. In 2015, the return on average equity and the average leverage ratio of the PRC securities industry was 16.86% and 300.69%, respectively.

Competitive Landscape of the PRC Securities Industry

The PRC securities industry is highly competitive with relatively low market concentration. In 2015, the combined operating revenue of the top ten PRC securities firms (in terms of operating revenue) accounted for 47.9% of the total operating revenue on a consolidated basis in the PRC securities industry. Competition also comes from other financial institutions in various business segments. For instance, the PRC securities firms compete with commercial banks, insurance companies and trust companies in asset management business, and compete with commercial banks in debt underwriting business. In recent years, the online businesses of PRC securities firms are faced with increasing competition from Internet companies and other non-financial institutions driven by the development of Internet-based financial services. In addition, it is expected that securities business licenses may be granted to commercial banks and other financial institutions, and the cross-industry competition it may cause, despite the additional challenges, would drive PRC securities firms to increase their efforts in transforming and innovating their products and services.

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The following table sets forth the operating revenue, net profit, total assets, equity and net capital of the top 15 PRC securities firms (in terms of operating revenue for the first half of 2016) and their market shares in terms of the above indicators:

	For the six months ended June 30, 2016,				As of June 30, 2016,					
	Operating revenue	Market share	Net profit	Market share	Total assets	Market share	Equity	Market share	Net capital	Market share
(RMB in millions, except percentages)										
Company A	18,159.3	9.8%	5,494.4	8.7%	570,058.8	8.8%	138,978.9	9.8%	87,913.9	8.4%
Company B	13,707.4	7.4%	6,190.5	9.8%	415,889.3	6.4%	102,840.8	7.3%	67,105.2	6.4%
Company C	12,079.5	6.5%	4,665.7	7.4%	542,331.9	8.4%	115,948.5	8.2%	77,272.0	7.3%
Company D	10,130.1	5.5%	4,202.8	6.7%	357,609.1	5.5%	76,140.0	5.4%	52,893.5	5.0%
Company E	7,355.8	4.0%	2,943.6	4.7%	402,679.3	6.2%	79,737.4	5.6%	43,755.1	4.2%
Our Company	6,488.3	3.5%	2,805.1	4.4%	175,248.7	2.7%	32,714.6	2.3%	28,133.1	2.7%
Company F	6,397.6	3.4%	2,271.1	3.6%	256,289.7	4.0%	55,080.7	3.9%	46,433.6	4.4%
Company G	6,150.5	3.3%	2,196.4	3.5%	211,458.9	3.3%	45,773.7	3.2%	35,050.8	3.3%
Company H	6,095.6	3.3%	2,233.6	3.5%	269,168.4	4.2%	49,499.1	3.5%	38,866.5	3.7%
Company I	5,197.8	2.8%	2,235.6	3.5%	245,264.6	3.8%	47,887.1	3.4%	33,900.5	3.2%
Company J	4,487.6	2.4%	2,143.4	3.4%	144,451.8	2.2%	35,541.1	2.5%	17,748.7	1.7%
Company K	4,474.7	2.4%	1,014.6	1.6%	89,868.1	1.4%	16,924.7	1.2%	9,932.0	0.9%
Company L	4,054.3	2.2%	1,380.2	2.2%	118,913.0	1.8%	20,618.9	1.5%	18,495.8	1.8%
Company M	4,052.9	2.2%	1,531.6	2.4%	173,733.6	2.7%	39,762.3	2.8%	33,047.5	3.1%
Company N	3,773.7	2.0%	1,109.0	1.8%	135,460.6	2.1%	31,142.3	2.2%	16,530.5	1.6%
Total	112,605.1	60.7%	42,417.4	67.2%	4,108,425.6	63.6%	888,589.8	62.9%	607,078.6	57.7%

Note:

- (1) The financial data were prepared under PRC GAAP. Total assets, equity, revenue and net profit data are presented on a consolidated basis. Net capital data are presented on an unconsolidated basis.
- (2) Company A, B, and C, etc. are for illustrative purposes only and do not represent the same securities firms named Company A, B and C, etc. in other tables in this section.

Source: The Company's financial statements and Wind Info

Investment Banking

In 2015, the net revenue generated from investment banking business of the PRC securities industry reached RMB53.1 billion, representing a CAGR of 75.1% as compared to RMB17.3 billion in 2013.

INDUSTRY OVERVIEW

Equity Underwriting and Sponsorship

The following table sets forth the number of equity offerings in the PRC for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,
	2013	2014	2015	2016
IPOs	–	125	224	68
Follow-on offerings	298	502	862	261
Total	298	627	1,086	329

Note: Follow-on offerings include private placements, rights issues, and public issuances.

Source: Wind Info

The following table sets forth the ranking and market share of the top ten PRC securities firms in terms of the number of equity offerings underwritten for the period from 2013 to the end of the first half of 2016:

	Our Company	Company A	Company B	Company C	Company D	Company E	Company F	Company G	Company H	Company I
Market Share	5.8%	5.7%	5.7%	5.0%	4.8%	4.7%	4.6%	4.0%	3.8%	2.9%

Source: Wind Info

The following table sets forth the amount of proceeds raised from equity offerings in the PRC for the indicated periods:

	For the year ended December 31,			For the six months ended June 30,
	2013	2014	2015	2016
	(in billions of RMB)			
IPOs	–	66.9	157.8	32.5
Follow-on offerings	396.8	696.7	1,388.1	767.7
Total	396.8	763.6	1,545.9	800.2

Note: Follow-on offerings include private placements, rights issues, and public issuances. The offering expense has not been deducted.

Source: Wind Info

INDUSTRY OVERVIEW

The following table sets forth the ranking and market share of the top ten PRC securities firms in terms of the amount of proceeds raised from equity offerings underwritten for the period from 2013 to the end of the first half of 2016:

	Our									
	Company A	Company B	Company	Company C	Company D	Company E	Company F	Company G	Company H	Company I
Market share	10.4%	6.6%	5.8%	5.1%	4.8%	4.5%	4.4%	4.2%	3.9%	3.7%

Source: Wind Info

Debt Underwriting

The following table sets forth the number of bond offerings underwritten by PRC securities firms for the periods indicated:

	For the year ended December 31,			For the six months ended
	For the year ended December 31,			June 30,
	2013	2014	2015	2016
Short-term commercial papers and medium-term notes	63	130	235	104
Corporate bonds	429	499	1,080	1,507
Enterprise bonds	451	711	393	298
Financial bonds	90	202	293	126
Convertible bonds and exchangeable bonds	16	22	3	15
Bond issued by government-backed agencies and local governments	72	72	145	–
Asset-backed securities	51	457	1,470	652
Private placement notes	26	113	162	68
Total	1,198	2,206	3,781	2,770

Source: Wind Info

The following table sets forth the ranking and market share of the top ten PRC securities firms in terms of the number of bonds offerings underwritten for the period from 2013 to the end of the first half of 2016:

	Our									
	Company A	Company	Company B	Company C	Company D	Company E	Company F	Company G	Company H	Company I
Market share	8.7%	7.4%	5.9%	4.8%	3.7%	3.3%	3.1%	3.1%	2.6%	2.6%

Source: Wind Info

INDUSTRY OVERVIEW

The following table sets forth the amount of proceeds raised from bond offerings underwritten by PRC securities firms for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,
	2013	2014	2015	2016
	(RMB in billions)			
Short-term commercial papers and medium-term notes	63.3	106.7	187.1	65.9
Corporate bonds	171.2	141.1	1,023.3	1,424.6
Enterprise bonds	471.0	694.1	341.2	325.6
Financial bonds	221.6	497.9	692.4	336.0
Convertible bonds and exchangeable bonds	54.5	32.1	9.8	20.1
Bond issued by government-backed agencies and local governments	150.0	151.6	168.0	–
Asset-backed securities	23.2	309.8	532.1	161.9
Private placement notes	17.1	64.1	100.4	35.7
Total	1,171.9	1,997.4	3,054.2	2,369.9

Source: Wind Info

The following table sets forth the ranking and market share of the top ten PRC securities firms in terms of the proceeds raised from bond offerings underwritten for the period from 2013 to the end of the first half of 2016:

	Our									
	Company A	Company	Company B	Company C	Company D	Company E	Company F	Company G	Company H	Company I
Market share	12.3%	9.2%	6.9%	5.1%	4.7%	4.7%	3.7%	2.9%	2.6%	2.5%

Source: Wind Info

Financial Advisory

The transformation and upgrade of the PRC industrial structure have led to increased demands from enterprises for M&A transactions, which has in turn given rise to rapid growth of the PRC M&A and restructuring markets. According to Dealogic, the total value of PRC domestic M&A and restructuring transactions was US\$446.1 billion in 2015, a significant increase as compared with US\$165.7 billion in 2013. According to the SAC, from 2013 to 2015, the net income from financial advisory business in the PRC increased from RMB4.5 billion to RMB13.8 billion, representing a CAGR of 75.6%.

INDUSTRY OVERVIEW

The following table sets forth the total value of PRC domestic M&A and restructuring transactions for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,
	2013	2014	2015	2016
	(USD in billions)			
Total transaction value	165.7	227.6	446.1	172.4

Source: Dealogic

The following table sets forth the ranking and market share of the top ten PRC securities firms in terms of the total value of domestic M&A transactions for the period from 2013 to the end of the first half of 2016:

	Company A	Company B	Our Company	Company C	Company D	Company E	Company F	Company G	Company H	Company I
	Market share	15.3%	8.8%	5.7%	3.8%	3.6%	3.2%	3.2%	1.8%	1.5%

Source: Dealogic

NEEQ Services

The number of companies quoted on NEEQ has increased significantly in recent years. The total number of NEEQ quoted companies increased from 356 as of December 31, 2013 to 7,685 as of June 30, 2016. In 2013, 2014, 2015 and the first half of 2016, the number of companies newly quoted on the NEEQ was 156, 1,216, 3,557 and 2,556, respectively, and the total amount of funds raised on NEEQ was RMB1.0 billion, RMB13.2 billion, RMB121.6 billion and RMB65.3 billion, respectively. NEEQ has become an important financing platform for small- and medium-sized enterprises in emerging industries, representing enormous opportunities for securities firms with stronger NEEQ business capabilities.

The following table sets forth the total number of NEEQ quoted companies as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
Total number of NEEQ quoted companies	356	1,572	5,129	7,685

Source: NEEQ Company

INDUSTRY OVERVIEW

The following table sets forth the ranking and market share of the top ten PRC securities firms in terms of the number of NEEQ quoted companies for the period from 2013 to the end of the first half of 2016:

	Company A	Company B	Our Company	Company C	Company D	Company E	Company F	Company G	Company H	Company I
Market share	7.0%	4.7%	3.9%	3.3%	3.3%	2.9%	2.9%	2.9%	2.9%	2.8%

Source: Wind Info

Wealth Management

Securities Brokerage

According to Wind Info, the total turnover of stocks and funds in the PRC increased from RMB48.3 trillion in 2013 to RMB270.3 trillion in 2015, representing a CAGR of 136.6%. According to the SAC, the net commission income from securities brokerage business increased from RMB75.9 billion in 2013 to RMB269.1 billion in 2015, representing a CAGR of 88.3%. The A share market experienced significant volatility in 2015. According to Wind Info, the total trading volume of stocks and funds in the PRC decreased by 52.9% from RMB147.0 trillion in the first half of 2015 to RMB69.2 trillion in the first half of 2016.

The following table sets forth the total trading volume of stocks, funds and bonds on the Shanghai Stock Exchange and the Shenzhen Stock Exchange:

	For the year ended December 31,			For the six months ended June 30,
	2013	2014	2015	2016
	(RMB in trillions)			
Stocks and funds	48.3	79.0	270.3	69.2
Bonds	64.8	90.6	128.2	98.8

Source: Wind Info

The following table sets forth the ranking and market share of the top ten PRC securities firms in terms of total trading volume of stocks and funds in the first half of 2016:

	Company A	Company B	Company C	Company D	Company E	Company F	Company G	Company H	Company I	Our Company
Market share	8.2%	5.7%	4.9%	4.7%	4.6%	4.5%	3.8%	3.5%	3.2%	3.0%

Source: SAC

INDUSTRY OVERVIEW

Futures Brokerage

PRC securities firms are permitted to engage in the futures brokerage business by establishing futures subsidiaries. Futures products available in the PRC market have become increasingly diversified in recent years, including stock index futures introduced in 2010 and treasury futures reintroduced in 2013. As of June 30, 2016, there were 149 futures companies operating in the PRC. In 2015, the total futures turnover in the PRC reached RMB554.2 trillion, representing a year-on-year growth of 89.8%. The total futures turnover in the PRC was RMB99.3 trillion for the first half of 2016.

Margin Financing and Securities Lending

In March 2010, the CSRC officially permitted securities firms to engage in margin financing and securities lending business. From December 31, 2013 to December 31, 2015, the total balance of margin financing and securities lending in the PRC increased from RMB346.5 billion to RMB1,174.3 billion, representing a CAGR of 84.1%. As of June 30, 2016, the total balance of margin financing and securities lending in the PRC was RMB853.6 billion. The following table sets forth the total balance of margin lending and securities financing as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB in billions)			
Margin financing and securities lending balance	346.5	1,025.7	1,174.3	853.6

Source: Wind Info

The following table sets forth the ranking and market share of the top ten PRC securities firms in terms of the balance of margin financing and securities lending as of June 30, 2016:

	Company A	Company B	Company C	Company D	Company E	Company F	Company G	Company H	Company I	Our Company
Market share	5.9%	5.9%	5.8%	5.6%	5.6%	5.5%	5.4%	5.3%	4.1%	3.1%

Source: Wind Info

Proprietary Trading

According to Wind Info, the total investment income (including changes in fair value) of PRC securities firms increased from RMB39.1 billion in 2013 to RMB198.4 billion in 2015, representing a CAGR of 125.3%.

INDUSTRY OVERVIEW

Since 2011, the CSRC has significantly broadened the scope of permitted investments for the proprietary trading business of PRC securities firms to include securities traded on exchanges, NEEQ, interbank market, and the financial institution OTC market. The launch of stock index futures, treasury futures and stock options has led to increasingly diversified trading strategies and investment instruments available to PRC securities firms. This has in turn helped enhance the trading and liquidity risk management capabilities of PRC securities firms. The A share market had experienced significant volatility in 2015. To stabilize the market, the PRC Government introduced various measures, including requiring 21 PRC securities firms to undertake not to sell any of their respective proprietary equity holdings as of July 3, 2015 if the Shanghai Stock Exchange Composite Index falls below 4,500.

Investment Management

Securities Firm Asset Management

The asset management business of PRC securities firms has developed rapidly. According to Wind Info, the net income from the asset management business of PRC securities firms increased from RMB7.0 billion in 2013 to RMB27.5 billion in 2015, representing a CAGR of 98.2%. According to the same source, the total AUM of PRC securities firms increased from RMB5.2 trillion as of December 31, 2013 to RMB11.9 trillion as of December 31, 2015, representing a CAGR of 51.3%.

The following table sets forth the total AUM as of the dates indicated and net income from asset management business for the periods indicated of PRC securities firms:

	As of December 31/ For the year ended December 31,			As of June 30/ For the six months ended June 30,
	2013	2014	2015	2016
AUM (RMB in billions)	5,200.0	7,960.0	11,880.0	14,780.0
Net income from asset management business (RMB in millions)	7,030.0	12,435.0	27,488.0	13,434.0

Source: Wind Info

The following table sets forth the ranking and market share of the top ten PRC securities firms in terms of the amount of AUM as of June 30, 2016:

	Our									
	Company A	Company B	Company	Company C	Company D	Company E	Company F	Company G	Company H	Company I
Market Share	10.5%	5.4%	4.8%	4.5%	4.3%	4.2%	4.0%	3.7%	3.5%	3.1%

Source: AMAC

Private Equity Management

The private equity management business of PRC securities firms has developed rapidly in recent years. According to the AMAC, the total AUM of private equity subsidiaries of PRC securities firms increased from RMB57.7 billion as of December 31, 2014 to RMB95.5 billion as of December 31, 2015, representing a year-over-year growth of 65.4%.

INDUSTRY OVERVIEW

In July 2011, the CSRC issued guidelines to permit private equity subsidiaries of PRC securities firms to raise funds privately and engage in angel investment, venture capital, pre-IPO and M&A investments. The SAC further broadened the permitted investment scope and relaxed the regulation on private equity investment in January 2014. The private equity business of PRC securities firms is currently transitioning from investments using their own capital to managing third-party funds.

Overseas Business of PRC Securities Firms

An increasing number of PRC securities firms have established overseas branches to meet their domestic clients' needs to invest overseas, thus benefiting from the growth in overseas capital markets.

PRC securities firms have grown rapidly in Hong Kong, which is their primary overseas market. Prior to 2000, the majority of PRC securities firms operating in Hong Kong focused on securities brokerage. Since 2000, driven by the increasing financing activities of PRC-based enterprises, investment banking business, in particular securities underwriting business, has become a major income source for these firms. A number of PRC securities firms operating in Hong Kong have gradually grown into full-service investment banks that engage in a wide range of businesses, including investment banking, brokerage, sales and trading, private wealth management, asset management, and investment research.

TRENDS IN THE PRC SECURITIES INDUSTRY

Continued Optimization of Capital Market Structure

The PRC capital market has sustained rapid growth over the past years as the regulatory environment continued to improve. The PRC capital market presents significant growth potential when compared to major developed markets. In terms of market penetration, while China's securitization ratio (i.e. the ratio of total market capitalization of the stock market to GDP) increased from 41.6% by the end of 2013 to 75.4% by the end of 2015, it was lower than that of the United States (139.7%). In terms of methods of financing, while China's ratio of direct financing (including the amount of proceeds raised from equity and debt offerings) increased from 11.7% for 2013 to 23.4% for 2015, it was lower than that of the United States (50.8%). We believe that China's securitization ratio and ratio of direct financing will continue to rise, which will promote the formation of a multi-level capital market structure and present greater opportunities to the PRC securities industry in general.

Growing Participation by Institutional Investors

Individual investors have long been the main participants in the PRC securities market. While we expect the dominance of individual investors to continue in the foreseeable future, we also believe that the participation by institutional investors, including insurance companies, corporate pension funds, the NSSF and foreign investors will continue to increase. According to the Shanghai Stock Exchange and the Shenzhen Stock Exchange, the total number of A share and B share accounts held by institutional investors grew from approximately 813,500 as of December 31, 2013 to approximately 1,015,900 as of December 31, 2015, representing a CAGR of 11.7%. Compared to individual investors, institutional

INDUSTRY OVERVIEW

investors have stronger demands for valued-added services and customized products with relatively low price sensitivity. We expect that the participation by institutional investors will continue to grow, which will further expand the sources of income and margin of PRC securities firms.

Rising Significance of Capital-based Intermediary Business

The increasing demands from investors and enterprises for financing and liquidity have boosted the rapid development of capital-based intermediary business of securities firms, which primarily include margin financing and securities lending, collateralized stock repurchases, and contractual repurchase businesses. Capital-based intermediary business provides stable interest income for securities firms, which can expand such businesses to increase the proportion of interest income in their total revenues. Revenue contribution from capital-based intermediary business is expected to continue to increase and PRC securities firms are expected to shift from a sell-side, capital-light model to a capital-intensive business model.

Continual Opening-up and Globalization of the PRC Capital Market

The PRC capital market has become increasingly open to the world as China's prominence in the global economy rises and the Renminbi internationalization process continues. The number and volume of overseas IPOs, offerings of dim-sum bonds and cross-border acquisitions by PRC-based companies have been continually growing. Foreign investors are also increasingly interested in the PRC capital market. According to SAFE, between December 30, 2013 and December 31, 2015, the total amount of QFII investment grew at a CAGR of 27.7% and the number of QFII grew at a CAGR of 8.6%. During the same period, the total amount of RQFII investment grew at a CAGR of 68.0% and the number of RQFII grew at a CAGR of 76.0%. In addition, to further strengthen the financial relations between Mainland China and Hong Kong, the CSRC and the SFC jointly launched the "Shanghai-Hong Kong Stock Connect" in November 2014. The "Shenzhen-Hong Kong Stock Connect" is also scheduled to be launched in late 2016. In the first half of 2016, the turnover of northbound trading and southbound trading was RMB347.6 billion and HK\$296.7 billion, respectively. Cross-border flows of Renminbi and the increased connections among global financial markets will benefit cross-border business of PRC securities firms.

Increasing Demand for Risk and Compliance Management Capabilities

As the pace of innovation and development intensifies, PRC securities firms are required to further improve their risk and compliance management systems to strike a balance between growth and managing risk at a controllable level. In 2016, the CSRC vowed to adopt a new regulatory philosophy featuring "regulate in accordance with the law, and regulate strictly and comprehensively," which requires PRC securities firms to further improve their risk and compliance management capabilities. The ability to perform comprehensive risk and compliance management will become an integral part of the core competitive strengths of PRC securities firms in the future.

OUTLOOK OF THE PRC SECURITIES INDUSTRY

Opportunities

- *Enhancing Financing Function of Capital Market.* The growing size and optimizing structure of the PRC capital market are the main driving forces behind the growth of the PRC securities industry. The overall development of the PRC capital market, in particular the growth of direct financing, presents significant opportunities for the PRC securities industry. The reform of regulations on IPOs, the increasing number of follow-on offerings, flourishing prospects for corporate bonds, and the adoption of a filing-based regulatory framework for issuance of securitized assets, among others, are expected to further promote the development of direct financing. We believe that large PRC securities firms will be able to leverage their strengths in business innovation, client base, marketing capabilities and human resources to benefit from the increasing financing function of the PRC capital market.
- *Continued Regulatory Reforms.* The market-oriented reforms of the regulatory regime for the PRC securities industry will create increasing business opportunities for PRC securities firms. The CSRC has launched various market-oriented reform initiatives in recent years. These initiatives include the introduction of margin financing and securities lending and other capital-based intermediary business; the launch of structured notes, treasury futures and other innovative products; intensifying the efforts in building a multi-level capital market structure; rigorously promoting the reform of regulation on IPOs; gradually expanding the scope of permitted investment and use of funds for collective asset management schemes; and allowing securities firms to open accounts for clients remotely and removing the former “one investor, one account” restriction.
- *Fast Growing Demand for Wealth Management.* Driven by China’s strong economic growth over the past 30 years, the household wealth of PRC residents has continued to increase, giving rise to significant demands for wealth management and other financial services. The demand from the PRC residents, in particular the middle and upper-middle class, for diversified asset allocation has become a key driving force for the development of the wealth management business of PRC securities firms.
- *Accelerating Renminbi Internationalization.* The past few years have seen an increasing demand in the international market for Renminbi and accelerating internationalization of Renminbi. In December 2015, the International Monetary Fund added Renminbi into the SDR basket, which marked another milestone for the internationalization of the currency. The further opening-up of capital accounts and the gradual establishment of the Renminbi exchange rate regime are expected to facilitate cross-border capital flows and connections among international financial markets and promote the development of cross-border business of PRC securities firms.

INDUSTRY OVERVIEW

- *Rapid Development of Internet Finance.* The rapid development of Internet-based finance services has spurred PRC securities firms to develop and improve their own online businesses, with an increasing number of standardized products sold on the Internet. The emerging Internet-based operating model enables securities firms to attract a large number of retail clients and to better meet customer demands and boost customer stickiness through big data analysis.

Challenges

- *Homogenous Products and Services.* The highly homogenous brokerage services offered by PRC securities firms have caused severe price competition. PRC securities firms currently face increasing level of competition in providing differentiated products and services and marketing given the increasing demands from customers for sophisticated financial products and customized services.
- *Income Vulnerability to A Shares Market Fluctuations.* A Share market crashes generally discourage trading activities and cause the balance of margin financing and securities lending to decline. Currently, PRC securities firms remain vulnerable to A Shares market volatility given their reliance on commission incomes from securities brokerage business and interest income from margin financing and securities lending business. This has driven PRC securities firms to transition from the traditional channel-based business model to a diversified income structure centered on capital-based intermediary, wealth management and other value-added services.
- *Progressive Relaxation of Licensing Restrictions.* The ongoing trend of “mixed operations” and relaxation of the current licensing requirements reduce the entry barriers for capital and new market players, which is expected to further intensify competition in the PRC securities industry.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

OUR HISTORY AND DEVELOPMENT

Establishment of the Company

The history of our Company can be traced back to November 2, 2005 when China Securities Finance Limited (中信建投証券有限責任公司), our Company's predecessor, was jointly established by CITIC Securities and China Jianyin with its place of registration in Beijing upon the approval by the CSRC. Its registered capital was RMB2.7 billion, in which CITIC Securities and China Jianyin contributed RMB1.62 billion and RMB1.08 billion in cash, representing 60% and 40%, respectively, of the equity interest in our Company.

Huaxia Securities was incorporated in October 1992 with an initial registered capital of RMB1.0 billion. In July 2005, the State Council approved in principle the restructuring plan of Huaxia Securities. As part of the restructuring plan, China Securities Finance Limited was established to acquire all securities business and related assets originally owned by Huaxia Securities and then operated as a comprehensive securities firm. Huaxia Securities filed for bankruptcy to Beijing Second Intermediate People's Court in 2008, and was officially declared bankrupt in January 2009.

Pursuant to the Asset Acquisition Agreement dated December 12, 2005 and its supplemental agreements, and other relevant agreements subsequently entered into between China Securities Finance Limited and Huaxia Securities and its relevant affiliates, the business we acquired from Huaxia Securities primarily included normal brokerage business, investment banking business and fund agency business. Pursuant to the relevant agreements, except for the accrued salaries and benefits payable to certain employees of the acquired business, China Securities Finance Limited would not assume any responsibility for any debt or legal liabilities of Huaxia Securities (including its branch offices, management headquarters, branches and service departments), which shall continue to be borne by Huaxia Securities. The relevant agreements further provide that Huaxia Securities shall ensure that any debt associated with the assets to be acquired shall be repaid or settled before the transfer of titles; and Huaxia Securities shall be responsible for and keep the Company indemnified for any claim made by any creditor after the transfer of titles arising from matters related to the acquired assets and took place before the transfer of titles.

The above acquisition has been duly completed. Currently, the liquidation of Huaxia Securities is still ongoing. Upon completion of the liquidation, if any creditor of Huaxia Securities is interested in subscribing for our Shares with the net payment they receive from the liquidation, we will consider by taking into account various factors including our business development and needs for capital, consult the relevant governmental and regulatory authorities and comply with the applicable laws, regulations, the Listing Rules and the Articles of Association regarding the issue of shares (including seeking the Shareholders' approval). After Listing, if we propose to issue new shares, we will publish public announcements, seek the Shareholders' approval as required under our Articles of Associate and the Listing Rules and go through the applicable governmental procedures. The Shareholders will be fully informed of the number of Shares proposed to be issued. They will weigh various factors (including our business development and our needs for capital) against the dilution effect of the new Shares and decide whether it is in the best interest of the Company and the Shareholders as a whole to issue the new Shares. In view of this, such subscription by the Creditors (if any) is not expected to result in material share dilution or have a material adverse effect on the Company's business operations.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Conversion into a Joint Stock Limited Company

On September 28, 2011, China Securities Finance Limited was converted into a joint stock limited company and renamed China Securities Finance Co., Ltd. (中信建投証券股份有限公司). Upon completion of the conversion, our registered capital was increased to RMB6,100,000,000. Our PRC legal advisor has confirmed that the Company has obtained the necessary approvals for the conversion from relevant authorities in China and that the conversion complied with relevant laws and regulations of China. On October 20, 2016, the Company further changed its English name to CSC Financial Co., Ltd.

Business Development Milestones

Since establishment, we have grown rapidly into a leading large full-service investment bank. Set out below is a list of key milestones in the founding and development of our Group.

- | | |
|------|--|
| 2005 | <ul style="list-style-type: none">• In November, our predecessor, China Securities Finance Limited was established. China Securities Finance Limited acquired all securities business and related assets originally owned by Huaxia Securities and then operated as a comprehensive securities firm. |
| 2007 | <ul style="list-style-type: none">• In July, China Securities Futures became our wholly-owned subsidiary and commenced its futures and related business. |
| 2008 | <ul style="list-style-type: none">• In September, we were qualified as an inquirer for IPO.• In September, we were qualified for the national interbank funding. |
| 2009 | <ul style="list-style-type: none">• In April, we were qualified for the provision of intermediary introduction business to futures companies.• In June, we were qualified to carry out asset management business.• In July, China Securities Capital was established and commenced direct equity investment and related business. |
| 2010 | <ul style="list-style-type: none">• In July, we were rated “Class A Grade AA” for the first time under the classification base on securities firms of the CSRC, and maintained the same rating for every subsequent year. We are one of the only three PRC securities firms which received such rating for seven consecutive years.• In November, we were qualified for and commenced the margin financing and securities lending businesses upon the approval of the CSRC. |
| 2011 | <ul style="list-style-type: none">• In September, China Securities Finance Limited was converted into a joint stock company and renamed China Securities Finance Co., Ltd. |

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

- 2012
- In July, China Securities International was established to tap into overseas business.
 - In August, we became one of the first 11 pilot securities firms to provide refinancing business.
 - In September, we were qualified to carry out the contractual repurchase transaction business.
 - In June and November, we were qualified for the piloting of the provision of agency service for registration of pledge of securities by CSDC Shanghai branch and CSDC Shenzhen Branch, respectively.
 - In November, we were qualified to act as lead underwriter for debt financing instruments of non-financial institutions.
 - In December, we were qualified to carry out OTC trading business.
 - In December, we were qualified to carry out agency sales of financial products.
- 2013
- In September, China Securities Funds was established and commenced fund management and related business.
 - In September, we became one of the first ten securities firms which were rated Grade A (highest rating in the industry) after the implementation of the Implementation Plan for Bifurcated Review of M&A and Restructuring (《併購重組審核分道制實施方案》) by the CSRC.
 - In October, we were qualified to carry out agency services business for precious metal spot contracts and proprietary business for spot gold contracts. Together with all listed PRC securities firms, we were the first securities firm qualified to conduct such business.
- 2014
- In September, we were qualified for the piloting of Internet securities business.
 - In October, China Securities International was approved by the PBOC to enter interbank bond market.
 - In October, we were approved to carry out sales of CRMW instruments.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

- 2015
- In January, we became the first securities firm in the PRC to issue perpetual subordinated bonds.
 - In January, we were qualified as one of the first batch of participants for stock options trading at the Shanghai Stock Exchange and was conferred with brokerage authority for stock option and proprietary trading.
 - In January, we were qualified to carry out options settlement business.
 - In January, we were qualified to carry out stock options market making business.
 - In February, we were qualified to carry out custody of security investment funds.
 - In April, we were qualified as a Qualified Domestic Institutional Investor (QDII).
 - In June, we were qualified as an institution providing private fund business outsourcing.
 - In June, we obtained the qualification from the PBOC to carry out physical precious metals business.
 - In September, we were qualified to carry out interbank gold inquiry business.
- 2016
- In September, we issued the first CRMW as a PRC securities firm.

Changes of Equity Interests of our Shareholders

As approved by the MOF on June 19, 2009, China Jianyin entered into an equity transfer agreement with Central Huijin on December 30, 2009, pursuant to which China Jianyin agreed to transfer 40% equity interest in the Company to Central Huijin at nil consideration. The transfer was approved by the CSRC on November 18, 2010 and was duly completed on December 16, 2010.

On July 30, 2010, CITIC Securities entered into an equity transfer agreement with BSCOMC, pursuant to which CITIC Securities agreed to transfer 45% equity interest in the Company to BSCOMC at a consideration of RMB7.29 billion. The transfer was conducted through an open bidding process on the Beijing Financial Assets Exchange. The consideration was determined with reference to the assessed net asset value as at the reference date (being September 30, 2009) as recorded in the Registration Form for the Valuation of the Assets of Financial Companies (金融企業資產評估項目審案表) (Registration No. B10005) jointly filed by the Company, CITIC Group and the MOF. The transfer was approved by the CSRC on November 9, 2010 and was duly completed on November 15, 2010.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

On August 16, 2010, CITIC Securities entered into an equity transfer agreement with Century Jinyuan, pursuant to which CITIC Securities agreed to transfer 8% equity interest in the Company to Century Jinyuan at a consideration of RMB1,296.0 million. The transfer was conducted through an open bidding process on Beijing Financial Assets Exchange. The consideration was determined with reference to the assessed net asset value as at the reference date (being September 30, 2009) as recorded in the Registration Form for the Valuation of the Assets of Financial Companies (金融企業資產評估項目審案表) (Registration No. B10005) jointly filed by the Company, CITIC Group and the MOF. The transfer was approved by the CSRC on November 23, 2010 and was duly completed on December 16, 2010.

On March 8, 2016, Century Jinyuan entered into an equity transfer agreement with Shannan Jinyuan, pursuant to which Century Jinyuan agreed to transfer approximately 4.92% equity interest in the Company to Shannan Jinyuan at a consideration of approximately RMB1,245.0 million. The consideration was determined through negotiations by taking into account the net asset value of the Company. The transfer was duly completed on July 18, 2016.

On August 22, 2016, Century Jinyuan entered into an equity transfer agreement with Shanghai Shangyan, pursuant to which Century Jinyuan agreed to transfer approximately 2.47% equity interest in the Company to Shanghai Shangyan at a consideration of RMB0.7 billion. The consideration was determined through negotiations by taking into account the net asset value of the Company. The transfer was duly completed on September 1, 2016. Upon completion of the transfer, the shareholding structure of our Company was set out below:

No.	Name of Shareholder	Number of Shares Held	Shareholding Percentage
1	BSCOMC	2,745,000,000	45.00%
2	Central Huijin	2,440,000,000	40.00%
3	CITIC Securities	427,000,000	7.00%
4	Shannan Jinyuan	300,000,000	4.92%
5	Shanghai Shangyan	150,624,815	2.47%
6	Century Jinyuan	37,375,185	0.61%
Total		6,100,000,000	100%

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

OUR PRINCIPAL SUBSIDIARIES

The following chart sets out the detailed information of our principal subsidiaries as of the Latest Practicable Date.

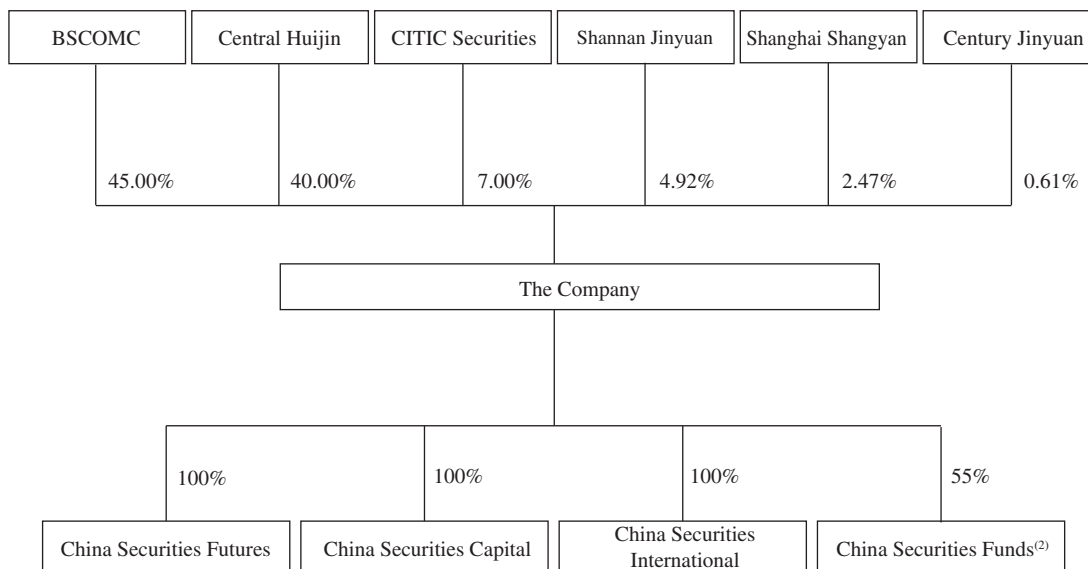
No.	Name of Subsidiary	Place of Incorporation	Date of Incorporation	Registered/Issued Share Capital	Shareholding of our Company	Main Scope of Business
1.	China Securities Futures	PRC	March 16, 1993	RMB700,000,000	100%	Commodities futures brokerage, financial futures brokerage, futures investment advisory, asset management and fund sale
2.	China Securities Capital	PRC	July 31, 2009	RMB650,000,000	100%	Project investment, investment management, asset management and financial advisory (excluding intermediary services)
3.	China Securities International	Hong Kong	July 12, 2012	HKD1,000,000,000	100%	Investment holding. Its subsidiaries engage in the business of dealing in securities, advising on securities, dealing in futures contracts, advising on futures contracts, advising on corporate finance, and asset management
4.	China Securities Funds	PRC	September 9, 2013	RMB300,000,000	55%	Fundraising, fund sale, asset management for specific clients, asset management, other business as approved by the CSRC

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

OUR CORPORATE STRUCTURE

Shareholding Structure prior to the Global Offering

The following chart sets forth our simplified shareholding structure and principal subsidiaries as of the Latest Practicable Date⁽¹⁾.



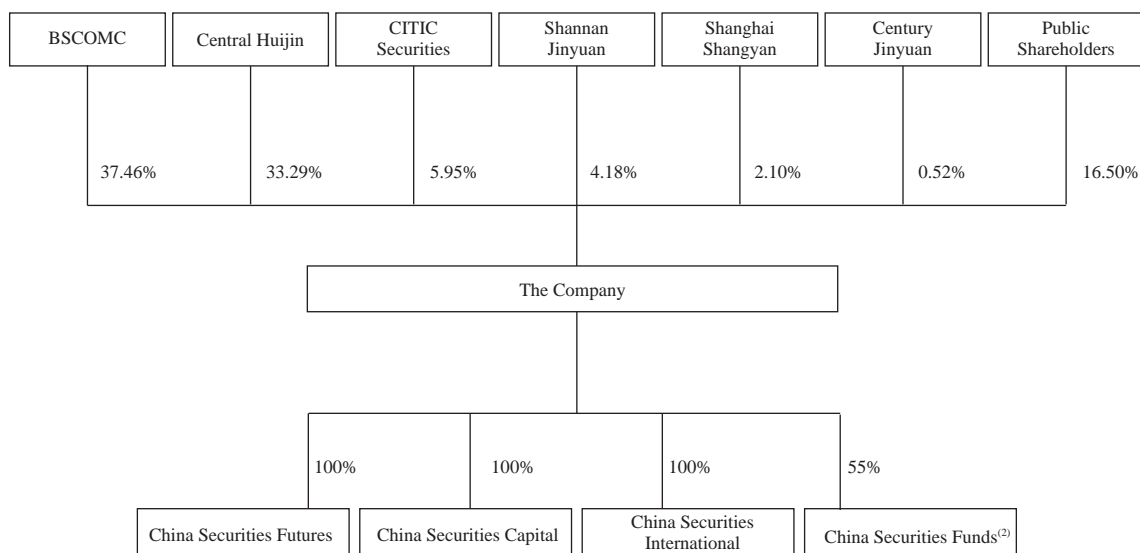
Notes:

- (1) For the relationship among the shareholders, please see “Substantial Shareholders” of this prospectus.
- (2) The remaining 45% of the equity interest in China Securities Funds was held by Hangtian Science and Technology Finance Co., Ltd. and Jiangsu Broadcast Media Ltd., both being Independent Third Parties other than being the shareholders of China Securities Funds, holding 25% and 20% of the equity interest, respectively.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Shareholding Structure Immediately Following the Completion of the Global Offering

The following chart sets forth our shareholding structure and principal subsidiaries immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised⁽¹⁾:



Notes:

- (1) For the relationship among the shareholders, please see “Substantial Shareholders” of this prospectus.
- (2) The remaining 45% of the equity interest in China Securities Funds was held by Hangtian Science and Technology Finance Co., Ltd. and Jiangsu Broadcast Media Ltd., both being Independent Third Parties other than being the shareholders of China Securities Funds, holding 25% and 20% of the equity interest, respectively.

OVERVIEW

We are a leading large full-service investment bank in the PRC with superior value creation capabilities. We have a strong client base, a premier investment banking brand, a balanced business structure, and a robust and prudent risk management system. We ranked No. 1 in terms of return on average equity for four consecutive years since 2012 to 2015 among China's top 20 largest securities firms measured by total assets, consistently generating value to our shareholders.

Our mission is to attract talented people, best serve our clients, create value and contribute to the society. As an outstanding investment bank, we attract top industry talents with market-oriented incentives and provide comprehensive financial services to a diverse group of clients, including individual, corporate, institutional and government clients, which has enabled us to create great value for our clients, our employees, our shareholders and the society at large.

We primarily engage in four business segments: (i) investment banking, (ii) wealth management, (iii) trading and institutional client services, and (iv) investment management.

- *Top-ranked and balanced investment banking business.* We provide a full range of investment banking services including equity and debt underwriting and financial advisory services. We are a leader in terms of our domestic equity and debt underwriting business, and have ranked top for M&A, restructuring and NEEQ businesses in the PRC. We have also built a strong and diverse project pipeline to support our sustainable growth. Our investment banking business has established a distinguished brand and helped us acquire a large group of premier corporate and institutional clients.
- *Leading wealth management business.* We provide our retail clients with excellent wealth management services, primarily including brokerage and investment advisory services, margin financing and securities lending, and securities repurchase services. We have industry-leading financial product sales capabilities. According to Wind Info, we ranked No. 1 in the industry in terms of the number of mutual fund products distributed as of June 30, 2016. We have an extensive branch network, a comprehensive product line, strong client acquisition capability and a team of outstanding financial planners.
- *Strong trading and institutional client service business.* We offer market-making services, conduct proprietary trading, and provide trading advisory, investment research and prime brokerage services to our institutional clients. We have built a strong trading and institutional service platform based on our highly influential research, and industry-leading trading, investment and product design capabilities.
- *Fast growing investment management business.* We have established a multi-layered and diversified investment management platform to provide asset management, fund management and private equity investment management services. We also conduct private equity and other proprietary investment activities. During the Track Record Period, the AUM of our asset management business grew rapidly and subsequently has ranked among the top securities firms. We pursue a robust and prudent investment style for our fund management business and have generated solid investment returns for our clients. Our private equity investment business has also grown rapidly and achieved substantial investment returns.

BUSINESS

As a PRC-based investment bank, we have taken full advantage of the opportunities offered by the growth and innovation of the PRC securities industry. In a decade since our inception, we have grown rapidly and become a leading large full-service investment bank. According to Wind Info, our ranking advanced from No. 12 in 2006 to No. 2 in 2015 in terms of the aggregate amount of equity and debt securities underwritten by us as lead underwriter. Our branch network is rooted in Beijing and spans across the country. As of June 30, 2016, we had 225 securities branches and 20 futures branches in 30 provinces, autonomous regions and directly-administered municipalities in China. Although the PRC securities industry is highly competitive, we achieved a market share of 2.8% by operating revenue and 3.2% by net profit in 2015, both ranking No. 10 in the industry. From 2012 to 2015, our return on average equity was 12.0%, 14.3%, 22.9% and 40.0%, respectively. According to the SAC, we ranked No. 1 for four consecutive years from 2012 to 2015 in terms of return on average equity among China's top 20 largest securities firms by total assets.

We endeavor to make the best enterprises our clients and our clients better enterprises. Leveraging our superior ability to serve clients on a continuous basis, we have acquired a large number of valued clients. Our investment banking clients mainly consist of large SOEs playing key roles in the PRC economy, high-quality non-SOEs with most economic vibrancy, and SMEs with most growth potential, primarily from sectors including financial services, high-end manufacturing, TMT, real estate, natural resources, energy saving and environmental protection, healthcare and new materials. We also have a rapidly growing client base for wealth management business, and high-quality clients in trading and institutional client services and investment management businesses. Our strong financial product distribution capability, influential research, outstanding product design, fast-growing overseas business, as well as prudent and robust risk management system, experienced and entrepreneurial management team, and dedicated and loyal employees, are the driving forces for our future growth.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, our total revenue amounted to RMB7,322.3 million, RMB11,451.6 million, RMB24,512.5 million, RMB11,770.8 million and RMB8,631.5 million, respectively. The profit attributable to equity holders of the Company amounted to RMB1,787.0 million, RMB3,407.1 million, RMB8,638.8 million, RMB4,256.6 million and RMB2,777.2 million, for the same periods, respectively.

COMPETITIVE STRENGTHS

We believe that we can maintain our industry-leading position by leveraging the following competitive strengths.

Leading large full-service investment bank with unparalleled profitability, rapid growth and balanced business

We are an industry leader in terms of value creation. From 2012 to 2015, our return on average equity was 12.0%, 14.3%, 22.9% and 40.0%, respectively. According to the SAC, we ranked No. 1 for four consecutive years from 2012 to 2015 in terms of return on average equity among China's top 20 largest securities firms by total assets. We derive our strong value creation capabilities from our highly efficient capital utilization, balanced business structure with equal emphasis on capital-light and capital-intensive businesses, our thorough understanding of the businesses and the industries, and our stringent control over risks.

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In the past decade since our establishment in November 2005, we have rapidly developed into a leading large full-service investment bank:

- Our total assets increased from RMB23.2 billion in 2006 to RMB183.2 billion in 2015, representing a CAGR of 25.8%. As of June 30, 2016, our total assets were RMB175.2 billion. Our operating revenue increased from RMB1.7 billion in 2006 to RMB19.1 billion in 2015, with a CAGR of 30.8%. Our operating revenue was RMB6.5 billion for the first six months of 2016. Our net profit increased from RMB243.5 million in 2006 to RMB8.7 billion in 2015, with a CAGR of 48.7%. Our net profit was RMB2.8 billion for the first six months of 2016;
- *Investment banking*: According to Wind Info, our ranking advanced from No. 14 in 2006 to No. 2 in 2015 in terms of the aggregate number of equity and debt securities offerings underwritten by us as lead underwriter; our ranking advanced from No. 12 in 2006 to No. 2 in 2015 in terms of the aggregate amount of equity and debt securities underwritten by us as lead underwriter;
- *Wealth management*: According to Wind Info, as of June 30, 2016, the number of mutual fund products we distributed as agent reached 2,341, ranking No. 1 in the industry. According to the SAC, in 2015, we ranked No. 4 in the industry in terms of the net income attributable to our agency sales of financial products. The number of our mid-to-high-end clients increased from 73,100 in 2013 to 175,700 in 2015, representing a CAGR of 55.0%;
- *Trading and institutional client services*: As of December 31, 2015, our debt investments as a percentage of our investment assets reached 65.4%, being the highest among Comparable H Share Listed Securities Firms. Meanwhile, we generated a net investment return of 10.0% over proprietary trading assets in 2015, ranking No. 3 among Comparable H Share Listed Securities Firms. According to Wind Info, in 2015, the size of our asset securitization product offerings reached RMB74.0 billion, an increase of 99.5% from 2014, ranking No. 3 in the industry; and
- *Investment management*: The AUM of our securities firm asset management business increased from RMB148.1 billion as of December 31, 2013 to RMB551.7 billion as of December 31, 2015, representing a CAGR of 93.0%. As of June 30, 2016, the AUM of our securities firm asset management business reached RMB737.3 billion, and according to the SAC, we ranked No. 3 in terms of the AUM of our asset management business.

Our branch network is rooted in Beijing and spans across the country. As of June 30, 2016, we had 225 securities branches and 20 futures branches in 30 provinces, autonomous regions and directly-administered municipalities. In particular, we have strong presence in the Five Provinces and Two Municipalities with high concentrations of affluent individuals: Beijing, Shanghai, Guangdong, Jiangsu, Shandong, Zhejiang and Fujian. As of June 30, 2016, the number of our securities branches in the Five Provinces and Two Municipalities as a percentage of our total number of securities branches was 55.6%. With 36 securities branches in Beijing, we ranked No. 1 in the industry.

Benefitting from the highly efficient internal synergies of our comprehensive branch network, we have retained a substantial number of valued clients. As of June 30, 2016, we had approximately 5,300,000 wealth management clients, of which approximately 151,600 were mid-to-high-end clients; we had approximately 13,400 corporate clients, consisting of large SOEs playing key roles in the PRC economy, high-quality non-SOEs with economic vibrancy as well as SMEs with most growth potential, from sectors including financial services, high-end manufacturing, TMT, real estate, natural resources, energy saving and environment protection, healthcare and new materials; and we had about 9,000 institutional clients, including mutual funds, private investment funds, insurance companies and other professional institutional investors. We believe that we can maintain our industry-leading position by leveraging our well-distributed business branch network, high-quality client base, comprehensive business coverage and efficient internal collaboration.

Top-ranked investment banking business with balanced and comprehensive services

We have achieved leading status in various investment banking business lines, and have created a distinguished brand that has won broad industry recognition:

- “Best Comprehensive Securities and Investment Bank in China” in 2014 and 2015 by *Securities Times*;
- Ranked No. 2 in the category of “Best Investment Bank in China” by *New Fortune* magazine for three consecutive years from 2013 to 2015;
- “Best DCM House” in 2016 by *FinanceAsia*; and
- According to the SAC, we ranked No. 2 in the industry in 2015 in terms of our net revenue from investment banking business.

We have a balanced and comprehensive investment banking business. We are an industry-leader in equity financing, debt financing and financial advisory businesses. We also have a robust pipeline for each investment banking segment:

- *Equity financing*: According to Wind Info, during the Track Record Period, we ranked No. 1 and No. 3 among PRC securities firms respectively in terms of the number and amount of equity offerings underwritten by us as lead underwriter. In 2015, we ranked No. 1 in terms of the number of A share follow-on offerings underwritten by us as lead underwriter;
- *Debt financing*: According to Wind Info, during the Track Record Period, we ranked No. 2 and No. 2 among PRC Securities firms respectively in terms of the number and amount of domestic bond offerings underwritten by us as lead underwriter during this period. In 2015 we ranked No. 2 and No. 2 in terms of the number and amount of domestic bond offerings underwritten by us as lead underwriter. In particular, we ranked No. 1 in terms of the amount of corporate bond offerings underwritten by us as lead underwriter, surpassing the sum of the amounts of corporate bond offerings underwritten by the No. 2 and No. 3 players, demonstrating our dominant leadership position;

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- *Financial advisory:* According to Dealogic, during the Track Record Period, we ranked No. 6 and No. 3 respectively in terms of the number and transaction value of completed M&A transactions in the PRC securities industry. In 2015, we ranked No. 4 and No. 3 respectively in terms of the number and transaction value of completed M&A transactions in the PRC securities industry. According to Wind Info, as of June 30, 2016, we had accumulatively recommended a total number of 301 SMEs for NEEQ quotation, ranking No. 1 among Comparable H Share Listed Securities Firms; and
- *Project pipelines:* According to the CSRC, as of June 30, 2016, we had 48 IPOs, 29 follow-on offerings and 18 M&A and restructuring transactions pending approval by regulatory authorities, ranking No. 3, No. 1 and No. 2 in the industry, respectively.

We have a premier investment banking client base which covers industry-leading large corporations and SMEs with most growth potentials. We also have unique expertise and leading advantages in various sub-sectors.

- During the Track Record Period, we have provided investment banking services to 155 A share listed companies, which accounted for 5.4% of the total number of A share listed companies as of June 30, 2016, ranking No. 2 in the industry. Nearly 40% of the PRC enterprises ranking among the Fortune Global 500 (2015) are our clients;
- We have unique expertise and have established an industry-leading status in sectors such as high-end manufacturing, TMT and banking. We have developed competitive advantages in sectors such as new energy, energy saving and environment protection, healthcare and new materials. In the high-end manufacturing sector, we completed two rights issues with an aggregate amount of RMB2.6 billion for China Spacesat Co., Ltd., a leader in the small commercial satellite manufacturing and application industry, in 2007 and 2013, respectively. We also completed a private placement in an aggregate amount of RMB46.0 billion for BOE Technology Group Co., Ltd. in 2014, which was the largest A share follow-on offering at the time. In the TMT sector, we completed the A share IPO with an aggregate amount of RMB4.2 billion raised for China Film Co., Ltd. in 2016, the largest A share IPO in the PRC media industry. We completed the landmark transaction as the sole financial advisor for China Mobile Limited's injection of its telecommunications tower assets into China Tower Corporation Limited in 2015, with an aggregate transaction amount of RMB116.7 billion. In the banking sector, the Big Five State-owned Commercial Banks are our long-term clients. We have also provided capital market services to over 20 joint stock commercial banks, city commercial banks and rural commercial banks. As of June 30, 2016, we sponsored 6 out of the 18 A share IPOs of PRC city commercial banks and rural commercial banks, which were completed or disclosed by the CSRC and to be completed, ranking No. 1 in the industry;

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- We have achieved a clear advantage in large- and mega-sized bond offerings. With respect to bond offerings, we participated in the underwriting of several large corporate bond offerings, each with an offering size of more than RMB5.0 billion, including the bond offerings by PetroChina Company Limited, Shanghai Shimao Jianshe Co., Ltd. and Beijing Urban Construction Investment Development Co., Ltd. Since 2015, we have acted as lead underwriter in 11 of the 27 bond offerings, each with an offering size of over RMB10.0 billion, ranking No. 2 in the industry. We are adept at capturing favorable offering windows in an ever-changing market, which gives us strong pricing capabilities; and
- Through our NEEQ business, we have prospectively broadened our investment banking client base to include early-stage technology and innovative SMEs. We have developed many high-quality clients in the biopharmaceuticals, Internet, new materials, intelligent manufacturing, and culture and sports sectors. The representative companies that we have recommended for NEEQ quotation include an innovative medicine research and development company, a leading supplier in the PRC of high-end titanium alloys and superconducting materials, a leading company for remote satellite operation in the PRC, an Internet marketing company, the only company in the PRC that had received registration permit for medical surgical robot manufacturing, and renowned companies in the publications and performing arts industries in the PRC. We will keep growing our NEEQ business as an important way to serve the technology and innovative companies, and will continue to provide them with quotation recommendation and financing services.

We have an excellent and stable investment banking team. As of June 30, 2016, according to the SAC, among our approximately 500 investment banking professionals, 145 possessed sponsor representative qualification, ranking No. 4 in the industry. Our outstanding team has enabled us to establish our premier investment banking brand and, in turn, our achievements and platforms have reinforced our team's stability.

We are a trusted advisor of our clients and offer them tailored financial services on a continuous basis at different stages of an enterprise's life cycle. As an example, for Huayi Brothers Media Corporation, we completed the A share IPO, the acquisition of Guangzhou Yinhan Technology Co., Ltd. and a private placement in 2009, 2013 and 2014, respectively. These transactions assisted Huayi Brothers Media Corporation to transform from a film and television entertainment company with a relatively simple business structure into a large comprehensive entertainment company with a diverse range of businesses covering movie and television entertainment, brand licensing, location-based entertainment and Internet entertainment, with its net profit growing from RMB84.0 million to RMB1,218.2 million. We have a highly loyal client base. Approximately 91.5% of our IPO clients continue to engage us for their subsequent capital market transactions after the completion of their IPOs.

We have strong innovation capability and have successfully completed many IPOs and M&A transactions that were first of their kinds in various emerging industries. These transactions have since become benchmarks for future transactions in their respective industries. For IPOs, we completed the first A share IPO in the film and television entertainment sector in the PRC in 2009; the first IPO in the landscaping and gardening sector in the PRC in 2009; and the first IPO for railway safety equipment integrated solution

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providers in the PRC in 2015. For M&A transactions in the PRC, we advised on the first financial holding enterprise's restructuring and listing in the A share market; the first significant asset restructuring in 2015 with financing from preferred share issuance in the A share market; the first project approved through the fast track after the bifurcated review system was adopted in 2015; and the first transaction in which an A share listed company acquired and privatized a NASDAQ listed US-incorporated company. In addition, we also completed the first securitization project with trust beneficiary right as underlying assets in 2014; the first corporate bond offered by a guarantee company (a company with guarantee as its principal business) in the PRC in 2015; the first domestic renewable corporate bond offering for a SOE in the real estate industry in 2016; and the first green panda corporate bond offering in the PRC in 2016.

We have achieved significant development of our overseas business. In around three years since the inception of our overseas business, as of June 30, 2016, we have completed 12 IPOs and 5 follow-on offerings in Hong Kong, raising an aggregate of approximately US\$22.6 billion. In 2014, as a financial advisor, we completed the restructuring transaction in which CITIC Group injected assets valued at RMB227.0 billion into CITIC Pacific Limited, a company listed on the HKEx. We ranked No. 4 in the category of "Best Investment Bank in Overseas Market" by *New Fortune* magazine in 2016. Our domestic and overseas investment banking teams work closely together in providing integrated capital market services both at home and abroad.

Our investment banking brand has enabled us to attract corporate clients and created significant synergies with our other business lines. For example, many equity financing transactions underwritten by us brought us clients in custody, margin financing and securities lending, and collateralized stock repurchase businesses. We proactively market asset management products to large corporate clients who have close relationships with us. We also assist our qualified private equity portfolio companies in their IPOs and M&As.

Competitive wealth management business backed by strong sales capability

We possess strong financial products sales capability. We distribute financial products developed in house and by third parties. As of June 30, 2016, the total number of mutual fund products we distributed reached 2,341, ranking No. 1 in the industry. In 2015, our net income attributable to our agency sales of financial products amounted to RMB367.7 million, ranking No. 4 in the industry. In addition, as of June 30, 2016, together with all listed PRC securities firms, we were the only securities firm that is qualified to conduct spot gold sales, a business with promising future development.

We have strong ability in acquiring wealth management clients. In addition to our business network, we have established mutually beneficial cooperation relationships with large commercial banks in the PRC. By providing stock and fund investment advisory services to the large number of banking clients of such commercial banks, we develop them into our wealth management clients. The number of our mid-to-high-end clients increased from 73,100 as of December 31, 2013 to 175,700 as of December 31, 2015, representing a CAGR of 55.0%.

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In the Internet finance sector, we have established four major client traffic entrances, namely PC transaction terminals, webpage transaction platform, mobile application and WeChat official account, and have rapidly acquired mass market clients via Internet marketing. For the six months ended June 30, 2016, approximately 551,600 clients opened accounts online, accounting for approximately 97.6% of the newly opened accounts during the same period, increasing from approximately 13.6% in 2013. We have fully launched our Internet financing business, including “Xin e Rong (信e融).”

With respect to client services, we have a group of professional and highly capable financial planners and provide customized services to our mid-to-high-end clients. As of June 30, 2016, we had more than 4,700 financial planners, among whom 1,361 were our investment advisors, ranking No. 6 in the industry. Among our investment advisors, over 81.0% have received bachelor’s degrees or above. We launched our “You Wen (優問)” service through our WeChat public account, through which we bring our financial planners from offline to online, enabling us to respond to client inquiries more quickly, which has differentiated our services, significantly enhanced customer satisfaction and increased our client stickiness.

In the area of financial products, we have established a full product line covering cash management, fixed income, equity investment, futures and OTC derivatives. For our capital-based intermediary business, we provide high-quality financing services to meet our clients’ diverse financing needs. We have achieved rapid growth in margin financing and securities lending, as well as in collateralized stock repurchase and contractual repurchase businesses. The balance of our margin financing and securities lending business increased from RMB14.9 billion as of December 31, 2013 to RMB35.4 billion as of December 31, 2015, representing a CAGR of 54.1%, and our revenue from this line of business increased from RMB1.3 billion in 2013 to RMB4.7 billion in 2015, representing a CAGR of 90.1%. The balance of our collateralized stock repurchase business increased from RMB1.9 billion as of December 31, 2013 to RMB21.4 billion as of December 31, 2015, representing a CAGR of 235.6%. As of June 30, 2016, the aggregate balance of our margin financing and securities lending and collateralized stock repurchase businesses was RMB47.7 billion.

Our futures business experienced rapid development. According to the CSRC, in 2016, the rating of China Securities Futures, our wholly-owned subsidiary, was upgraded from “Class A Grade A” to “Class A Grade AA”, the highest rating ever granted by the CSRC, and we are one of the only ten futures companies that received such rating. The fee income of China Securities Futures has grown from RMB143.2 million in 2013 to RMB183.1 million in 2015, representing a CAGR of 13.1%.

Our business branches have also gradually evolved from a network of traditional brokerage branches to a comprehensive network covering multiple business lines:

- Leverage our solid relationship with local governments and enterprises, our branches assist our investment banking team to solicit corporate clients to provide comprehensive financial services such as capital raising, M&A, restructuring and NEEQ quotation;

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- Assist our investment banking and asset management teams in product sales and provide local equity investment clients with deal referral, consultation, deal matching and other services;
- Maintain in-depth business cooperation relationships with local branches of large financial groups such as banks and insurance companies, and assist our headquarters in developing strategic cooperative relationships with headquarters of local key clients; and
- Assist our research team in communicating with mutual funds and private equity funds, and expand our institutional client services.

Highly influential research and comprehensive institutional client services

Specialized research capability is the foundation for our institutional client services. Our research is well-known and highly influential in the industry. Guided by the philosophy of “spearheading professional investment, creating value by research” and adhering to a rigorous approach, our research focuses on insightful and thorough coverage of various industries. Our research team is deeply trusted by our institutional clients. As of June 30, 2016, our research team consisted of 106 members, covering 26 industries and 2,073 A share listed companies, accounting for 72.2% of all A share listed companies. In the “13th New Fortune Best Analyst” competition in 2015 held by *New Fortune* magazine, we ranked No. 8 in the category of “Best Domestic Research Team” and we ranked among the top ten in eight research categories. From 2012 to 2015, we ranked No. 1 in the telecommunication research and among top two in the real estate research for four consecutive years, respectively.

Our strong trading and product design capabilities are the core competitive advantages of our institutional client services.

- In the FICC sector, we provide expert investment advices to our institutional clients tailored to fulfill their requirements in respect of interest rate, duration, cash flow, leverage and other factors, and also facilitate the matching of buyers and sellers. As of June 30, 2016, we had a fixed-income sales team of 40 persons, providing strong support for our bond sales;
- We have a profound understanding of the FICC market and possess superior trading capability. As of December 31, 2015, our debt investments as a percentage of our investment assets reached 65.4%, being the highest among Comparable H Share Listed Securities Firms. Meanwhile, we generated a net investment return of 10.0% over proprietary trading assets in 2015, ranking No. 3 among Comparable H Share Listed Securities Firms;
- We are a leader in terms of designing asset securitization products. In 2015, we offered asset securitization products of an aggregate amount of approximately RMB74.0 billion, increasing by 99.5% compared to 2014. According to Wind Info, we ranked No. 3 in the industry in terms of the total offering size of our asset securitization products. From the resumption of the non-performing loan

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securitization business in 2016 to July 31, 2016, the total offering size of the market amounted to RMB4.1 billion, of which we had a market share of 29.0%, ranking No. 2 in the industry. In September 2016, we issued the first credit risk mitigation warrant, or CRMW, as the first securities firm to issue CRMW in industry;

- Based on our FICC product advantages, to meet the investment needs of our institutional clients, we launched the new hybrid investment business “Fixed Income plus Commodity” in 2015. The size of this business has grown rapidly and reached approximately RMB6.0 billion of June 30, 2016; and
- In the derivatives product field, we offer our clients various types of customized asset-linked option and swap products to meet their hedging and investment needs. In 2015, the revenue from our equity derivatives business was RMB420.2 million, representing a CAGR of 145.4% from 2013 to 2015. We have maintained a leading position in the industry in terms of the trading volume in treasury futures. We were awarded the “Outstanding Treasury Futures Trading Team” by the China Financial Futures Exchange for two consecutive years in 2014 and 2015.

We began providing custody and outsourcing services to institutional clients in 2015. As of June 30, 2016, the total asset value under our custody and outsourcing business reached RMB70.0 billion, covering 1,170 products. Benefiting from our competitive advantages in institutional client services, the number of our institutional clients has grown rapidly. As the needs of institutional clients are becoming more diverse and sophisticated, we can leverage our distinct advantages to achieve higher return.

Rapidly growing investment management business with great potential

We have a comprehensive, multi-layered and diversified investment management platform that supports securities firm asset management, fund management and private equity investment. While the size of our investment management business grows rapidly, we are more focused on the revenue contribution to our clients and ourselves. The AUM of our securities firm asset management business increased from RMB148.1 billion as of December 31, 2013 to RMB551.7 billion as of December 31, 2015, representing a CAGR of 93.0%. As of June 30, 2016, the AUM of our securities firm asset management business reached RMB737.3 billion, and we ranked No. 3 in terms of the AUM in the industry according to the SAC. In addition, our asset management business has evolved from a channel-based to actively-managed business. The number of our actively managed products as a percentage of our total AUM increased from 16.9% as of December 31, 2013 to 22.5% as of June 30, 2016.

We strive to build a sizeable fund management platform with a robust and prudent investment philosophy through China Securities Funds, our subsidiary. The AUM of our fund management business increased over 20 times from RMB4.0 billion as of December 31, 2014 to RMB86.1 billion as of December 31, 2015. As of June 30, 2016, the AUM of our fund management business was RMB187.8 billion. Generating absolute returns for our clients is our priority. As of June 30, 2016, all of our mutual fund products have remained profitable despite the market downturn in 2015.

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Our wholly-owned subsidiary, China Securities Capital, has successfully developed into a private equity fund manager. As of June 30, 2016, our AUM for the private equity investment management business was RMB3,966.7 million, of which RMB650 million was our own funds. As of June 30, 2016, we had completed over 50 private equity investments with a focus in the medical, technology and environmental protection sectors. As of June 30, 2016, we had successfully exited from four investments with an average investment return of 346.0%.

Prudent, robust and industry-leading risk management system

We uphold the philosophy of “healthy development” and adhere to the notion of “risk management by all, risk management as priority.” We understand the significance of risk management to the sustainable growth of a securities firm. We are not solely driven by market trends or only focus on short-term returns. Instead, we consistently match returns with risks and regard risk management as our priority. We are one of the only three securities firms in the PRC securities industry that were rated “Class A Grade AA” by the CSRC for seven consecutive years from 2010 to 2016, which was the highest rating ever granted by the CSRC. Moreover, China Securities Futures, our wholly-owned subsidiary, was upgraded from “Class A Grade A” in 2015 to “Class A Grade AA” in 2016 by the CSRC, the highest rating ever granted by the CSRC, and we are one of the only 10 futures companies that were granted such a rating in 2016.

We have established a comprehensive and sophisticated risk management system, and formulated and implemented corresponding administration policies and evaluation systems, covering all business lines. Utilizing business risk control modules, a centralized monitoring system, and a risk measurement management system, we monitor and manage the market risk, credit risk, operation risk and liquidity risk throughout the entire business process at front-, middle- and back-end. Benefiting from our well-established risk management system and highly efficient execution capabilities, we ensure the successful implementation of our risk policies.

Motivated and entrepreneurial management, dedicated and loyal staff

We believe in the core value of “recognition for achievement.” We encourage and cultivate entrepreneurship. Our management team and all employees take pride in contributing to our growth with their coherent teamwork, utmost diligence and high motivation. Our unique corporate culture generates strong cohesion among our employees, improves our execution capability and drives our healthy and sustainable development.

Our senior management has an average of over 19 years’ experience in the securities industry, which is the highest among Comparable H Share Listed Securities Firms, and the majority of them have been in service with us since our inception in 2005. Our management team has experienced all the cycles of the PRC securities industry in the 25 years since its establishment, and has profound understanding of the industry. Our management team is highly reputable and influential in various segments of the PRC securities industry, and has been widely involved in formulating industry rules and regulations. Our vigorous management team members are on average the youngest among Comparable H Share Listed Securities

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Firms. With their practical approach, trust and strategic vision, they have made us a leading securities firm with a clear strategy, distinct business advantages and strong industry influence in the past decade.

Our department heads have on average over 18 years' experience in the securities industry, and most of them have been in service with us since our inception. The stability of our team ensures the continuity of our business strategies and our employees' focus on the long-term growth, forming the foundation of our continuous growth. We attach great importance to our employees' career development and commit significant resources to enhance their professional capabilities, competency and motivation. As of June 30, 2016, approximately 89.2% of our mid-level management team members had been promoted from within. During the past three years, the turnover of our middle- and senior-level management and key staff members of our core businesses was as low as approximately 1.7%. We have adopted market-oriented incentive mechanism featuring multi-dimensional evaluation, to create value for our clients, employees and shareholders, achieving an all-win result. Our professional leadership, outstanding and unique corporate culture and superior brand, have attracted a great number of talents and distinguish us from our competitors in the industry.

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We aim to become a large best-in-class full-service investment bank with China roots and global vision. We will adhere to the business model of equal emphasis on capital-light and capital-intensive businesses, continue to strengthen the synergies among business lines and optimize the market incentive mechanism. We will strive to enhance our capabilities for serving our clients, for supporting real economy, and for improving the efficiency of wealth generation and management, through implementing the following strategies.

Solidify the leading position of our investment banking business, maintain our status as the top choice for clients

The investment banking business, as our core competitive business, constitutes a primary source to attract clients and develop comprehensive businesses. With the following measures, we plan to expand our client base, further enhance our industry understanding and improve our professional service capabilities, as well as strengthen the collaboration between domestic and overseas businesses, so as to provide one-stop solutions to our corporate clients globally:

- Increase our service penetration in the PRC market. We will proactively expand the coverage of potential corporate clients in the multi-level capital markets. Leveraging our valuable market and product research capabilities, we will strive to win client recognition and trust to acquire a large group of new clients. For key clients, we designate account managers to monitor their capital needs, and ensure our participation in their significant capital market transactions;
- Expand our sector focus. Leveraging our existing strengths in industries such as TMT, high-end manufacturing and finance, we will expand our competitive advantages to more sectors and to acquire industry-leading clients;

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- Solidify our leading position in debt underwriting. We will optimize our existing product lines, stay at the forefront of business innovations, extend our advantageous geographic coverage and maintain our core competitiveness in debt underwriting business;
- Broaden our business scope. Building on our strengths in IPOs, private placement, M&A financing, corporate bonds and NEEQ businesses, we will continue to develop new product offerings such as REITs and non-standard products to meet our clients' diverse business needs; and
- Strengthen the collaboration between our domestic and overseas businesses. We will develop businesses such as IPOs, private placements and foreign currency denominated bond offerings in Hong Kong market to cater for our domestic clients' cross-border financing needs. We will also develop overseas M&A, asset restructuring and privatization businesses to meet our domestic clients' cross-border investment needs.

Strengthen our extensive sales channel, build an industry-leading wealth management platform

The wealth management industry is a young industry in the PRC with great growth potential. We strive to transition our traditional brokerage business into a wealth management business. By implementing the following measures, we plan to expand our branch network, increase our competitiveness in Internet finance, enhance client experience, meet the financing needs of our mid-to-high-end retail and corporate clients, and build an industry-leading wealth management platform:

- Further develop capital-based intermediary business such as margin financing and securities lending and collateralized stock repurchase. We will establish a comprehensive service platform for both online and offline transactions to increase the penetration rate in, and income contribution from, mid-to-high-end retail and corporate clients;
- Expand our network of Type-C branches in the Five Provinces and Two Municipalities where our mid-to-high-end clients are concentrated, especially in Beijing. New branches, through which we provide the latest market and product information, are primarily for client experience, while the transaction process is gradually moved from offline to online;
- Optimize our O2O Internet platform into a full-service platform, including online business outlets, Internet traffic referral, online consultation platform, financial product supermarket and employee innovator platform, to achieve scalable client traffic and client service. By introducing the concept of "Internet+," based on Internet financing and big data application, we plan to establish a standardized online operation platform and a new business model with integrated Internet-based investment and financing functions;

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- Further explore and develop two key offline channels, namely, banks and governments. On the one hand, we plan to capitalize our relationships with commercial banks and create a cooperation network seamlessly connecting our products with the banks' wealth management clients. On the other hand, we collaborate with local governments' financing platforms to provide comprehensive investment and financing services for corporate clients, and expand our client coverage;
- Enlarge our investment advisors team and improve their business capabilities to provide customized investment advice to mid-to-high-end clients through various training programs;
- Establish cooperative relationships with institutions such as mutual funds, private investment funds and asset management companies, to ensure that we make the best investment recommendations to suit the diverse investment needs of our mid-to-high-end clients; and
- Strengthen the synergies between our wealth management business and other businesses, fully explore potential clients for our NEEQ business and build a comprehensive financial service chain for the NEEQ market, improve our service in areas such as equity incentive plans, block trades, and other equity related value-added businesses.

Enhance our FICC product advantages, build a preferred prime brokerage service platform

As the PRC capital market matures, institutional clients are playing a more important role. We plan to implement the following measures to diversify our product offerings and enhance our product design capability, to become a market originator and a liquidity provider. By providing premier one-stop investment, financing, custody and other services for institutional clients, we strive to make our prime brokerage service a top choice for our institutional clients:

- In the FICC product area, we plan to offer a full suite of FICC products and enhance capabilities in investment research and product design. We plan to increase our position in certain highly liquid products with large trading volume and improve our market-making capability;
- Enhance our brand name for the asset securitization business, maintain our leadership position and increase our market share by capturing market opportunities through our enhanced product design capabilities and management expertise;
- In the equity and derivatives product areas, we plan to further develop our equity swap and OTC option businesses to meet the various needs of institutional clients for investment hedging and arbitrage as well as to enhance our own hedging and product pricing capabilities; and
- Expand our custody business, optimize our algorithm trading system and consistently provide high value-added services to our institutional investors.

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Optimize the multi-layered investment management platform, become an industry-leading financial product provider

The investment management platform of securities firms has most comprehensive investment product offerings and greatest investment flexibilities. Through asset management, fund management and private equity investment management platforms, we plan to establish a multi-layered investment management platform equipped with leading product design capabilities to meet the various needs of our investors:

- For asset management business, we plan to offer full-spectrum products and increase our AUM. We will continue our extensive cooperation with commercial banks, increase the proportion of actively managed products, improve product investment returns, and build our market reputation;
- For fund management business, we plan to explore new channels for client acquisition, improve product offering and continuously provide high-quality products tailored for the PRC market, with the goal of becoming a large full-service fund;
- For private equity investment management business, we plan to continuously strengthen our position in high-growth sectors such as healthcare, Internet and environmental protection. We plan to increase AUM through investing our own funds and fundraising from third parties. We will also establish alternative investment funds when appropriate and prepare for investing in non-standard products; and
- We plan to strengthen the cooperation with our retail sales network to learn clients' latest needs and to understand product trends, to improve the competitiveness of our products.

Build a leading full-spectrum investment research team

We will implement the following strategies to strengthen our investment research team and enhance our investment research and service capabilities to meet the needs of a diverse group of institutional clients:

- Attract talents to strengthen our research team, expand our research coverage of both domestic and overseas listed companies, and in particular, focus on establishing a first-class investment research team covering the booming industries;
- Expand our research sales team and improve their capabilities to broaden institutional client coverage and increase client stickiness; and
- Continue to integrate internal services and external services and enhance inter-departmental synergies.

Enhance our overseas businesses, develop a full-service international investment bank

Hong Kong is the gateway to the global market. With the continuing internationalization of the Renminbi, we expect more domestic mid-to-high-end clients and enterprises to “go global” and generate international business opportunities for us. We will implement the following measures to strengthen our overseas business and provide clients with comprehensive and integrated financial services both at home and abroad:

- With the goal of “large investment bank + large asset management,” we endeavor to achieve a balanced development of all business lines. While continuing to develop our capital-light operations, we will gradually expand into the capital-based intermediary business and promote our capital-driven service upgrade. By satisfying the funding and service needs of our clients domestically and overseas, we expect to diversify our revenue streams;
- Continuously expand our investment banking team and leverage our domestic corporate client base to build a robust pipeline;
- Further enlarge our client base through more diverse product offerings and better client services to enhance the market share of our brokerage business, and in turn build up a leading global wealth management platform;
- Optimize our trading and sales platform and expand our sales coverage. By providing trading and investment research services, we plan to create more cross-selling opportunities across various business lines;
- Enhance our overseas asset management platform, improve product research and development capability, develop diverse product lines, and integrate onshore and offshore investment management platforms to meet the investment needs of clients at both sides. We also intend to increase our AUM through setting up seed-financing funds; and
- Broaden our network and expand our overseas branches, client base, product offerings and research and sales capability supported by opportune capital raising and strategic overseas M&As.

Reinforce our IT infrastructure, provide technological foundation for our leading businesses

Powerful IT infrastructure is critical for our business development and risk management. We will implement the following measures to continually improve our software and hardware IT support:

- Apply new technologies in areas such as big data and Internet finance to our business, and establish highly professional technology support that provides rapid response, comprehensive coverage and one-stop services;

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- Utilize the cutting-edge information technologies to create an industry-leading, Internet-based financial services platform, in order to enhance customer experiences and expand our client base;
- Maintain our industry-leading system operation and maintenance by adopting industry best practices and through continuous improvement to support the growth of our business lines;
- Build an effective comprehensive enterprise-level service platform and, based on our client manager system, optimize our client service system; and
- Foster proprietary IT research and development capabilities in our core businesses.

Optimize our risk management system, maintain our industry leadership

Comprehensive and prudent risk management is the foundation of our sustained and healthy growth. We will adhere to our principle of “risk management by all, risk management as priority,” and continue to enhance our risk management to meet the latest regulatory requirements as well as the needs arising from our business development, through implementing the following measures:

- Continually improve our risk management procedures and methodologies in terms of corporate governance, different types of credit risks and business line operations and gradually introduce the concept of economic capital management and improve our overall risk management;
- Closely monitor our business development, continuously supplement and improve our market risk management policies to synchronize them with our overall risk appetite, operational mode and risk characteristics of individual business lines as well as market changes;
- Optimize our credit risk policies, utilize pre-incident risk control functions and improve the procedures and methodologies for counterparty credit assessment and granting as well as for credit exposure measurement and monitoring;
- Actively utilize the three major operational risk management tools to identify, monitor and measure operational risks; and
- Continue to improve our quantitative analytical capabilities and optimize the risk management system, strengthen relevant policies, and improve our risk management efficiency.

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Strengthen employee career development, attract and cultivate top talents

We believe that developing a stable and dedicated team sharing our corporate values is critical to deliver strong performance. We plan to adopt the following measures to strengthen our recruiting and training to enhance our industry-leading position:

- Diversify our talent recruitment channels and increase experience and on-campus hiring;
- Provide the best employee career development platform through training and rotation programs, and prepare a talent reserve for our mid-to-high-level management team;
- Improve our market-oriented remuneration system with profit sharing feature to enhance the competitiveness of our compensation;
- Optimize our position and performance management system to provide a solid basis for effective incentive programs; and
- Proactively explore long-term incentive measures in compliance with laws and regulations to align the long-term interests of our shareholders and those of our employees, especially our mid- to high-level management team.

OUR MISSION

Our mission is to attract talented people, best serve our clients, create value and contribute to the society. As an outstanding investment bank, we attract top industry talents with market-oriented incentives and provide comprehensive financial services to a diverse group of clients, including individual, corporate, institutional and government clients, which has enabled us to create great values for our clients, our employees, our shareholders and the society at large.

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OUR BUSINESS

We are a leading full-service platform that provides comprehensive products and services to corporate clients, financial institutions, government agencies and individuals in China and abroad. Our principal business segments include investment banking, wealth management, trading and institutional client services as well as investment management. The table below sets out the detailed components of each business segment.

Investment banking	Wealth management	Trading and institutional client services	Investment management
• Equity financing	• Brokerage and wealth management	• Sales and trading of equities	• Asset management
• Debt financing	• Margin financing and securities lending	• Sales and trading of fixed income products (inclusive of OTC sales and trading)	• Fund management
• Financial advisory	• Repurchase business	• Investment research	• Private equity investment management
		• Prime brokerage	
		• QFII business	

The table below sets out the breakdown of our total revenue by business segments for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2013		2014		2015		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in millions, except percentages)									
Investment banking	1,011.7	13.8%	1,959.2	17.1%	3,397.6	13.9%	773.2	6.6%	2,023.0	23.4%
Wealth management	3,964.1	54.1%	6,067.2	53.0%	13,786.1	56.2%	7,671.7	65.2%	3,727.9	43.2%
Trading and institutional client services	1,858.1	25.4%	2,760.2	24.1%	5,444.1	22.2%	2,658.2	22.6%	1,812.1	21.0%
Investment management	331.2	4.5%	375.2	3.3%	1,400.2	5.7%	472.5	4.0%	810.3	9.4%
Other businesses	157.1	2.1%	289.8	2.5%	484.5	2.0%	195.2	1.7%	258.1	3.0%
Total	7,322.3	100%	11,451.6	100%	24,512.5	100%	11,770.8	100%	8,631.5	100%

Investment Banking

Our investment banking business consists of:

- equity financing: to provide clients with equity financing services in domestic and overseas capital markets;
- debt financing: to provide clients with debt financing services in domestic and overseas markets; and
- financial advisory: to provide clients with domestic and cross-border M&A and restructuring, NEEQ quotation recommendation and financing services.

We have established an industry-leading position in sectors such as high-end manufacturing, TMT and banking, and have accumulated extensive experience in new energy, energy saving and environmental protection, healthcare and new materials. We have built excellent market reputation through executing landmark transactions. From 2013 to 2015, we ranked No. 2 in the category of “Best Investment Bank in China” by *New Fortune* magazine for three consecutive years. The aggregate number of domestic equity and debt securities offering underwritten by us as lead underwriter in 2015 was 368, ranking No. 2 in the industry. The aggregate number and amount of domestic debt securities offerings underwritten by us as lead underwriter in 2015 both ranked No. 2 in the industry, and our leading position continued in the first six months of 2016. According to the SAC, as of December 31, 2015, we ranked No. 2 in terms of the net revenue from our investment banking business.

We have a strong client base. As of June 30, 2016, we had over 1,200 investment banking clients. During the Track Record Period, we served 155 A share listed corporate clients, representing 5.4% of the total number of A share listed companies as of June 30, 2016, ranking No. 2 in the industry. Nearly 40% of the PRC enterprises ranked among the Fortune Global 500 (2015) were our clients. We have a highly loyal client base. From January 1, 2006 to June 30, 2016, approximately 91.5% of our IPO clients continued to engage us for their subsequent capital market transactions. In addition, we have expanded our investment banking services prospectively to cover early-stage technology and innovative SMEs through our NEEQ business and built a high-quality client base in biopharmaceuticals, Internet, new materials, intelligent manufacturing, and culture and sports.

Through our full-license investment banking platform in Hong Kong, we are able to fully support our Chinese clients to “go global” by meeting their needs for overseas financing and cross-border M&A. We commenced our Hong Kong investment banking business in June 2013 and as of June 30, 2016, we have completed 12 IPOs and 5 follow-on offerings as sponsor, global coordinator, bookrunner or lead manager, raising an aggregate of approximately US\$22.6 billion. In 2014, as a financial advisor, we completed the restructuring transaction in which CITIC Group injected assets valued at RMB227.0 billion into CITIC Pacific Limited, a company listed on the HKEx. We ranked No. 4 in the category of “Best Investment Bank in Overseas Market” by *New Fortune* magazine in 2016.

Our investment banking brand plays an important role in attracting our corporate clients and has created significant synergies. For example, many equity financing transactions underwritten by us brought us clients in custody, margin financing and securities lending, and

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collateralized stock repurchase businesses; we proactively market asset management products to our large corporate clients who have close relationships with us; we also assist our qualified private equity portfolio companies in their domestic or overseas IPOs or M&As.

During the Track Record Period, our investment banking business received wide recognition in the industry, including:

- “Best Investment Bank in China” for three consecutive years in 2013, 2014 and 2015 by *New Fortune* magazine;
- “Best Full-service Securities Investment Bank in China” in 2014 and 2015 by *Securities Times*;
- “Zhongguancun High Growth Enterprises Science and Technology Bo Le Award” by Zhongguancun High-tech Enterprises Association in 2014 and 2015;
- “Best Investment Bank in NEEQ Business” in 2014 by *New Fortune* magazine;
- “Best Innovative M&A and Restructuring Service” in 2014 in the “M&A in the PRC • Gold Indus Award” competition held by *China Securities Journal*;
- “Excellent Corporate Bonds Underwriter” in 2015 in the “Excellent Institutional and Individual Participants in the Bond Market” competition held by the Shanghai Stock Exchange;
- “Gold Financing • Best NEEQ Financing Service Award” in 2014 by *Shanghai Securities News*.

For the years ended December 31, 2013, 2014 and 2015 and for the six months ended June 30, 2015 and 2016, the revenue from our investment banking business segment amounted to RMB1,011.7 million, RMB1,959.2 million, RMB3,397.6 million, RMB773.2 million and RMB2,023.0 million, respectively, representing 13.8%, 17.1%, 13.9%, 6.6% and 23.4% of the total revenue, respectively.

Equity Financing

We provide equity financing services to our clients, including IPOs and follow-on offerings in both domestic and overseas capital markets. We believe that we are uniquely competitive in fulfilling our clients’ equity financing needs with a strong professional team, an effective sales team and innovation capability. As of June 30, 2016, according to the SAC, we had 145 sponsor representatives, ranking No. 4 in the industry. We possess profound understanding of the industries and extensive execution experience, which enable us to be one of our clients’ first choices for equity financing transactions. Additionally, benefiting from our long-term cooperative relationship with investors, extensive branch network as well as synergies across business lines, our equity sales capability is well-recognized by our clients. Furthermore, we have strong innovation capability and successfully completed a number of “first IPOs” in and set benchmarks for various emerging industries.

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We have established a leading market position in equity financing and have a strong pipeline. According to Wind Info, we ranked No. 1 and No. 3 respectively in terms of the aggregate number and amount of equity offerings completed during the Track Record Period as lead underwriter. In 2015, we ranked No. 1 in terms of the number of A share follow-on offerings underwritten by us as lead underwriter. According to the CSRC, as of June 30, 2016, we had 48 IPOs and 29 follow-on equity offerings pending review by regulatory authorities, ranking No. 3 and No. 1 in the industry, respectively.

The following table sets forth a breakdown of various domestic equity financing transactions in which we acted as lead underwriter:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
Follow-on offerings⁽¹⁾:					
Number of transactions ·	15	24	44	15	20
Amount underwritten (RMB in billions) · · · ·	20.0	37.8	57.5	15.0	29.4
Underwriting fees (RMB in millions) · · · ·	327.3	399.8	583.0	230.0	177.0
IPO:					
Number of transactions ·	–	7	5	4	4
Amount underwritten (RMB in billions) · · · ·	–	4.2	2.9	1.5	3.3
Underwriting fees (RMB in millions) · · · ·	2	269.7	147.6	87.4	135.2
Total:					
Number of transactions ·	15	31	49	19	24
Amount underwritten (RMB in billions) · · · ·	20.0	42.0	60.4	16.5	32.7
Underwriting fees (RMB in millions) · · · ·	329.3	669.5	730.6	317.4	312.2

Note:

- (1) Mainly consists of rights issues, public issuance, and private placements (including ancillary financing for restructuring).

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The following table sets forth some of the high-profile domestic equity financing transactions we participated in as sponsor and lead underwriter:

Issuer	Year	Listed board	Summary
China Film Co., Ltd.	2016	SSE Main Board	A share IPO of approximately RMB4.2 billion, which was the largest IPO in the film and television entertainment sector in the PRC as of the Latest Practicable Date
China Nuclear Engineering Corporation Limited	2016	SSE Main Board	A share IPO of approximately RMB1.8 billion
BOE Technology Group Co., Ltd.	2014	SZSE Main Board	Private placement of approximately RMB46.0 billion, which was the largest follow-on offering in terms of amount raised in the A share market at the time
Dawning Information Industry Co., Ltd.	2014	SSE Main Board	A share IPO of approximately RMB396.8 million, which won the award of “Best IPO Deal” by <i>New Fortune</i> magazine in 2015
Power Construction Corporation of China, Ltd.	2011	SSE Main Board	A share IPO of approximately RMB13.5 billion, which was the largest IPO in terms of offering amount on the A share market in 2011
Chongqing Changan Automobile Co., Ltd.	2011	SZSE Main Board	Public placement of approximately RMB3.5 billion
China National Chemical Engineering Co., Ltd.	2010	SSE Main Board	A share IPO of approximately RMB6.7 billion
Navinfo Co., Ltd.	2010	SME Board	A share IPO of approximately RMB1.4 billion, which won the “Best IPO on the SME Board Award” by <i>New Fortune</i> magazine in 2011
Huayi Brothers Media Corporation	2009	ChiNext Board	A share IPO of approximately RMB1.2 billion, which was the first IPO in the film and television entertainment sector in the A share market
Beijing Orient Landscape and Ecology Co., Ltd.	2009	SME Board	A share IPO of approximately RMB850.0 million, which was the first IPO in the landscaping sector in the A share market

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Debt financing

We have full-service licenses for underwriting fixed income products, including corporate bonds, enterprise bonds, treasury bonds, financial bonds, government-backed agency bonds, debt financing instruments of non-financial enterprises as well as asset-backed securities. We believe that our pricing, marketing and innovation capabilities are key to the success of our debt financing business. We are adept at capturing favorable offering windows in an ever-changing market, which gives us strong pricing capabilities. According to Wind Info, during the Track Record Period, we ranked No. 2 and No. 2 respectively in terms of the number and amount of domestic debt securities offerings underwritten by us as lead underwriter during this period. In 2015 we ranked No. 2 and No. 2 in terms of the number and amount of domestic debt securities offerings underwritten by us as lead underwriter. In particular, we ranked No. 1 in terms of the amount of corporate bond offerings underwritten by us as lead underwriter, surpassing the sum of the amounts of corporate bond offerings underwritten by the No. 2 and No. 3 players, demonstrating our dominant leadership position. Since 2015, we have acted as lead underwriter in 11 of the 27 bond offerings, each with an offering size of over RMB10.0 billion, ranking No. 2 in the industry. In 2016, we were awarded the “Best DCM House” by *Finance Asia*.

The following table shows a breakdown by product type of domestic debt financing transactions in which we acted as lead underwriter for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,
	2013	2014	2015	2016
Corporate bonds:				
Amount underwritten (RMB in billions)	3.0	11.5	199.1	276.7
Underwriting fees (RMB in millions)	41.9	50.8	1,043.7	1,071.9
Enterprise bonds:				
Amount underwritten (RMB in billions)	37.5	46.3	20.2	11.6
Underwriting fees (RMB in millions)	300.8	400.5	145.4	135.8
Convertible bonds:				
Amount underwritten (RMB in billions)	2.6	2.3	2.4	1.1
Underwriting fees (RMB in millions)	31.2	33.2	9.9	18.9
Financial bonds:				
Amount underwritten (RMB in billions)	47.2	35.5	140.2	40.7
Underwriting fees (RMB in millions)	28.0	89.4	107.5	37.5

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	For the year ended December 31,			For the six months ended June 30,
	2013	2014	2015	2016
	Others⁽¹⁾:			
Amount underwritten (RMB in billions) ······	112.0	181.4	230.0	33.7
Underwriting fees (RMB in millions) ······	35.3	259.9	383.7	100.0
Total:				
Amount underwritten (RMB in billions) ······	202.3	277.0	591.9	363.7
Underwriting fees (RMB in millions) ······	437.2	833.8	1,690.2	1,364.2

Note:

- (1) Others mainly consist of medium-term notes, short-term commercial papers, private placement notes, government-backed agency bonds and exchangeable bond.

The following table sets forth, for the periods indicated, selected (by size) domestic bond issuance in which we acted as lead underwriter:

Issuer	Year	Summary
China Railway Corporation	2013/2014/ 2015	Completed government-backed agency bond offering of RMB110.0 billion in 2013; government-backed agency bond offering of RMB130.0 billion in 2014; government-backed agency bond offering of RMB80.0 billion in 2015
PetroChina Company Limited	2016	Completed corporate bond offering of RMB40.0 billion
Shanghai Pudong Development Bank Co., Ltd.	2015	Completed financial bond offering of RMB30.0 billion
Industrial Bank Co., Ltd.	2016	Completed financial bond offering of RMB30.0 billion
China Construction Bank Co., Ltd.	2015	Completed financial bond offering of RMB24.0 billion
China CITIC Bank Corporation Limited	2015	Completed financial bond offering of RMB15.0 billion

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Issuer	Year	Summary
Anbang Life Insurance Co., Ltd.	2015	Completed capital supplement bond offering of RMB15.0 billion
Air China Limited	2016	Completed registration of corporate bond offering of RMB12.0 billion and completed the corporate bond offering of RMB4.0 billion within the registration limit
Hua Xia Bank Co., Ltd.	2014	Tier-II capital bond offering of RMB10.0 billion
Oceanwide Holdings Co., Ltd.	2015/2016	Completed corporate bond offering of RMB5.5 billion and medium-term notes of RMB3.2 billion in 2015; corporate bond offering of RMB9.8 billion in 2016
Country Garden Holdings Company Limited	2016	Completed corporate bond offering of RMB8.0 billion

The following table sets forth the innovative bond or ABS projects we participated in for the periods indicated:

Issuer/Relevant Company	Year	Our Role	Summary
Shimao Property Holdings Limited	2016	Sole lead underwriter	The first series of private panda bond listed on exchanges in the PRC with offering size of RMB4.0 billion
Beijing Enterprises Water Group Limited	2016	Lead underwriter	The first green panda bond in the PRC with an aggregate offering size of RMB4.7 billion, among which RMB0.7 billion were issued for green projects
Agricultural Bank of China Limited	2016	Lead underwriter	The largest non-performing loans-backed securities offering since regulators resumed non-performing loans asset securitization, with an offering size of approximately RMB3.1 billion
China United SME Guarantee Corporation	2015/ 2016	Lead underwriter	The first guarantee company (a company with guarantee as its principal business) in the PRC to issue corporate bond, with a registered quota and an offering size of approximately RMB1.5 billion

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<u>Issuer/Relevant Company</u>	<u>Year</u>	<u>Our Role</u>	<u>Summary</u>
Country Garden Holdings Company Limited	2015	Lead underwriter	The first series of private panda bond listed on the exchanges in the PRC with offering size of RMB1.0 billion
Guangdong Highsun Group Co., Ltd. ⁽¹⁾	2014	Scheme manager	The first asset-backed security offering adopting double SPV structure, also the first asset securitization deal with trust beneficiary right as the underlying assets, we raised approximately RMB1.5 billion for the asset-backed security as scheme manager
Xinjiang CGA Car Leasing Services Co., Ltd.	2013	Scheme manager	The first auto financial leasing asset-backed security, we raised approximately RMB1.0 billion for the asset-backed security as scheme manager

Note:

(1) Guangdong Highsun Group Co., Ltd. was a debtor in this asset securitization deal.

Financial Advisory

We provide our clients with M&A and restructuring, NEEQ quotation recommendation and other financial advisory services.

According to Dealogic, we completed 5, 21 and 38 M&A and restructuring projects involving an aggregate transaction value of approximately US\$0.9 billion, US\$19.7 billion and US\$35.2 billion in 2013, 2014 and 2015 respectively. From 2013 to June 30, 2016, we ranked No. 6 and No. 3 respectively in terms of the number and the transaction value of domestic M&A transactions. In 2015, we ranked No. 4 and No. 3 respectively in terms of the number and the transaction value of domestic M&As. According to the CSRC, as of June 30, 2016, we had 18 M&A and restructuring projects pending approval, ranking No. 2 in terms of the number of pipeline projects. We executed three out of the ten landmark domestic M&A cases rated by *New Fortune* magazine in 2015, reflecting our outstanding innovation ability. Our leading position in M&A and restructuring benefits from our high-quality and diversified client base, comprehensive and extensive branch network, effective collaboration mechanism as well as strong execution capability. These competitive advantages enable us to provide customized financial advisory services to enterprises at different development stages. In 2013, we became one of the first 10 securities firms receiving “Grade A” from the CSRC, the highest rating in the industry, after the implementation of the bifurcated review of M&A and restructuring, and we have maintained such rating ever since.

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The table below sets forth landmark domestic M&A transactions we have acted as financial advisor for the periods indicated:

Client	Year	Summary
China Mobile Limited	2015	A project in which China Mobile Limited injected approximately RMB116.7 billion telecommunications tower assets into China Tower Co., Ltd.
Power Construction Corporation of China, Ltd.	2015	A project with transaction value of approximately RMB17.0 billion, involving a variety of innovations such as offering at premium by a central SOE; the first restructuring project to raise funds through offering preferred shares in the A share market
Leyard Optoelectronic Co., Ltd.	2015	The first deal in which an A share listed company acquired and privatized a NASDAQ listed US-incorporated company
Yantai Zhenghai Magnetic Material Co., Ltd.	2015	The first deal under fast track review since the implementation of bifurcated review system in the A share market, which took only 21 calendar days from filing to hearing
CITIC Pacific Limited	2014	An asset restructuring project in which CITIC Group injected assets valued at RMB227.0 billion into CITIC Pacific Limited, a company listed on the HKEx, regarded as the benchmark for “going global” transactions by SOEs.
AVIC Aviation Engine Corporation PLC.	2014	The largest business consolidation transaction in the aircraft engine industry in the PRC
AVIC Capital Co., Ltd.	2012	The listing of the first financial holding company through restructuring in the A share market

In 2009, we were approved to conduct NEEQ quotation recommendation and financing business as chief agency broker. In 2013, 2014 and 2015 and the first half of 2016, we recommended a total of 9, 48, 134 and 101 companies, respectively, to be quoted on the NEEQ. According to Wind Info, as of June 30, 2016, we had accumulatively recommended 301 companies to be quoted on the NEEQ, ranking No. 1 in Comparable H Share Listed Securities Firms. We raised a total of RMB7,293.7 million for our clients in their NEEQ offerings in 2015. When selecting target clients, we focus on their growth potential and core

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competitiveness in their respective sectors. We are committed to developing long-term relationship with our clients and focus on the potential to provide IPO service and other financing services to them in the future.

We have expanded the investment banking services prospectively to cover growing technologically innovative SMEs through our NEEQ business, and provide quotation and financing services to companies in biopharmaceuticals, Internet, new materials, intelligent manufacturing and other sectors. The table below sets forth the representative NEEQ projects we completed as lead underwriter for the periods indicated:

<u>Issuer</u>	<u>Year</u>	<u>Summary</u>
IAT Automobile Technology Co., Ltd.	2016	A leading domestic independent automotive design and development services provider
Jiangsu Hengshen Co., Ltd.	2015	One of the leading domestic enterprises in the carbon fiber industry
TINAVI Medical Technologies Co., Ltd.	2015	The only domestic company which has been granted the registration permit for medical surgical robot
Mobvista Co., Ltd.	2015	A leading domestic company in Internet marketing and advertising
CITIC Press Corporation	2015	One of the leading publishers in the PRC
Beijing Fun Age Entertainment Co., Ltd.	2015	One of the representative domestic enterprises in the performing arts industry
Western Superconducting Technologies Co., Ltd.	2014	A leading domestic supplier of high-end titanium and superconducting materials
Shanghai Benemae Pharmaceutical Corporation	2014	A representative project demonstrating NEEQ's support to innovative drug research and development companies

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Continuing Service

We provide our clients with excellent continuing services through our one-stop business platform. We maintain long-term relationship with our clients and grow with them, through providing tailored and quality investment banking services at their various development stages and accomplishing strategic capital market transactions for them as sponsor, underwriter or financial advisor, representative transactions of which are set forth as below:

<u>Client</u>	<u>Project List</u>
BOE Technology Group Co., Ltd.	<ul style="list-style-type: none">• private placement of approximately RMB9.0 billion (2010)• private placement of approximately RMB46.0 billion, the largest follow-on offering by then (2014)• corporate bond offering of approximately RMB10.0 billion (2016)
Bank of Communications Co., Ltd.	<ul style="list-style-type: none">• private placement of approximately RMB29.8 billion (2012)• financial bond offering of approximately RMB10.0 billion (2013)• financial bond offering of approximately RMB30.0 billion (2015)• preferred share offering of approximately RMB45.0 billion (2016)

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<u>Client</u>	<u>Project List</u>
Bank of Beijing Co., Ltd.	<ul style="list-style-type: none">• IPO with offering amount of approximately RMB15.0 billion (2007)• private placement of approximately RMB11.8 billion (2012)• financial bond offering of approximately RMB30.0 billion (2013)• preferred share offering of approximately RMB4.9 billion (2015)• financial bond offering of approximately RMB30.0 billion (2015)• Tier-II capital bond offering of approximately RMB18.0 billion (2015)• preferred share offering of approximately RMB13.0 billion (2016)• financial bond offering of approximately RMB30.0 billion (2016)
Beiqi Foton Motor Co., Ltd.	<ul style="list-style-type: none">• private placement of approximately RMB2.5 billion (2010)• private placement of approximately RMB4.9 billion (2012)• private placement of approximately RMB3.0 billion (2010)• corporate bond offering of approximately RMB1.0 billion (2010)
SZZT Electronics Co., Ltd.	<ul style="list-style-type: none">• IPO with offering amount of approximately RMB248.0 million (2007)• private placement of approximately RMB524.0 million (2013)• corporate bond offering of approximately RMB400.0 million (2015)• private placement of approximately RMB1,512.0 million (2016)

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Client	Project List
Guangdong Dongfang Precision Science and Technology Co., Ltd.	<ul style="list-style-type: none">• IPO with offering amount of approximately RMB527.0 million (2011)• outbound M&A deal with a transaction value of approximately EUR40.8 million (2014)• private placement of approximately RMB500.0 million (2016)
Xiangxue Pharmaceutical Co., Ltd.	<ul style="list-style-type: none">• IPO with offering amount of approximately RMB1.1 billion (2010)• corporate bond offering of approximately RMB540.0 million (2012)• rights issue of approximately RMB1.6 billion (2015)
China Gezhouba Group Company Limited	<ul style="list-style-type: none">• convertible bonds with detachable warrants offering of approximately RMB1.4 billion (2008)• rights issue of approximately RMB2.0 billion (2009)• private placement of approximately RMB4.0 billion (2014)• corporate bond offering of approximately RMB10.0 billion (2016)• renewable corporate bond offering of approximately RMB10.0 billion (2016)
Beijing Wangfujing Group Co., Ltd.	<ul style="list-style-type: none">• convertible bond offering of approximately RMB821.0 million (2009)• introduction of strategic investment (2010)• private placement of approximately RMB1.9 billion (2011)• corporate bond offering of approximately RMB2.2 billion (2012)• private placement of approximately RMB3.0 billion (2016)

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<u>Client</u>	<u>Project List</u>
Shanghai Tunnel Engineering Co., Ltd.	<ul style="list-style-type: none">• rights issue of approximately RMB1.2 billion (2008)• corporate bond offering of approximately RMB1.4 billion (2009)• major asset acquisition with a transaction value of approximately RMB6.4 billion (2012)• convertible bond offering of approximately RMB2.6 billion (2013)
China International Travel Service Corporation Limited	<ul style="list-style-type: none">• IPO with offering amount of approximately RMB2.6 billion (2009)• private placement of approximately RMB2.6 billion (2013)

Wealth Management

Overview

Our wealth management business primarily consists of:

- **Brokerage and wealth management:** we provide individual and corporate clients with brokerage of stocks, bonds, funds, derivatives and other tradable securities, and offer investment advisory services customized for wealth management clients to meet their risk and return preferences. We distribute financial products developed in house and by third parties;
- **Margin financing and securities lending:** we offer margin financing and securities lending services to our clients; and
- **Repurchase business:** we enter into collateralized stock repurchase and contractual repurchase transactions with our clients.

We have strong ability in acquiring wealth management clients. In addition to our 225 securities branches covering 30 provinces, autonomous regions and direct-administered municipalities across the country, we have established mutually beneficial cooperation relationships with major commercial banks in the PRC. By providing stock and fund investment advisory services to the large number of banking clients of these commercial banks, we can develop them into our wealth management clients. We have strong capability in distributing third-party financial products. According to Wind Info, as of June 30, 2016, the total number of mutual fund products we distributed as agent amounted to 2,341, ranking No. 1 in the industry. With respect to client services, we have a group of professional and highly capable financial planners who provide one-on-one customized services to our mid-to-high-end clients. We have established a full product line covering cash management, fixed income, equity investment, futures and OTC derivatives. In addition, we also provide

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mid-to-high-end clients with capital-based intermediary financing services, among which our margin financing and securities lending, collateralized stock repurchase and contractual repurchase businesses are competitive in the industry.

We actively engage in business innovations. In June 2015, we became the first securities firm that was approved by the PBOC to conduct sales of precious metals. As of June 30, 2016, together with all listed PRC securities firms, we are the only qualified securities firm for this business. Currently our precious metal business has developed into a full-service business covering trading, leasing, price inquiry and other services. As of December 31, 2015, the sales volume from our precious metals reached approximately RMB25.0 million, showing great potential. In addition, in 2015, we established the “Treasure Bowl (聚寶盆)” platform connecting projects and funds, through which we have completed a total of 18 non-standard equity and debt financing transaction raising an aggregate amount of RMB10.6 billion during the same year.

Our wealth management business has received wide recognition in the industry during the Track Record Period and received many awards, including:

- “Best Securities Brokerage Firm” in 2015 in the “Best Wealth Management Institution” competition held by *Securities Times*;
- “Best Securities Brokerage Firm,” “Best Margin Financing and Securities Lending Securities Firm” and “Best Investment Advisory Service Brand (Zhi Duo Xing 智多星)” in 2014 in the “Best Wealth Management Institution” competition held by *Securities Times*; and
- “Securities Firm with the Greatest Growth Potential” in 2013 in the “Best Wealth Management Institution” competition held by *Securities Times*.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, our revenue from wealth management segment amounted to RMB3,964.1 million, RMB6,067.2 million, RMB13,786.1 million, RMB7,671.7 million and RMB3,727.9 million, accounting for 54.1%, 53.0%, 56.2%, 65.2% and 43.2% of our total revenue, respectively.

Brokerage and Wealth Management

Overview

We provide individual and corporate clients with brokerage of stocks, bonds, funds, derivatives and other tradable securities. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, the average stock and fund commission rate of our securities brokerage business was 0.76‰, 0.63‰, 0.49‰, 0.49‰ and 0.49‰ respectively. However, we managed to reduce the operating expenses of our securities brokerage business due to our streamlined branch network and online platforms. Meanwhile, we will continue to provide and upgrade our differentiated value-added services with varying commission rates, in order to mitigate the adverse impact on our operations from the decreasing average commission rate.

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The following table sets forth the trading volume of our brokerage accounts by asset type for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2013		2014		2015		2015		2016	
	Trading turnover	Market share	Trading turnover	Market share	Trading turnover	Market share	Trading turnover	Market share	Trading turnover	Market share
	(RMB in billions, except percentages)									
Stocks	3,098.8	3.3%	4,930.2	3.3%	15,792.5	3.1%	8,737.0	3.1%	3,823.7	3.0%
Funds	196.3	8.0%	406.2	10.3%	1,154.3	7.4%	841.5	8.6%	69.0	2.5%
Bonds	6,177.5	4.9%	10,081.3	5.7%	14,052.6	5.0%	5,828.4	4.4%	8,870.9	4.4%
Total⁽¹⁾	9,472.5	4.3%	15,417.7	4.7%	30,999.4	3.9%	15,406.9	3.7%	12,763.6	3.9%

Note:

- (1) The trading volume of our brokerage accounts included the total trading volume of individual, corporate and institutional clients.

Source: Shanghai Stock Exchange, Shenzhen Stock Exchange

We were among the first group of securities companies in China to obtain the qualification for pilot Shanghai-Hong Kong Stock Connect business in October 2014 and we officially launched our Shanghai-Hong Kong Stock Connect business in November 2014. As of June 30, 2016, we had approximately 35,800 clients, with an accumulated trading volume of RMB22.2 billion and a market share of 2.6%. We believe that, as the connection between Shanghai and Hong Kong further deepens, along with the prospective launch of the Shenzhen-Hong Kong Stock Connect business, the southbound trading business has strong growth potential and will promote the healthy development of multi-level capital markets.

Clients

We have a large and loyal brokerage client base. As of June 30, 2016, we had approximately 5,300,000 wealth management clients in the PRC, including individual and corporate clients. During the Track Record Period, the number of our wealth management clients increased steadily, from about 3,841,100 as of December 31, 2013 to 4,718,700 as of December 31, 2015, representing a CAGR of 10.8%.

As of June 30, 2016, approximately 61.0%, or 3.2 million, of our wealth management clients, were active clients, and approximately 33.4% of our clients had maintained accounts with us for over ten years. We offer a broad range of products and services to meet our clients' diversified financial needs. We categorize our brokerage clients into regular clients (with a account balance value of RMB500,000 or less), mid-to-high net worth clients (with a account balance value equivalent to or above RMB500,000 but less than RMB5 million) and private banking clients (with a account balance value equivalent to or above RMB5 million), and we provide differentiated products and services to suit their needs.

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As of December 31, 2013, 2014 and 2015 and June 30, 2015 and 2016, we had approximately 73,100, 123,200, 175,700, 207,100 and 151,600 mid-to-high-end clients (including mid-to-high net worth clients and private banking clients), respectively. The following table sets forth the number of each type of clients for the dates indicated:

	As of December 31,			As of June 30,	
	2013	2014	2015	2015	2016
			(in thousands)		
Regular clients	3,768.0	3,863.0	4,543.0	4,308.2	5,125.2
Mid-to-high net worth clients	69.1	115.5	163.3	192.1	141.2
Private banking clients . . .	4.0	7.7	12.4	15.0	10.4
Total	<u>3,841.1</u>	<u>3,986.2</u>	<u>4,718.7</u>	<u>4,515.4</u>	<u>5,276.8</u>

Branch Network and Internet Trading System

We believe an extensive and optimized network of our securities branches still constitutes a significant competitive advantage in brokerage business and we are dedicated to developing and maintaining our clients through such network. During the Track Record Period, we established a total of 85 new securities branches. As of June 30, 2016, we had 225 securities branches in 110 cities of 30 provinces, autonomous regions and directly-administered municipalities throughout the country. As of June 30, 2016, the number of our branches located in the Five Provinces and Two Municipalities (Beijing, Shanghai, Guangdong, Fujian, Zhejiang, Jiangsu and Shandong) accounted for approximately 55.6% of our total branches, among which 36 were located in Beijing, ranking No. 1 in the industry. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, our brokerage income from the Five Provinces and Two Municipalities accounted for approximately 58.5%, 58.4%, 59.9%, 59.1% and 62.0% of our total revenue from brokerage business, respectively.

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The following diagram shows our securities branch network and the number of branches in each province, autonomous region and directly-administered municipality as of June 30, 2016.



Note: the dark grey area represents the Five Provinces and Two Municipalities

In March 2013, the CSRC relaxed the requirements for establishing new securities branches in terms of scale, region and on-site trading facilities, and allowed brokerage accounts to be opened remotely. We began to establish Type-C brokerage branches in China in 2013. Compared with conventional securities branches, Type-C branches require less space and less staff, and are equipped with more flexible facilities, thereby requiring lower capital expenditures and incurring less operating expenses. As of June 30, 2016, we had 106 traditional (Type-A and Type-B) branches in the PRC which accounted for 47.1% of our total branches and 119 Type-C branches which accounted for 52.9% of our total branches. We plan to establish more Type-C branches to expand the geographic coverage of our brokerage network, and to better serve our clients for off-site trading and wealth management services.

Our branches have gradually developed into an integrated service network with multiple business lines from the traditional brokerage-based business, providing great potential for our cross-selling activities with other business lines:

- To fulfill the SMEs' comprehensive financial service needs, we actively develop our corporate finance business. Through branches, we have established solid relationships with local governments and enterprises. Relying on our full-service

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platform and the support from our investment banking business, we provide corporate clients (mainly SMEs) with integrated financial services covering NEEQ quotation recommendation, industry research, financing, cash management, M&A and restructuring and other services;

- To meet the market demand for equity investments, we provide investment institutions, enterprises, mid-to-high-end clients and other equity investment clients with services including deal referral, consultation and connection with potential investors;
- The branches assist the head office to develop the headquarter-to-headquarter strategic partnership with clients through its strong local relationship with the corresponding branches of banks, insurance companies and other financial groups; and
- The branches connect our research team with investors such as mutual funds and private investment funds, to expand our institutional client services.

We have been actively exploring e-trading model in recent years. We have built an online trading platform and been continuously upgrading it to gradually move our standardized businesses from offline to online. We have established four major client traffic entrances, namely PC transaction terminal, webpage transaction platform, mobile APP and WeChat official account, and have rapidly acquired mass market clients via Internet marketing. For the six months ended June 30, 2016, approximately 551,600 clients opened accounts online, accounting for approximately 97.6% of the newly opened accounts during the same period, increasing from approximately 13.6% in 2013. During the same period, the online trading volume accounted for 95.8% of the total trading volume. We believe our online trading platform, together with existing securities branches, have enhanced client experience. Through this platform, we will further implement more targeted and effective marketing strategies and provide more diversified products to clients.

Wealth Management Services

In 2011, we started to provide investment advisory services to our brokerage clients, pursuant to the Interim Provisions on the Securities Investment Advisor Business promulgated by the CSRC. As of June 30, 2016, we had over 4,700 financial planners, of which 1,361 were investment advisors, ranking No. 6 in the industry. Over 81.0% of the investment advisors had a bachelor degree or above. Our financial planners have strong industry expertise and in-depth product knowledge, and effectively collaborate with the investment banking and fund management departments to explore business opportunities.

As of June 30, 2016, we had a total of 63 investment advisory service products, comprehensively covering various kinds of investment and strategy consultation needs of our clients. We provide market updates, investment strategies and company and industry information and analysis through SMS, MMS and other messaging services. We advise our clients on investment portfolios to meet their investment and risk appetites. Our investment advisors maintain regular contact with clients to follow up on their asset allocation as well as to provide them with customized investment advice.

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We distribute a variety of financial products developed in-house and by third-party financial institutions through the online and offline networks, including fund products, asset management schemes, trust products, bank wealth management products and insurance products. We have developed an extensive in-house product line, with product type ranging from cash management, fixed income to floating income, with investment threshold ranging from RMB50,000 to RMB10 million, with product maturity ranging from one day to one year, to meet our clients' investment needs. We have strong agency sale capability. According to Wind Info, as of June 30, 2016, the number of mutual fund products we distributed reached 2,341, ranking No. 1 in the industry.

The following table sets forth the type and amount of all the financial products we distributed for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
	(RMB in millions)				
Mutual funds (including segregated accounts) . . .	45,713.4	64,212.0	111,865.0	53,436.0	45,776.4
Trust schemes	669.3	800.8	503.9	448.7	146.2
SAM schemes of mutual fund subsidiaries	448.7	30,934.6	67,629.4	40,904.1	14,380.2
Private equity fund products	–	–	2,706.3	2,555.3	25.4
Insurance products	–	0.3	23.9	–	–
Bank wealth management products	943.2	63.4	2,371.4	512.3	4,832.5
Total	47,774.6	96,011.1	185,099.9	97,856.4	65,160.7

Futures Brokerage

We engage in commodity futures brokerage and financial futures brokerage businesses mainly through our wholly-owned subsidiary, China Securities Futures, which is a general clearing member of Shanghai Futures Exchange, Dalian Commodity Exchange, Zhengzhou Commodity Exchange and China Financial Futures Exchange. As of June 30, 2016, we provide brokerage services for futures products covering agricultural products, gold and silver, chemical products, metals and other commodity futures, and SSE 50 Index, CSI 500 Index, CSI 300 Index, five-year and ten-year treasury bond and other financial futures. According to the CSRC, in 2016, China Securities Futures' rating was upgraded from "Class A Grade A" to "Class A Grade AA," the highest rating ever granted by the CSRC, and we are one of the only ten futures companies that received such rating.

As of June 30, 2016, we had a total of approximately 75,300 futures brokerage clients, among which approximately 18,260 were active clients. As of the same date, we had 20 futures brokerage branches and 207 securities branches approved by the CSRC to engage in futures IB business, through which we can facilitate client referral to China Securities Futures and achieve cross-sales. As of June 30, 2016, the total equity of our IB business clients amounted to RMB2,120.9 million, with a revenue contribution of RMB39.1 million for the same period.

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The following table sets forth the relevant data of our futures brokerage business for the periods and 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
Clients					
Number (in thousands)	42.6	51.0	66.8	58.1	75.3
Account balance of the clients (RMB in millions)	1,120.6	1,865.1	3,133.7	4,227.0	3,151.4
Daily average equity of clients (RMB in millions)	1,724.5	2,138.5	4,493.8	3,859.2	4,855.0
Trading turnover (in million lots)	32.4	52.2	82.4	41.5	59.3
Trading volume (RMB in billions)	5,207.6	7,612.0	12,889.1	8,157.5	2,503.1
Average futures brokerage commission rate	0.023%	0.013%	0.012%	0.010%	0.028%

China Securities Futures was widely recognized for its outstanding track record and received numerous awards, including:

- “Outstanding Member — Gold Prize” and “Treasury Futures Market Cultivation Award” in 2014 by China Financial Futures Exchange, “Outstanding Member — Gold Prize” and “Client Management Prize” in 2013 by China Financial Futures Exchange;
- “Member with the Greatest Growth” for three consecutive years from 2013 to 2015 by Dalian Commodity Exchange, “Best Industry Exploration Award” in 2015 by Dalian Commodity Exchange;
- “Great Progress in Trading Award” in 2014 by Shanghai Futures Exchange and “Top 30 Excellent Members” in 2015 by Shanghai Futures Exchange; and
- “Outstanding Member in Market Growth Award” in 2015 by Zhengzhou Commodity Exchange.

Marketing and Customer Services

We aim at “matching products with clients” and providing premium customer services to enhance client satisfaction. We conduct thorough research on our clients’ needs, and have established a multi-dimensional client segmentation system based on factors such as risk appetite, investment preference, activity, trading methods, investment experience and asset profile, in order to intelligently identify client demands and to provide customized services.

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We continue to develop mass market clients and provide them with quality services. We focus on strengthening cooperation with financial institutions such as commercial banks and insurance companies for client acquisition, and provide targeted services through online platform to a large client base by using big data, cloud computation and intelligent investment advisory technology.

We focus on developing mid-to-high-end clients. We have a team of top financial planners with professional knowledge and profound understanding of clients' needs, dedicated to provide professional advice on a comprehensive product offering.

In terms of corporate client development and maintenance, we have adopted the method of “focusing on NEEQ business and building a comprehensive service chain covering investment, financing and cash management for SMEs.” We established a corporate client service chain consisting of “recommend — research — invest — finance — manage — exit,” through which we provide SMEs with services in NEEQ quotation recommendation, industry research, investment advisory, stock offerings, cash and market value management as well as share sell-down. For large enterprises and listed companies, we have a well-developed “investment banking + brokerage” cross-department cooperation model, which enables our securities branches to effectively identify clients' capital market needs and refer potential business opportunities to our investment banking team through providing cash management and shareholder services.

We provide full services to our clients through branch network and internet platforms. Our “Zhi Duo Xing Investment Advisory Services (智多星投顧服務)” provides multi-layer wealth management services to our clients, while the unique “108 Mini Secretary (108小秘書)” helps clients to monitor their stock position 24/7. Our “You Wen (優問)” service provided through our WeChat public account enables our financial planners to respond to users' inquiries online in real time. Our online platform helps us to develop users into clients through enhanced user experience.

We are committed to moving our businesses from offline to online to further enhance the efficiency of our marketing efforts and services, including:

- Online marketing. We conduct multi-channel online marketing. For example, we plan to launch “employee innovator platform” in mobile APP, where our employees can set up virtual stores to generate traffic and develop clients;
- Online account opening. We attract potential clients through online channels and provide online account opening services;
- Online operation. We provide online business outlets to service our clients;
- Online sales of financial products. We offer various financial products online through PC and mobile application to provide one-stop financial product supermarket for clients; and
- Online business advisory. We provide various types of advisory services through our “You Wen (優問)” service integrated in WeChat public account.

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Our sales and marketing team consists primarily of our financial planners and securities brokers. As of June 30, 2016, we had over 4,700 financial planners and over 2,600 securities brokers. Securities brokers are not our employees, but they entered into agency contracts with us. Securities brokers are required to register in China Securities Industry Practice Registration Management System and obtain the broker practice certificate.

Margin Financing and Securities Lending

We obtained trial qualification to engage in margin financing and securities lending business in November 2010. Margin financing and securities lending refers to a transaction in which the investor provides a qualified securities firm with collateral, to borrow funds and purchase securities (margin financing transaction) or borrow securities and sell them (securities lending transaction). Through margin financing and securities lending business, we help our clients to utilize leverage, capture market opportunities and realize enhanced investment returns. Margin financing and securities lending business is a capital-intensive business and involves exposure to relevant credit risks. Please see “Risk Factors — Risks Relating to Our Business and Industry — We may suffer significant losses from our exposure to credit risks.”

Benefiting from our quality client base and extensive branch network, our margin financing and securities lending business has grown significantly. As of December 31, 2013, 2014, 2015 and June 30, 2016, the balance of our domestic margin financing and securities lending amounted to RMB14.9 billion, RMB32.0 billion, RMB35.4 billion, RMB42.4 billion and RMB26.8 billion respectively, representing a market share of 4.3%, 3.1%, 3.0%, 2.1% and 3.1%, respectively. As of June 30, 2016, our balance of domestic margin financing and securities lending ranked No. 10 in the industry. Our revenue from margin financing and securities lending business increased from RMB1.3 billion in 2013 to RMB4.7 billion in 2015 with a CAGR of 90.1%.

For potential clients of our margin financing and securities lending business, we assess their qualifications for opening margin financing and securities lending accounts based on multiple factors, including the client’s income, asset, investment experience and risk appetite. To be qualified to open a new account, a potential client is required to have a minimum average daily value of securities assets of no less than RMB500,000 for the last 20 trading days and have at least six months of securities trading experience. As of June 30, 2016, we had approximately 123,000 clients, among which approximately 59,200 were active clients, and there were approximately 98,800 qualified potential clients. We believe that our margin financing and securities lending business has significant growth potential, and we seek to expand our client base by offering value-added wealth management services.

As of June 30, 2016, 874 stocks and 22 ETFs were qualified for margin financing and securities lending in China. Our margin financing service selectively covers 859 qualified stocks and 22 qualified ETFs, and our securities lending service selectively covers 397 qualified stocks and 7 qualified ETFs. For the years ended December 31, 2013, 2014 and 2015 and for the six months ended June 30, 2015 and 2016, the average annualized interest rate of our margin financing business was 8.5%, 8.5%, 8.5%, 8.6% and 8.3%, and the average annualized fee rate of our securities lending business was 7.5%, 7.5%, 7.2%, 7.2% and 8.6%, respectively.

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

	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 accounts (in thousands)	40.7	96.1	120.5	116.1
Balance of margin financing and securities lending (RMB in billions)	14.9	32.0	35.4	42.4	26.8
Overall collateral ratio ⁽¹⁾ at the end of the period	236%	290%	343%	355%	337%
Trading volume of margin financing and securities lending (RMB in billions)	531.2	1,397.0	4,073.0	2,288.4	930.6
Interest income (RMB in millions)	860.5	1,900.3	3,223.2	1,719.8	1,160.5

Note:

- (1) Overall collateral ratio is calculated by dividing the total balance of a client's margin account, which includes cash and securities held in the account, by the client's margin balance, which is the sum of margin loans extended, the securities lent and any accrued interest and fees.

We require our margin financing and securities lending clients to provide collateral in the form of securities listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange. We use different discount rates to determine the value of these securities. The following table sets forth the maximum collateral discount rates applicable for various types of securities in our margin financing and securities lending business as of June 30, 2016:

Type of Securities	Discount Rate
Treasury bonds	95%
ETF	90%
Non-ETF listed securities investment funds and non-treasury bonds	80%
Constituent stocks of SSE 180 Index and SZSE 100 Index	70%
Non-ST stocks (excluding constituent stocks of SSE 180 Index and SZSE 100 Index)	65%
ST stocks	0%

As of December 31, 2013, 2014 and 2015 and June 30, 2015 and 2016, the fair value of the collateral of our margin financing and securities lending clients was RMB35.6 billion, RMB93.0 billion, RMB123.3 billion, RMB152.7 billion and RMB91.9 billion, respectively. As of June 30, 2016, the minimum overall collateral ratio we required for margin financing and securities lending business was 130%.

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We were among the first group of securities firms licensed to conduct margin refinancing and securities refinancing in 2012 and carried out the first refinancing transaction in August 2012. The platform of margin refinancing and securities refinancing is the only platform for domestic securities lending business, which enables us to lend securities owned by third parties and borrow funds and securities to provide our clients with margin financing and securities lending services. For the years ended December 31, 2013, 2014 and 2015 and for the six months ended June 30, 2015 and 2016, the market capitalization of our accumulated securities refinancing was RMB569.1 million, RMB2,197.2 million, RMB7,022.1 million, RMB6,841.7 million and RMB16.6 million, respectively, the amount of accumulated margin refinancing was RMB29.2 million, RMB766.8 million, RMB3,316.7 million, RMB3,155.6 million and RMB206.1 million, respectively. As of June 30, 2016, we had a credit facility of RMB7.5 billion for our refinancing business and the total liabilities under our refinancing business amounted to RMB1.0 billion.

We anticipate that the PRC securities regulators will increase the types and number of securities eligible for margin financing and securities lending and allow more types of investors to engage in margin financing and securities lending activities in the near future. We believe these developments will further drive the growth of our margin financing and securities lending business.

Repurchase Business

After the Shanghai Stock Exchange and the Shenzhen Stock Exchange launched collateralized stock repurchase transaction business in June 2013, we obtained the qualification from these two exchanges in early July 2013 to conduct the business. Collateralized stock repurchase transaction business refers to a transaction in which qualified borrowers pledge their shares or other securities as collateral to obtain financing from a qualified lender and agree to repay the funds on a future date to release the pledge.

We conduct collateralized stock repurchase business through our own funds and asset management schemes, and we achieved rapid growth in the past three years. As of December 31, 2013, 2014 and 2015, the balance of our collateralized stock repurchase business amounted to RMB1.9 billion, RMB8.6 billion and RMB21.4 billion, respectively. As of June 30, 2016, the balance of our collateralized stock repurchase business was RMB20.9 billion with a market share of 2.3%. For the years ended December 31, 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, the average annualized interest rate of our collateralized stock repurchase business was 8.4%, 8.0%, 7.3%, 7.3% and 6.6%, respectively. We recorded zero default rate since the inception of our collateralized stock repurchase business, and we continuously maintain sufficient collateral as guarantee.

In 2015, we launched “Xin e Rong (信e融)”, which is our online collateralized stock repurchase business that provides convenient and efficient standardized collateralized financing services to our small-to-medium clients. As of June 30, 2016, approximately 4,500 clients have engaged in our online collateralized stock repurchase business and we provided margin loans of an aggregate amount of RMB5.3 billion. In terms of loan repayment under our online collateralized stock business, there has been no default by our clients as of the Latest Practicable Date and the risks are relatively low.

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The Shanghai Stock Exchange and the Shenzhen Stock Exchange launched the contractual repurchase business in October 2011 and January 2013, respectively. We obtained qualifications to conduct contractual repurchase business from the Shanghai Stock Exchange and the Shenzhen Stock Exchange in September 2012 and February 2013, respectively. Contractual repurchase transaction refers to the transaction in which qualified clients sell securities to their designated securities firms at an agreed-upon selling price, and agree to repurchase the underlying securities at the agreed-upon repurchase price on a specific date in the future. The underlying securities must be tradable securities and the transactions must be carried out through direct ownership transfer.

As of December 31, 2013, 2014 and 2015, the balance of our contractual repurchase agreements amounted to RMB0.5 billion, RMB0.2 billion and RMB0.4 billion. As of June 30, 2016, the balance of contractual repurchase business was RMB0.4 billion. For the years ended December 31, 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, the average annualized interest rate of our contractual repurchase business was 8.7%, 9.0%, 8.6%, 8.7% and 8.0%, respectively.

We require the clients of our collateralized stock repurchase and contractual repurchase businesses to provide sufficient collateral and we conduct real-time monitoring of the collateral ratio. We take into consideration our clients' credit and asset positions when entering into transactions with them and we continuously monitor clients' credit condition. For the years ended December 31, 2013, 2014 and 2015 and for the six months ended June 30, 2016, the average collateral ratio for our collateralized stock repurchase business was 301.7%, 313.3%, 396.9% and 294.5%, respectively, while the average collateral ratio of our contractual repurchase business was 208.5%, 265.3%, 292.8% and 243.6%, respectively. During the Track Record Period, there was no mandatory liquidation resulting from the failure to maintain the minimum collateral ratio.

Trading and Institutional Client Services

Overview

We have a large and strong institutional client base, including mutual funds and private equity funds, QFII, RQFII, commercial banks, insurance companies, pension funds, sovereign funds, hedge funds, finance companies, investment companies, listed companies and asset management companies. We witnessed a rapid growth in the number of our institutional clients, from approximately 4,400 as of December 31, 2013 to approximately 5,200 as of December 31, 2014, and further to 7,900 as of December 31, 2015, with a CAGR of 34.0%. As of June 30, 2016, we had over 9,000 institutional clients. Our trading and institutional client services business includes the following activities:

- Equity sales and trading: we sell equity securities underwritten by us to institutional clients, and engage in market-making and proprietary trading of equity and equity-linked financial products and derivatives;
- Fixed income sales and trading: we sell bonds underwritten by us to institutional clients, and engage in market-making and proprietary trading of fixed-income financial products and derivatives (also including OTC sales and trading);

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- Investment research: we provide investment research services covering various categories, primarily including macro economy and strategy, industries and listed companies, fixed income and financial engineering, to our institutional clients;
- Prime brokerage: we offer market-leading full-chain prime brokerage services to institutional investors; and
- QFII business: we provide brokerage agency, overseas market research and other cross-border services to QFII and RQFII clients.

In addition, we provide agency sale services of a variety of financial products to our financial institution clients through online and offline brokerage network. Our clients consist of mutual funds, private equity funds, securities firms, trust companies, futures companies, commercial banks, insurance companies, private equity fund management companies and other financial institutions. For the years ended December 31, 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, the net income from the agency sales of financial products amounted to RMB31.6 million, RMB70.6 million, RMB367.7 million, RMB141.4 million and RMB154.8 million, respectively. According to the SAC, we ranked No. 4 in the industry in terms of net income from the agency sales of financial products in 2015.

Proprietary Trading

We conduct proprietary trading of stocks, funds, bonds, derivatives and other financial instruments. The table below sets forth the investment positions by asset type for our proprietary trading activities as of the dates indicated:

	As of December 31,			As of June 30,
	2013	2014	2015	2016
	(RMB in millions)			
Stocks ⁽¹⁾	802.9	2,730.4	2,374.0	1,069.8
Funds	991.6	1,108.8	4,433.3	3,903.5
Bonds	19,167.5	18,336.9	19,948.2	25,914.7
Derivative financial instruments	113.6	150.7	142.0	108.6
Others ⁽²⁾	764.8	3,868.1	10,703.3	13,221.6
– Investment in designated accounts at the CSFCL ..	–	–	4,040.3	3,725.0
Total	21,840.4	26,194.9	37,600.8	44,218.2

Notes:

- (1) As of June 30, 2016, mainly including stocks held in relation to our directional trading, market-neutral trading, NEEQ market making and hedging.
- (2) Others mainly represent investments in wealth management products, trust schemes, asset management schemes and investment in the designated account of the CSFCL, etc.

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For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the average rate of return on our proprietary trading activities was 4.8%, 9.6%, 12.0% and 3.6%, respectively. The growth of the average rate of return for our proprietary trading business from 4.8% in 2013 to 12.0% in 2015, despite the market fluctuation since June 2015, is primarily attributable to (i) favorable A share market conditions till mid-June of 2015 and a generally favorable bond market, (ii) a substantial increase in our “others” investments, which include wealth management products, trust schemes and asset management schemes, some of which generated higher-than-average investment returns, (iii) our strategic emphasis on value investment in targeted sectors and stocks based on comprehensive research, and (iv) our ability to capture systematic investment opportunities during market fluctuations in 2015 to generate trading gains. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, in terms of the average VaR as of the end of each month (calculated on the basis of confidence interval of 95% and holding period of ten trading days), (i) the average VaR of the equity securities and derivatives in our proprietary trading business (a) was RMB34.9 million, RMB24.2 million, RMB426.3 million and RMB766.1 million, respectively, if the investment we made to the designated account of the CSFCL was included, (b) was RMB34.9 million, RMB24.2 million, RMB128.0 million, and RMB107.1 million, respectively, if such investment was excluded; (ii) the average VaR of fixed-income securities and derivatives in our proprietary trading business was RMB32.7 million, RMB64.0 million, RMB100.7 million, and RMB78.4 million, respectively. In terms of our proprietary trading activities, we have established and strictly enforce classified risk limits and conduct real-time monitoring of such risk limit through proprietary trading monitor system. Please see “— Risk Management — Risk Management and Internal Control Measures for Major Business Lines — Proprietary Trading Business.”

There is an array of products in the “others” category under our proprietary investment and the investment size of each individual product varies greatly. We set forth below the top five investment products in terms of the investment balance as of June 30, 2016. As of June 30, 2016, the balance, after deducting our contribution to the designated account of the CSFCL in the amount of RMB3,725.0 million, of the “others” category in our proprietary investment amounted to approximately RMB9,496.6 million, of which 69.7%, or approximately RMB6,619.3 million, were the five products as set forth below. We have taken a series of measures to manage the risks related to investments under this category, please see “— Risk Management — Risk Management and Internal Control Measures for Major Business Lines — Proprietary Trading Business.” For more details of potential risks related to such investments, please see “Risk Factors — Risks Relating to Our Business and Industry — We are exposed to risks relating to our investments in the wealth management products, trust schemes and asset management schemes provided by various financial institutions.”

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As of and for the six months ended June 30, 2016

Name of the product ⁽¹⁾	Product type	Balance (RMB in millions)	Term of assets (year)	Average return (%)	Investment purposes and strategies	Level of risk	Counterparties
Debangxintou No. 1 TAM Scheme	Securities firm wealth management product	3,022.7	1.43	9.0% ⁽²⁾	To generate interest rate spreads through investing in wealth management products, urban investment bonds, funds investing in stocks and bonds and trust products	Focus on fixed income products with relatively stable spread income, with relatively low risk	CITIC Trust Co., Ltd., China Fortune International Trust Co., Ltd., etc.
Rongtongrongbao No. 3	Fund designated account	1,336.2	N/A	3.8% ⁽³⁾	To generate spread income by investing in certain high-yield products, and conduct swing trading based on market conditions to obtain capital gains	Focus on relatively high-yield bond assets, with relatively stable spread income and low risk	RongTong Fund Management Co., Ltd.
CSC Fixed Income No. 13 Asset Management Scheme	Specific asset management scheme	945.4	N/A	0.5% ⁽⁴⁾	To generate realized gains from arbitrage portfolio of spot treasury bond and treasury bond futures, and arbitrage on the basis difference of spot treasury bond and treasury bond futures to obtain spreads gains	Mainly arbitrage investment in treasury bonds and corresponding derivatives with low credit risk	China Securities Funds Management Limited
CSC Jixiangshouyi	Securities firm wealth management products	817.0	N/A	11.9% ⁽⁵⁾	To use comprehensive bond investment strategies to invest in standard mid- and senior bonds offered in inter-bank market and on the exchanges to generate spread income and capital gains	A substantial majority of the investments are in bonds rated AA and above issued by SOEs with stable returns and controllable risks	All institutions permitted by inter-bank market and exchanges

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As of and for the six months ended June 30, 2016

Name of the product ⁽¹⁾	Product type	Balance (RMB in millions)	Term of assets (year)	Average return (%)	Investment purposes and strategies	Level of risk	Counterparties
CSC Yuexiangshouyi	Securities firms wealth management product	498.0	N/A	16.3% ⁽⁶⁾	To use comprehensive bond investment strategies to invest in standard mid- and senior bonds offered in inter-bank market and on the exchanges to generate spread income and capital gains	A substantial majority of the investments are in bonds rated AA and above issued by SOEs with stable returns and controllable risks	All institutions permitted by inter-bank market and exchanges

Notes:

- (1) Since 2014, as China's economy growth slowed down, the bond market has entered into a low-return era, with decreasing treasury yields, term spreads and credit spreads. At the same time, the PBOC relaxed monetary policies that resulted in capital surplus. In light of the macroeconomic environment, we increased our investments in wealth management products with relatively high return and low risks, to achieve increased spread income since 2015.
- (2) Debangxintou No. 1 TAM scheme was launched in 2014, and the average return amounted to 10.3% and 7.6% for the years of 2014 and 2015, respectively.
- (3) Rongtongrongbao No. 3 was launched in 2015, and the average return for the year of 2015 amounted to 11.7%.
- (4) CSC Fixed Income No. 13 Asset Management Scheme was launched in 2016.
- (5) The average return of CSC Jixiangshouyi amounted to -8.8% (loss), 41.4% and 56.7% for the years of 2013, 2014 and 2015 during the Track Record Period.
- (6) The average return of CSC Yuexiangshouyi amounted to -1.3% (loss), 42.8% and 32.1% for the years of 2013, 2014 and 2015 during the Track Record Period.

For the years ended December 31, 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, our revenue from trading and institutional client services segment amounted to RMB1,858.1 million, RMB2,760.2 million, RMB5,444.1 million, RMB2,658.2 million and RMB1,812.1 million respectively, accounting for 25.4%, 24.1%, 22.2%, 22.6% and 21.0% of our total revenue, respectively. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, the investment income and other comprehensive income from our securities proprietary trading activities was RMB962.7 million, RMB2,135.2 million, RMB3,748.8 million, RMB1,955.8 million and RMB769.7 million, respectively.

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Equity Sales and Trading

We provide trading, advisory and research services, and sell equity securities underwritten by us to our institutional clients. We also provide our clients with other value-added services, including data analysis and investment advisory services, based on our strong research capability, and extensive coverage and thorough understanding of the capital markets. For the years ended December 31, 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, the size of our equity sales amounted to RMB19.9 billion, RMB43.2 billion, RMB50.1 billion, RMB18.4 billion and RMB18.9 billion, respectively.

We also engage in proprietary trading and market-making activities of stocks, funds, ETFs, futures and financial derivatives including stock index futures, commodity futures, options and total return swaps. We have adopted diversified trading strategies, and our trading scope covers A share market, NEEQ market and commodities market. We adhere to the philosophy of value investment supported by prudent risk management to achieve investment returns.

In addition, we became qualified to conduct NEEQ market-making business in July 2014. For the years ended December 31, 2014 and 2015 and the six months ended June 30, 2016, the accumulated trading volume of our NEEQ market-making business was RMB591.6 million, RMB27,776.2 million and RMB10,533.1 million, respectively.

We provide our clients with customized options and swaps products linked to various types of assets to meet the hedging and investment demand of institutional clients. We started trading in the stock index futures market since its inception in China in 2010 to arbitrage and hedge the market risks associated with our equity portfolio and products issued by us. We provide liquidity for ETFs. For example, we are one of the liquidity providers for Yifangda CSI 300 ETF, an ETF launched by the Shanghai Stock Exchange in March 2013. In addition, we were licensed to provide liquidity to ETF options on the Shanghai Stock Exchange in April 2015. In 2015, we completed 372 OTC options transactions, accounting for 11.8% of the total number of transactions completed by all securities firms in the PRC during the same period as disclosed by the SAC. In 2015, our income from equity derivatives business amounted to RMB420.2 million, with a CAGR of 145.4% for the past three years.

Fixed Income Sales and Trading

We provide trading advisory and execution services and sell bonds underwritten by us to our institutional clients. We also participate in underwriting fixed-income products issued publicly by governments. In the FICC field, we provide professional investment advice to institutional clients to fulfill their requirements in respect of interest rate, duration, cash flow, leverage and other factors, and facilitate the matching of buyers with sellers. As of June 30, 2016, we had a professional fixed-income sales team of 40 persons, providing strong support to our bond sales. For the years ended December 31, 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, the size of our fixed income sales amounted to RMB117.4 billion, RMB194.1 billion, RMB514.5 billion, RMB156.3 billion and RMB329.4 billion, with a CAGR of 109.3% from 2013 to 2015.

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We also engage in fixed income proprietary trading of treasury bonds, financial bonds, medium-term notes, short-term commercial papers, enterprise bonds and corporate bonds. Our fixed income business has established a respected reputation in the fixed income market. We are one of the market-leading securities firms with full licenses and diversified trading strategies. We adhere to market neutral strategy in our fixed income trading to achieve long-term returns, while we have adopted a quantitative approach to manage our risk exposure. As of December 31, 2015, our debt investments as a percentage of our investment assets reached 65.4%, being the highest among Comparable H Share Listed Securities Firms. Meanwhile, we generated a net investment return of 10.0% over proprietary trading assets in 2015, ranking No. 3 among Comparable H Share Listed Securities Firms. In addition, we focus on evaluating the credit profile of bond issuers and the vast majority of our invested credit bonds were rated AA and above during the Track Record Period. As of June 30, 2016, there was no default on any bond we held for proprietary trading.

The table below sets out the breakdown of the balance of fixed income investments by type and rating as of the dates indicated:

	As of December 31,						As of June 30,	
	2013		2014		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB in millions, except percentages)							
Credit bonds (include enterprise bonds, corporate bonds and convertible bonds):								
AAA	5,151.0	26.3%	3,443.3	18.8%	3,588.7	23.0%	5,660.0	24.1%
AA & AA+	13,268.1	67.8%	9,621.6	52.6%	7,501.2	48.0%	13,469.0	57.4%
Below AA	341.9	1.7%	99.8	0.5%	88.0	0.6%	240.4	1.0%
Private placement bonds ⁽¹⁾	15.5	0.1%	50.0	0.3%	1,044.3	6.7%	44.7	0.2%
Subtotal	18,776.4	96.0%	13,214.6	72.3%	12,222.2	78.2%	19,414.0	82.7%
Treasury bonds, financial bonds and local government bonds	784.6	4.0%	5,071.9	27.7%	3,414.8	21.8%	4,066.3	17.3%
Total	19,561.1	100.0%	18,286.6	100.0%	15,637.0	100.0%	23,480.3	100.0%

Note:

- (1) Private placement bonds are separately listed because there's no mandatory rating requirement upon such bonds.

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The table below sets out the breakdown of the balance of fixed income investments by duration as of the dates indicated:

	As of December 31,						As of June 30,	
	2013		2014		2015		2016	
	RMB	%	RMB	%	RMB	%	RMB	%
	(RMB in millions, except percentages)							
Duration:								
Less than 1 year	2,574.0	13.2%	1,393.2	7.6%	4,030.7	25.8%	3,816.4	16.3%
1 to 5 years	16,582.2	84.8%	10,259.2	56.1%	10,167.2	65.0%	16,613.8	70.8%
Over 5 years	404.9	2.1%	6,634.2	36.3%	1,439.0	9.2%	3,050.1	13.0%
Total	19,561.1	100%	18,286.6	100%	15,637.0	100%	23,480.3	100%

We also engage in market-making business in the PRC interbank bond market. In June 2014, we became a qualified trial market maker in the PRC interbank bond market. Our market-making business covers securities products with duration of less than 10 years, including treasury bonds, financial bonds, short-term commercial papers and medium-term notes, as well as treasury bonds and financial bonds with duration of 20 or 30 years. According to China Foreign Exchange Trading Center, for June 2016, we ranked No. 4 in terms of the volume of fixed income market making among all the market-making securities firms. We also diversify our market-making products to achieve effective risk management and enrich our market-making strategies.

We were one of the first seven securities firms licensed to engage in the trial securities firm OTC business in December 2012. In August 2014, we obtained approval from China Securities Inter-institution Quotation System Co., Ltd. to conduct structured notes business. As of June 30, 2016, we have issued a total of 93 structured notes through the OTC market and quotation system with an outstanding balance of RMB1.9 billion.

Since 2013, we have been actively participating in asset securitization business, including corporate asset-backed securitization and credit asset securitization businesses. We are dedicated to innovation and have developed market-leading product design capabilities for asset securitization. For example, the asset-backed securities of Guangdong Highsun Group Co., Ltd. with an offering amount of RMB1.5 billion in 2014 was the first one of its kind to adopt double SPV offering structure and also the first asset securitization project with trust beneficiary right as its underlying assets in the PRC. According to Wind Info, for the years ended December 31, 2013, 2014 and 2015 and June 30, 2016, the total offering size of our asset securitization products was RMB1.1 billion, RMB37.1 billion, RMB74.0 billion and RMB17.0 billion, respectively. The non-performing loan securitization market resumed in 2016 and, according to Wind Info, up to July 31, 2016, the total offering size of the market amounted to RMB4.1 billion, of which we had a market share of 29.0%, ranking No. 2 in the industry. In September 2016, we issued the first credit risk mitigation warrant, or CRMW, being the first to issue CRMW in the industry.

We manage the interest rate risks of our proprietary trading and market making activities and our investment portfolio through interest rate derivatives such as treasury futures and interest rate swaps. We are an industry leader in terms of trading volume of our treasury futures and received the award of “Outstanding Team for Trading Treasury Futures” by China Financial Futures Exchange for two consecutive years in 2014 and 2015.

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Our FICC business also includes foreign currency and gold businesses. In June 2015, we obtained foreign currency lending membership of China Foreign Exchange Trading System to engage in foreign currency lending business in US dollar, Euro and Hong Kong dollar domestically. We also carry out the gold trading and leasing business through Shanghai Gold Exchange, which has further facilitated the development of our FICC business, diversified our business model and increased our revenue.

Investment Research

Specialized research capability is the foundation for institutional client services. Our research is well-known and highly influential in the industry. Guided by the philosophy of “spearheading professional investment, creating value by research” and adhering to a rigorous approach, our research team focuses on providing insightful and thorough research on various industry developments. Our research team is deeply trusted by our institutional clients. As of June 30, 2016, our research team consisted of 106 members, among which over 12.3% held a doctor’s degree and above and over 87.7% held a master’s degree and above. As of the same date, our research covers 26 industries and 2,073 A share listed companies, accounting for 72.2% of all A share listed companies.

In 2013, 2014 and 2015, our research team ranked No. 9, No. 7 and No. 8, respectively, in the category of “Best Domestic Research Team” by *New Fortune* magazine. In the “11th New Fortune Best Analyst” competition in 2013, we ranked No. 1 in two industries, No. 2 in two industries and No. 3 in one industry. In the “12th New Fortune Best Analyst” competition in 2014, we ranked No. 1 in four industries and No. 3 in one industry. In the “13th New Fortune Best Analyst” competition in 2015, we ranked No. 1 in two industries, No. 2 in two industries and No. 3 in one industry.

The institution sales team under our research and development department is responsible for the distribution of our investment research products and services to our institutional clients. As of December 31, 2015, we ranked No. 6 nationally and No. 3 in Beijing area in the “Best Sales Service Team” competition organized by *New Fortune* magazine.

Prime Brokerage

We provide market-leading full-chain prime brokerage services to institutional investors, including trading service, account service, product design and agency sales, institutional investment and financing service, custody and outsourcing, research service, financing solution and value-added services.

We lease trading units and seats to institutional clients which are not exchange members, mainly mutual funds, to enable them to trade securities in their investment portfolios on the stock exchanges in China. We charge commissions based on the size of their transactions. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, the revenue of the Company from leasing trading units and seats was RMB236.7 million, RMB254.7 million, RMB615.0 million, RMB116.2 million and RMB335.4 million, respectively. The commission and fee income from brokerage service to our private equity fund clients was RMB81.9 million, RMB119.4 million, RMB359.1 million, RMB189.6 million and RMB104.7 million, respectively.

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We obtained the qualification to provide securities investment funds custodian services in 2015 and have since then been providing services, including safekeeping, account management, clearing and settlement, fund accounting, asset valuation, fund compliance monitoring, performance evaluation and fund investment risk analysis, to asset management schemes managed by institutional investors and asset management institutions. As of June 30, 2016, the total assets under our custody and outsourcing business amounted to RMB70.0 billion and the number of products we serviced for reached 1,170.

We have been vigorously promoting our services to private equity clients since 2015, including developing targeted marketing of algorithmic trading and PB system to provide high quality trading platform for private equity institutions. After three years of incubation and optimization, our algorithmic trading was officially launched and embedded in our PB system, by using which private equity institutions can reduce bid-ask spreads generated in the trading process. For the year ended December 31, 2015, we have developed over 2,500 new private equity institutional clients, and as a result, our AUM increased by RMB70.0 billion and our trading volume increased by RMB692.8 billion. As our institutional clients' needs become more complex and diversified, we believe we can achieve higher returns by providing differentiated services.

QFII business

Our QFII business covers QFII and RQFII brokerage agency, overseas market research as well as other cross-border businesses related to investment banking and fixed income. Over years of development, our QFII and RQFII businesses have built a professional service brand featuring advanced transaction system and trading algorithm and extensive research information services. For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2016, the AUM of our QFII and RQFII business reached RMB1.1 billion, RMB2.2 billion, RMB4.3 billion and RMB3.8 billion, respectively, with a trading volume of RMB2.4 billion, RMB2.8 billion, RMB7.9 billion and RMB3.5 billion, respectively.

Investment Management

Our investment management services include:

- Asset management: we offer comprehensive investment management solutions through CAM, TAM and SAM schemes;
- Fund management: we also conduct fund management business by providing mutual fund products and segregated account management products through China Securities Funds; and
- Private equity investment management: we engage in the private equity investment business through China Securities Capital.

For the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, the revenue from the investment management business segment amounted to RMB331.2 million, RMB375.2 million, RMB1,400.2 million, RMB472.5 million and RMB810.3 million, respectively, accounting for 4.5%, 3.3%, 5.7%, 4.0% and 9.4% of our total revenue, respectively.

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Asset Management

We commenced the asset management business in 2009 and launched our first CAM scheme product in January 2010. The AUM of our asset management business increased from RMB148.1 billion in 2013 to RMB299.7 billion in 2014, and further to RMB551.7 billion in 2015, representing a CAGR of 93.0%. According to the SAC, as of June 30, 2016, our AUM ranked No. 3 in securities firm asset management sector. Our asset management schemes mainly include the following:

- CAM schemes: we manage the assets for a number of clients through a designated account, pursuant to relevant laws and regulations and CAM contracts;
- TAM schemes: we manage the assets of one single client through a segregated account after accepting the client's entrustment and executing a corresponding contract; and
- SAM schemes: we manage specific assets for clients under SAM schemes prior to 2015. After the termination of such SAM schemes by regulatory authorities in the first half of 2015, the SAM Schemes have transformed into asset-backed special schemes, which are special purpose vehicles for asset securitization business.

Currently, our securities firm asset management business has established a comprehensive product line covering currency, bonds, stocks, hybrid products, project investment, index-linked products, quantitative investment and asset securitization. We are qualified to conduct business related to insurance fund trust management and QDII, and we are members of the Insurance Asset Management Association of China and the Securities Investment Association of China. We cooperate with state-owned commercial banks, joint stock banks, city commercial banks, agricultural commercial banks, other financial institutions, corporate clients and mid- to high-end clients for our asset management business, and we continuously expand the scope of our customer services. As of June 30, 2016, we managed a total of 26 CAM schemes, 604 TAM schemes and 9 SAM schemes. The table below sets out the AUM and commission and fee income of the Company by product types for the dates and 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	commission and fee income	AUM	commission and fee income	AUM	commission and fee income	AUM	commission and fee income	AUM	commission and fee income
	(AUM in RMB billions, commission and fee income in RMB millions)									
CAM schemes	2.9	40.6	10.3	65.5	19.5	205.0	22.4	86.8	21.9	105.3
TAM schemes	144.1	131.8	287.8	193.5	527.9	247.4	462.7	90.2	710.8	154.7
SAM schemes	1.1	–	1.6	0.7	4.3	2.5	2.8	–	4.6	2.8
Total	148.1	172.5	299.7	259.7	551.7	454.8	487.9	177.0	737.3	262.9

Our targeted wealth management products have been transforming from channel-based business to actively managed business. For the years ended December 31, 2013, 2014 and 2015, the AUM of our actively managed wealth management products amounted to RMB25.0

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billion, RMB35.4 billion and RMB120.1 billion. As of June 30, 2016, according to the AMAC, the AUM of our actively managed products ranked No. 7 in the industry. The table below sets out the analysis of the AUM of actively managed and non-actively managed products for the dates indicated:

	As of December 31,						As of June 30,	
	2013		2014		2015		2016	
	AUM	%	AUM	%	AUM	%	AUM	%
	(RMB in billions, except percentages)							
Actively managed products ⁽¹⁾	25.0	16.9%	35.4	11.8%	120.1	21.8%	166.2	22.5%
Non-actively managed products ⁽²⁾	123.1	83.1%	264.3	88.2%	431.6	78.2%	571.1	77.5%
Total	148.1	100%	299.7	100%	551.7	100%	737.3	100%

Notes:

- (1) Actively managed products include TAM schemes where investment targets are determined by the investment manager according to the investment scope and limitation outlined in the agreements with clients, CAM schemes and SAM schemes.
- (2) Non-actively managed products include asset management schemes under the TAM schemes where the investments are carried out in strict accordance with the specific investment instructions from the clients.

We actively engage in business innovation. We launched the China Securities Xinxiang NEEQ product in March 2015, which is one of the earliest NEEQ collective products in the market. In March 2015, we, in cooperation with JIC Trust Co., Ltd., launched the first NEEQ product in the market that was jointly developed by a securities firm and a trust company, through which investors may invest in private placements and M&A transactions of NEEQ quoted companies via the TAM schemes developed by us. In May 2015, we launched a CAM scheme that arbitrages from the partition and combination of structured funds, which is an innovative product for investors to arbitrage through structured fund. We launched the China Securities Guxiang Caifu CAM Scheme in 2013. We also launched the China Securities Jingcai Lcai High Coupon Bond CAM Scheme in 2012, which is the first collective bond product primarily investing in high coupon bonds in the industry.

We have outstanding comprehensive investment management capabilities. Pursuing value investment and absolute returns, and with years of sustained efforts, we have established a robust investment team with shared investment philosophy and team culture. As of June 30, 2016, we had 43 members in our investment and research team covering various fields such as fixed income, equity and project investment. Our investment research team has remained stable for the past years and possesses extensive experience.

Our asset management team received many awards, including the following:

- “2016 Best Wealth Management Institution in the PRC” and “2016 Best Asset Management Securities Firm in the PRC” in the “Best Asset Management Institution in the PRC” competition awarded by *Securities Times*;

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- “Three-year Term Golden Bull Securities Firm CAM Scheme” of 2015 in the “Best Asset Management Institution in the PRC” competition jointly held by *China Securities Journal* and jnlc.com; and
- “Best Wealth Management Securities Firm of the Year — Golden Finger Award” in 2013 awarded by CNBENEFIT Wealth Management Forum.

Fund Management

We established our fund management subsidiary, China Securities Funds, in September 2013 and we strive to develop it into a large fund management platform with robust and prudent investment style. We have a highly diversified client base covering commercial banks, private equity funds, securities firms, trust companies, finance companies and other clients. The AUM of our fund management business increased from RMB4.0 billion in 2014 to RMB86.1 billion in 2015 with a growth rate of 20.5 times. As of June 30, 2016, the AUM of our fund management business was RMB187.8 billion. Our mutual fund business has established its brand and market position, leveraging which we have further expanded our segregated account management business. Our segregated account management business grew rapidly, the AUM of which ranked No. 12 as of June 30, 2016 according to the AMAC.

Our fund management business mainly covers mutual fund and segregated account management:

- *Mutual Funds*: securities investment funds which publicly issue structured notes to public investors. We have an enriched mutual fund product portfolio that covers hybrid, bond, currency and other types of products; and
- *Segregated accounts*: securities investment funds which invest the capital raised from specific clients. We have a comprehensive investment product line including private placements, share subscription, structured bonds investment and structured stock investment and asset securitization.

The following table sets out the analysis of the AUM of mutual funds and segregated accounts for the dates indicated:

	As of December 31,						As of June 30,	
	2013		2014		2015		2016	
	AUM	%	AUM	%	AUM	%	AUM	%
	(RMB in billions, except percentages)							
Mutual funds	–	–	1.3	32.5%	5.7	6.6%	7.3	3.9%
Segregated accounts	–	–	2.7	67.5%	80.4	93.4%	180.5	96.1%
Total	–	–	4.0	100%	86.1	100%	187.8	100%

Adhering to the operating principle of “commit to trust, excel at investment,” we pursue robust and prudent investment style to achieve investment returns. From the launch of our mutual fund products in 2013 to June 30, 2016, all of our products remained profitable despite the market downturn in 2015. As of June 30, 2016, only 7 out of 108 fund companies which launched mutual funds realized accumulative positive net returns for all fund products.

Private Equity Investment Management

We were approved by the CSRC for trial direct investment business in 2009 and we established China Securities Capital, a wholly-owned direct investment subsidiary, as the strategic platform for carrying out our private equity investment business in July 2009. We provide a powerful and comprehensive platform for the private equity investment business, through which we assist enterprises to achieve significant growth by providing them with comprehensive capital market services from equity financing to public listing. In November 2012, China Securities Capital established Beijing Runxin Dingtai Capital Management Company Limited, a wholly-owned subsidiary, to invest its own capital in funds established by SOEs and China Securities Capital. We also established Beijing Runxin Dingtai Investment Center (LP), the first equity investment fund of China Securities Capital.

Our funds strategically focus on healthcare, technology and environmental protection sectors. For example, in January 2016, we cooperated with Anhui Railway Construction Investment Fund Co., Ltd. to set up Hefei Runxin Zhongan Investment Center (LP), with an investment focus on high-end manufacturing, information technology, grand healthcare and environmental protection sectors. In October 2015, we established the Beijing Water Environment Management Technical Innovation and Industry Development Fund in order to facilitate the continuous improvement of Beijing's water environment. In September 2015, we set up the NEEQ Fund to capture the investment opportunities in the emerging market. In June 2014, we set up the Energy Saving and Environmental Protection Fund. In addition, to fully benefit from the innovative policies of the Shanghai Free-Trade Zone in areas such as currencies and finance, we initiated and established an M&A fund which was registered and incorporated in Shanghai Free-Trade Zone in July 2014 in order to promote or participate in the industrial integration in key industrial sectors.

As of December 31, 2013, 2014 and 2015 and June 30, 2016, China Securities Capital managed one, three, eight and nine funds, respectively, with a corresponding AUM of RMB430.2 million, RMB1,709.8 million, RMB3,436.5 million and RMB3,966.7 million, respectively, achieving a total operating revenue of RMB40.9 million, RMB54.8 million, RMB191.7 million and RMB24.1 million for the relevant periods, respectively. As of December 31, 2015, according to the AMAC, we ranked No. 10 among the filed direct investment subsidiaries of securities firms in terms of the AUM of direct investment funds.

As of June 30, 2016, the AUM of China Securities Capital was RMB3,966.7 million, of which RMB650 million was our own funds. As of June 30, 2016, we completed over 50 investment projects, including four main board listings, 14 NEEQ quotations. We exited four projects, with average investment yield of 346.0%.

Overseas Business

We engage in overseas business primarily through China Securities International, one of our subsidiaries. Our overseas business mainly covers investment banking, proprietary trading, securities and futures brokerage, fund management, asset management and other financial services. As of December 31, 2013, 2014 and 2015 and June 30, 2015 and 2016, the

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total revenue of China Securities International amounted to RMB27.0 million, RMB120.2 million, RMB241.2 million, RMB56.5 million and RMB187.6 million, contributing to approximately 0.4%, 1.1%, 1.0%, 0.5% and 2.2% of our total revenue, respectively.

MAJOR CLIENTS AND SUPPLIERS

We serve different institutional and individual clients across a spectrum of sectors. Our major clients range from large corporations and SMEs to regular clients and mid-to-high-end clients. Our clients are primarily located in the PRC. We expect to serve more overseas clients as we seek to further expand our overseas business in the future.

In each of 2013, 2014 and 2015 and for the six months ended June 30, 2016, revenue attributable to our five largest clients accounted for less than 30% of our total revenue.

Due to our business nature, we have no major suppliers.

MARKET AND COMPETITION

As of June 30, 2016, there were 126 registered securities firms in China. The PRC securities industry is highly regulated and securities firms must comply with various regulatory supervisions in every aspect, including business license, scope of products and services, business development and risk control. The PRC securities industry is highly competitive and will likely remain so in the future. According to Wind Info and on a consolidated basis, in terms of operating revenue, the top ten PRC securities firms accounted for 49.7% of the total revenue generated by PRC securities industry in the first half of 2016. According to the same source, as of June 30, 2016 and for the six months ended June 30, 2016, we ranked No. 6 by operating revenue with a market share of 3.5%; we ranked No. 6 by net profit with a market share of 4.4%; we ranked No. 11 by total assets with a market share of 2.7%. From 2012 to 2015, according to the SAC, we ranked No. 1 for four consecutive years from 2012 to 2015 in terms of our return on average equity among the top 20 securities firms in China by total assets.

For investment banking business, we compete primarily with other PRC securities firms, joint venture securities firms and PRC commercial banks, in branding, marketing and underwriting capacity, service quality, execution capability, financial strength and pricing. For wealth management business, we compete mainly with other PRC securities firms in pricing and the scope and quality of products and services. For investment management business, we compete primarily with fund management companies, banks, insurance companies, trusts and other securities firms in the PRC in the scope of products and services, pricing and quality of customer services. With the development of Internet finance in recent years, the online business of securities firms will face competition from non-traditional financial institutions such as Internet companies.

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Some of our competitors may enjoy certain competitive advantages over us including greater financial resources, richer management experience, more advanced information technology systems and the ability to offer more financial products and services. In addition, with the relaxed regulations in PRC securities industry, more competitors may enter into the market and existing competitors may expand their market shares. We believe that the financial service industry in China will become increasingly competitive, which will push forward the transformation and innovation of the products and services offered by PRC securities firms. See “Risk Factors — Risks Relating to Our Business and Industry — We face intense competition in existing and new businesses” and “Risk Factors — Risks Relating to Our Business and Industry — Our business may be adversely affected by changes in regulatory environment and measures in the PRC and other jurisdictions where we operate.”

RISK MANAGEMENT

Overview

We maintain comprehensive risk management and internal control systems. We adhere to the notion of “risk management by all, risk management as priority.” We regard strategic alignment and maintaining risks at a tolerable level as the foundation of our risk management and seek to ensure that risks are measurable, controllable and commensurate with our returns. We are one of only three PRC securities firms that were rated “Class A Grade AA” by the CSRC for seven consecutive years from 2010 to 2016, the highest rating ever granted by the CSRC.

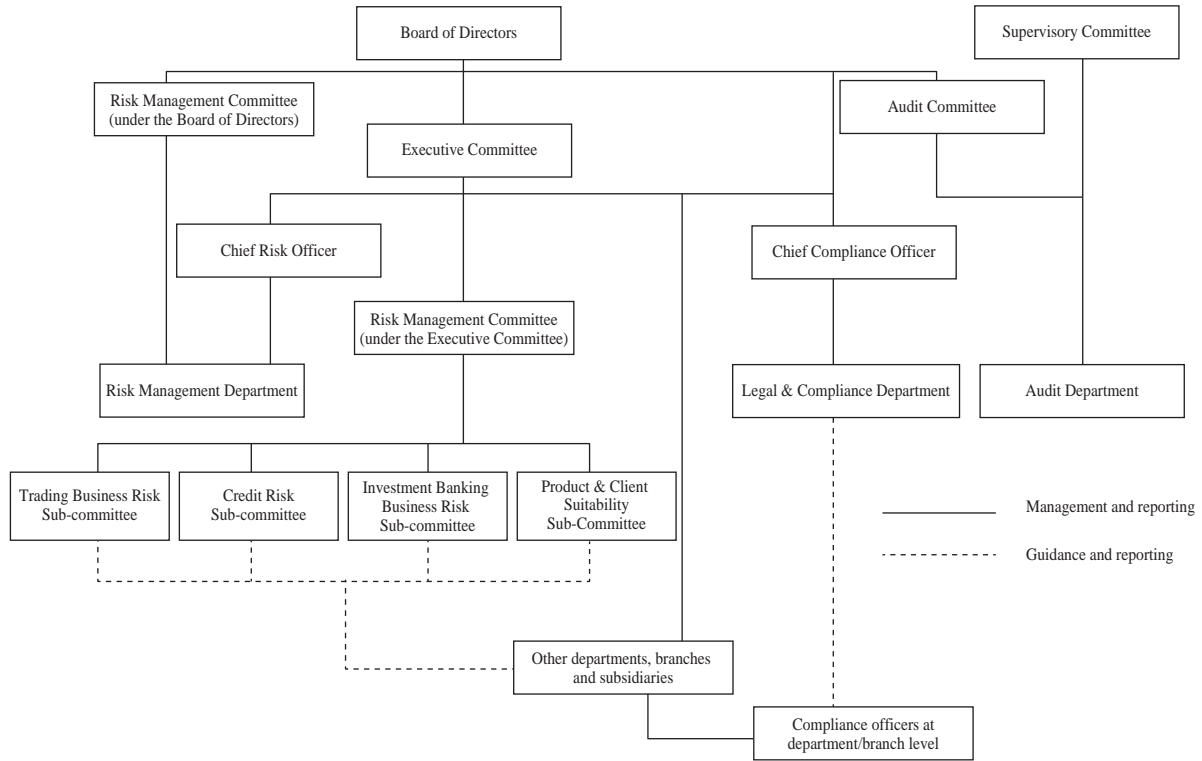
Risk Management Structure

Our robust and effective risk management system is built upon a “three lines of defense” approach. The first line of defense features a system of checks and balances between two persons with different roles and responsibilities designated in important frontline positions, and segregation of duties; the second line of defense features a system of checks and balances between interrelated departments and positions with defined division of responsibilities and appropriate segregation of duties with conflicts of interest; the third line of defense is the comprehensive supervision and inspection on each of our business lines, departments and branches independently carried out by the departments responsible for risk management, including the Risk Management Department, the Legal & Compliance Department, and the Audit Department.

We maintain a well-established risk management structure according to applicable regulatory requirements and our business operational needs. This structure covers: (i) the Board of Directors and Supervisory Committee, (ii) the Executive Committee and its Risk Management Department, (iii) the Chief Risk Officer and the Chief Compliance Officer, (iv)

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the functional departments responsible for risk management, and (v) our business departments, branches and subsidiaries. The chart below illustrates our risk management structure:



Board of Directors

The Board of Directors is our ultimate decision-making body for risk management and is primarily responsible for making decisions relating to risk management strategies, policies and rules and procedures, internal control arrangements, as well as the resolution of significant risk events.

We have established a Risk Management Committee under the Board of Directors, which is responsible for the overall supervision and management of the risks to which we are exposed with a view to controlling them within a reasonable level to ensure that effective management is exercised on various risks in connection with our operating activities. The principal duties of the Risk Management Committee under the Board of Directors include: (i) reviewing the general goal and basic policies for compliance and risk management, and issuing relevant opinions; (ii) determining the components of our risk management strategies and the resources necessary to implement such strategies to make them compatible with our risk management policies; (iii) determining the tolerance level for major risks; and (iv) supervising and reviewing relevant risk management policies, and making recommendations to the Board of Directors. The Risk Management Committee under the Board of Directors currently comprises of seven members, and most of them have finance or accounting related backgrounds. See “Directors, Supervisors and Senior Management” for details of the Risk Management Committee under the Board of Directors.

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Supervisory Committee

The Supervisory Committee is responsible for overseeing the performance of the Board of Directors, the Executive Committee and the management of their respective risk management duties pursuant to laws and regulations as well as our Articles of Association.

Executive Committee

The Executive Committee is responsible for making decision concerning the avoidance, control, mitigation and acceptance of risks arising from our management as well as improving internal control rules, procedures and measures based on the risk management policies determined by the Board of Directors.

Risk Management Committee under the Executive Committee

We have established a Risk Management Committee under the Executive Committee. The Risk Management Committee under the Executive Committee is primarily responsible for: (i) reviewing, determining and submitting to the Executive Committee for decision-making our risk appetite, risk tolerance level and major risk limits; (ii) reviewing risk limits and risk control standards specific to each business line; (iii) formulating and promoting the implementation of our risk management rules and procedures; (iv) reviewing and approving new businesses and products; (v) reviewing and approving our risk reports; (vi) conducting research on risk control strategies and action plans for major business matters. We have also formed four sub-committees under the Risk Management Committee, which are responsible for the specific management of credit risk, risks associated with our proprietary trading business, risks associated with our investment banking business, and risks associated with product and client suitability. These sub-committees report to the Risk Management Committee under the Executive Committee for the above matters. The Risk Management Committee under the Executive Committee currently comprises of five standing members who have on average over ten years of experience in the financial and securities industries.

Chief Risk Officer

The Chief Risk Officer, or CRO, acts as the chairperson of the Risk Management Committee under the Executive Committee and is responsible for our overall risk management. The CRO is responsible for organizing the formulation of risk management rules and procedures, improving our risk management systems, and leading the efforts of the Risk Management Department in identifying, evaluating, monitoring and reporting risks. The CRO possesses the full right to know about our day-to-day business operations. The CRO also has the right to participate in or attend as an observer the meetings in relation to the performance of his or her duties and inspect relevant documents for necessary information. Mr. ZHOU Zhigang currently serves as our CRO. For details of Mr. Zhou's background, please see "Directors, Supervisors and Senior Management."

Chief Compliance Officer

The Chief Compliance Officer, or CCO, is in charge of our compliance management. The CCO is primarily responsible for: (i) conducting compliance examinations on our internal management system, major corporate decisions, proposals for new products and business, as well as documents or reports to be submitted to the regulatory authorities; (ii) supervising and examining the compliance of the management and business activities carried out by the Company and its employees; timely reporting to the Board of Directors, relevant regulatory authorities and self-regulatory organizations of violations of laws and regulations or potential compliance risks identified in compliance inspections, instructing relevant internal departments to rectify such deficiencies, and overseeing such rectification; (iii) organizing the implementation of rules and procedures concerning anti-money laundering and Chinese Walls; (iv) organizing internal compliance training and providing internal compliance consultation; and (v) maintaining communication and cooperating with relevant regulatory authorities and self-regulatory organizations. Currently, our CCO is concurrently served by Mr. ZHOU Zhigang, our CRO. For details of Mr. Zhou's background, please see "Directors, Supervisors and Senior Management."

Functional Departments Responsible for Risk Management and Internal Control

The functional departments that are responsible for risk management and internal control primarily include the Risk Management Department, the Legal & Compliance Department, and the Audit Department. These departments maintain their own respective working rules and procedures and operate independently from other business and administrative departments. They report to the Board of Directors, the Supervisory Committee and the Executive Committee regarding risk management and internal control. Their division of responsibilities is as follows:

- *Risk Management Department.* The Risk Management Department is our dedicated risk management unit and is primarily responsible for formulating risk limits and risk control standards in a bottom-up manner and implementing risk management policies in a top-down manner. It is also responsible for carrying out preventive risk control and concurrent risk monitoring, assessing and reporting for our various operational and management activities, as well as building our risk management information systems;

The Risk Management Department consists of six groups, including the Market Risk Group, the Credit Risk Group, the Operational Risk Group, the Internal Review Group, the Quantitative Analysis Group and the General Management Group. As of September 30, 2016, we had a total of 25 employees in the Risk Management Department, most of whom hold master's degree or higher and have financial engineering, mathematics and accounting backgrounds. As of the same date, among these employees, two employees had obtained the sponsor representative qualification, five employees had obtained Financial Risk Manager or FRM, qualification, three employees had obtained CPA qualification, and three employees have passed CFA Level III examination. In addition, most of these employees have over five years' work experience in financial institutions or accounting firms.

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- *Legal & Compliance Department.* The Legal & Compliance Department is primarily responsible for handling legal and compliance matters. It is also responsible for (i) identifying, monitoring, reviewing and reporting legal risks and compliance risks arising from our operations through contract review, litigation management, as well as ex-ante, concurrent, and expost compliance management, and (ii) providing guidance, coordination and supervision to compliance officers at the business department and branch levels in respect of their day-to-day compliance management;
- *Audit Department.* The Audit Department is responsible for monitoring and evaluating the effectiveness of our internal control and risk management, identifying, through auditing, major weaknesses in our rules, procedures and processes as well as internal control loopholes, and reporting such weaknesses and loopholes to the Supervisory Committee, the Audit Committee under the Board of Directors and the Executive Committee, as well as flagging them to the Legal & Compliance Department and Risk Management Department. It is also responsible for overseeing the rectification of such weaknesses and loopholes.

In addition to the departments described above, our other functional departments responsible for risk management and internal control include the Financial Planning Department, the Treasury Operation Department, the Executive Office, the Operation Management Department, and the IT Department. The Financial Planning Department and the Treasury Operation Department are responsible for managing liquidity risks pursuant to established division of duties. The Executive Office is our primary reputational risk management unit and leads our efforts in responding to major emergencies and managing public relations matters. The Operation Management Department is primarily responsible for managing risks associated with clearing and settlement. The IT Department is responsible for controlling IT risks through the planning, building and maintenance of our IT systems.

Our Business Departments, Branches and Subsidiaries

Our business departments and branches as well as the staff thereof implement our various rules, procedures and measures for risk management and internal control within their respective scope of responsibilities, and shall report promptly to the CRO of potential risks identified. The head of each of our business departments and branches is the primary responsible person for risk management and is responsible for handling day-to-day risk management matters of the respective department and branch. We designate compliance specialists for each of our business departments and branches. The compliance specialists primarily perform the following duties: (i) assisting the department or branch where he or she belongs in organizing compliance trainings to enhance the compliance awareness of the staff; (ii) inspecting and evaluating the compliance management of, and supervising and following up on the rectification carried out by the relevant department or branch; and (iii) reviewing major compliance matters arising from the ordinary course of business as well as the documents to be submitted to the regulatory authorities by the department or branch where he or she belongs.

Our comprehensive risk management system covers our subsidiaries as required by applicable regulatory requirements and our internal rules. On this basis, we provide oversight and guidance on the compliance and risk management of our subsidiaries in a variety of aspects, such as management of information barrier, management of rules and procedures, risk limit management, budget management, information disclosure and reporting as well as on-site examination and auditing.

Monitoring and Management of Major Risks

We focus on monitoring and managing major risks arising from our business operations, including strategic risk, market risk, credit risk, liquidity risk, operational risk, IT risk, legal risk, compliance risk, and reputational risk.

Strategic Risk

Strategic risk is the risk of potential losses or adverse consequence due to the implementation of inappropriate development plans or strategic decisions in the pursuit of long- and short-term development objectives.

We have an appropriate strategic management structure covering the Board of Directors and the Strategy & Development Committee thereunder, the Executive Committee, the Executive Office which leads our strategic planning efforts, as well as our various departments, branches and subsidiaries, with a set of well-established processes and techniques used for formulating and implementing our strategic planning. We have also established a strategic risk assessment system that encompasses analysis of potential risk factors in the course of strategic planning, as well as periodic reviews and consultation performed by the Board of Directors and the Executive Committee in the process of implementing such planning. We make adjustments to such planning when appropriate based on the evaluation of its implementation or take circumstance-specific measures to control strategic risks.

Market Risk

Market risk is the possibility of losses caused by adverse movements in market prices (such as securities price, interest rate, exchange rate and commodity price).

We maintain a comprehensive market risk management system. We manage market risks primarily through the following measures: (i) implementing business authority delegation with well-defined responsibilities and authorizations of the Board of Directors, the management and the business departments in connection with market risk management; (ii) establishing market risk limits and determining the risk tolerance level, and formulating the action plans where limits are exceeded; (iii) ensuring the timely identification and reporting of market risk level and movement trends through a combination of mark-to-market performed by the business departments and risk monitoring independently performed by the Risk Management Department; (iv) verifying and evaluating the effectiveness of our trading strategies and evaluation models to contain the risks associated with such models; and (v) conducting routine and *ad hoc* stress testing on our proprietary trading business and assessing the impact

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of extreme adverse changes in risk factors on risk control indicators, such as net capital, and the performance of our proprietary portfolios, and formulating corresponding contingency plans.

We use value-at-risk, or VaR, with a 95% confidence interval and a holding period of 10 trading days, as a tool in measuring market risk. We use risk evaluation models to compute the VaR of our investment portfolio through self-developed risk management systems. We use sensitivity analysis to evaluate interest rate risks. We also measure and monitor stress test parameters for our equity securities, fixed-income securities and derivatives to evaluate the impact of extreme adverse changes in risk factors on risk control indicators, such as net capital, and the performance of our proprietary investment portfolio.

The market risks to which we are exposed primarily arise from our proprietary trading business. For market risk management measures for proprietary trading business, please see “— Risk Management — Risk Management and Internal Control Measures for Major Business Lines — Proprietary Trading Business.” Apart from proprietary trading business, our liquidity management, margin financing and securities lending business and investment banking business are also exposed to market risks. We require the securities we hold for liquidity management purposes to meet the standards for quality liquid assets. In particular, the fixed-income securities held for liquidity management shall comprise primarily of government bonds, financial bonds backed by government and monetary funds, while the corporate bonds we hold for such purposes shall have the rating of no lower than AA+ with a duration of no more than one year. With respect to margin financing and securities lending business, we use stock index futures to hedge against risks associated with the underlying securities in the securities lending business and, in principle, prohibit our business departments engaging in securities financing business to proactively undertake market risks. With respect to investment banking business, for securities underwriting projects that potentially involve underwriting risks, the Risk Management Department will evaluate the potential underwriting amount and losses through stress testing and provide advice as appropriate. These projects will also be subject to the review by the Capital Commitments Committee. In addition, we seek to further mitigate underwriting risks by proactively broadening distribution channels, carefully determining the window periods, and implementing prudent pricing mechanism. The securities we hold in the above businesses are also covered in our assessment of risk control indicators, such as “equity securities and derivatives in proprietary trading business/net capital” and “fixed-income securities/net capital,” in compliance with relevant regulatory rules and our own internal control requirements. The Risk Management Department monitors the market risks in the above businesses on a daily basis and conducts risk analysis and evaluation in the periodic risk reports.

We have achieved effective control of market risks through these measures. During the Track Record Period, we maintained our market risk exposure at a controllable level and did not experience any significant market risk events. We were also rated “Class A Grade AA” by the CSRC for seven consecutive years from 2010 to 2016, the highest rating ever granted by the CSRC during such period.

Credit Risk

Credit risk is the possibility of economic loss caused by the failure of a counterparty or an issuer to perform its obligations. The credit risks to which we are exposed primarily arise from our proprietary trading business, securities financing business and brokerage business. We develop firm-wide credit risk management policies, and exercise centralized management over our credit exposure to a single counterparty, with transaction limits and credit exposure limits determined based on the creditworthiness of such counterparty. We have also set caps on our loss given default to achieve the overall control of default risks to which we are exposed.

Regarding proprietary trading business, we assign credit ratings to our counterparties based on a variety of factors, including qualifications, trading records, creditworthiness and default records. We monitor their creditworthiness on a real-time basis and periodically review and update their credit ratings accordingly. Based on such credit ratings, we maintain a pool of eligible counterparties and determine the permissible maximum amount and payment method for transactions we enter into with counterparties of different credit rating. We require our counterparties to provide collaterals, which requirement is subject to adjustments on a real-time basis to reduce our credit risk exposure. In order to further mitigate credit risks, we also monitor the creditworthiness and negative publicity of our counterparties and perform mark-to-market on a daily basis on our position in debt financing instruments and changes in the value of collaterals.

Regarding securities financing business, we assign credit ratings and extend credit lines to our clients based on a variety of factors, such as the clients' financial condition, investment experience, transaction history and credit record, to prevent unqualified clients with insufficient investment expertise and low risk tolerance from entering into securities financing transactions. To the extent permitted by relevant securities exchanges, we determine the scope of permitted collaterals and the applicable discount rates, based on a variety of factors, such as the trading activity and fundamentals of the issuer of the securities held as collateral. Adjustments will be made in a timely manner if the securities we hold as collateral are disposed of or otherwise pose significant risks. In addition, we perform mark-to-market evaluation in monitoring our clients' positions, and make margin calls and enforce liquidation as soon as certain risk limits are reached.

Regarding brokerage business, we impose eligibility requirements on the clients that apply to enter into pledged stock option and other transactions that involve credit risks to ensure that they have the necessary investment expertise and creditworthiness. We have set maximum leverage ratios for collateralized stock repurchase transactions, which are reduced when risk increases. We also seek to further mitigate our credit risks through a variety of other means, including monitoring client funds and the adequacy of collaterals.

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Liquidity Risk

Liquidity risk is the risk of potential failure to obtain sufficient funds in a timely manner and at reasonable cost to pay debts as they become due, meet other payment obligations, and satisfy capital requirements in the ordinary course of business. The goals of our liquidity risk management include: (i) ensuring that our liquidity demand can be met at reasonable cost and in a timely manner; (ii) maintaining liquidity risk at a measurable, controllable and tolerable level, and (iii) preventing liquidity risk events, while remaining in compliance with our risk appetite and risk tolerance level as well as our overall business objectives. We manage liquidity risk primarily through the following measures:

- The Asset-Liability Management Committee is responsible for the overall management of our asset-liability planning, as well as reviewing and approving our funds transfer pricing and contingent funding plans, while the Treasury Operation Department is responsible for carrying out asset allocation and debt financing activities and day-to-day liquidity risk management;
- We set liquidity risk limits pursuant to regulatory requirements and our own risk appetite at both the headquarters and business line levels. Our business departments shall strictly follow these liquidity risk limits in the ordinary course of business;
- We identify funding gaps and avoid excessive reliance on short-term liquidity through measuring, monitoring and controlling cash flow and duration mismatch, and send timely alerts of occurrence of extraordinary circumstances;
- We hold high-quality current assets with a high level of liquidity that are commensurate with our businesses as a liquidity reserve. This enables us to acquire additional cash flows, where necessary, by drawing from, or liquidating the assets in, such reserve;
- We analyze the probability of liquidity crisis by conducting stress tests and develop corresponding contingency plans to enhance our ability to perform payment obligations under liquidity pressure;
- To achieve reasonable asset allocation, we categorize and classify the assets we hold in terms of liquidity, and limit the proportion of assets whose liquidity is below a certain level in our total asset holding. We require all of our business departments to allocate their assets in accordance with the limits we set for the size, composition and concentration level of our financial assets. We measure our financial and risk control metrics on a regular basis. When relevant indicators show a decrease in our repayment ability, the business departments shall report to the management in a timely manner and propose plans for adjustments to our asset-liability structure and restoring our repayment ability; and
- We enhance our liquidity through issuance of shares and bonds after evaluating our financing ability and the cost of financing.

Operational Risk

Operational risk refers to the risk of losses arising from defective or problematic internal procedures, personnel or IT systems, or from external events. We manage operational risks primarily through the following measures:

- Segregating different business lines and developing a system of checks and balances between the front, middle and back offices;
- Developing and improving rules and procedures concerning business authority delegation and accountability, and continuously optimizing the operational rules, working procedures and risk control measures for our major business lines, including brokerage, investment banking, proprietary trading, securities financing, and asset management businesses;
- Transferring or mitigating operational risks by personnel and operation outsourcing and, where necessary, purchasing insurance to the extent authorized; and
- Organizing self-evaluation of risk and internal control by the business departments to identify potential material risks and take appropriate risk control measures. The Risk Management Department performs statistical analysis on various types of operational risk event on at least an annual basis to calculate the frequency of its occurrence and the level of losses, as well as to assess the changing trend of risk and risk allocations.

IT Risk

IT risk primarily refers to economic losses or reputational damages due to interruptions in our ordinary business operations or damages incurred by our clients due to failures or defects in our IT systems. It also includes the risk of causing economic loss to the investors due to miscalculation of their trading data or the risk of investors' trading data being destroyed, modified or disclosed technologically caused by defects in software design.

Our IT Department is responsible for the management of the planning, development and maintenance of our IT systems. Our measures for managing IT risks primarily include: (i) performing centralized management and backup of trading system data and ensuring the safety of data through our business system backup center; (ii) implementing segregation of duties between the personnel responsible for IT system development and testing and those responsible for system maintenance, as well as between the personnel responsible for data management and those responsible for operating our application systems, and implementing rigorous access control and record-keeping mechanisms; (iii) the selection of the software and hardware and external suppliers of IT systems shall be subject to analysis conducted by the IT Department and the relevant departments using such systems as well as internal approval pursuant to relevant rules and procedures; (iv) performing real-time, automatic monitoring of the connectivity of major telecommunication lines and the operation of major business systems; and (v) the IT Department shall be responsible for formulating emergency plans and organizing regular drills, and updating such emergency plans in a timely manner on an as-needed basis.

Legal Risk and Compliance Risk

Legal risk is the risk of potential economic loss or reputational damage caused by disputes, litigations or other legal disputes arising from breach of contracts or infringement. Compliance risk is the risk of potential economic or reputational damages caused by judicial punishment, regulatory actions or self-regulatory measures due to the breach of laws, regulations or regulatory rules by us or our employees in the course of our business operations. The Legal & Compliance Department is responsible for the firm-wide management of legal risk and compliance risk. The Legal & Compliance Department manages such risks primarily through the following measures:

- Tracking and analyzing laws, regulations and regulatory rules to provide legal support for our various management and operational activities, and providing legal and compliance consultant services for our business departments and subsidiaries;
- For new businesses and products the proposals of which are to be submitted to the regulatory authorities for approval, performing compliance reviews and independently preparing opinions for them to ensure that they comply with laws, regulations and regulatory rules;
- Identifying, monitoring, reviewing and reporting compliance risks arising from our management and business activities;
- Initiating compliance trainings and formulating compliance handbook for our employees thus providing guidance for them on how to comply with applicable laws and regulations, and monitoring their performance of their compliance obligations;
- Reviewing the contracts to which we are a party and supervising the performance of such contracts, and drafting and amending various standard forms of contracts; and
- Handling litigations, arbitrations and material disputes between us and our clients or employees or other third parties, and providing guidance for our business departments and branches on dealing with litigations, arbitrations and other disputes.

Reputational Risk

Reputational risk primarily refers to the risk that we may be subject to negative perception of stakeholders due to our operations, business management and other actions or external events. We cherish and protect our reputation and operate our businesses in a legally compliant manner. The Executive Office leads our efforts in responding to significant, unexpected events and handling public relations matters. The Executive Office monitors reputational risks by identifying negative coverage in the media, including unexpected events and other events that may damage our reputation.

Risk Management and Internal Control Measures for Major Business Lines

We implement a series of risk management and internal control measures to manage risks associated with our various business lines.

Investment Banking Business

The primary risks associated with our investment banking business include legal risk, compliance risk, operational risk, reputational risk, market risk, interest rate risk, and credit risk. We manage these risks primarily through the following measures:

Project selection and initiation

The Project Approval Committee is responsible for reviewing applications for approval of new projects. Applications that do not pass the review will not be approved. When determining whether to approve an application, members of the Project Approval Committee will take into account a variety of factors, including potential risks associated with the project, the economic benefits and strategic value of the project, as well as potential conflicts with other projects or the interests of other clients. In respect of debt financing instruments, in particular, we have established specific risk control standards in terms of the issuer's credit rating, the industry and geographic region in which the issuer operates, as well as the issuer's financial performance.

Due diligence

Our project team performs comprehensive due diligence, including reviewing due diligence documents, making on-site visits, attending meetings, and interviewing the issuer and its directors, senior management and employees, in accordance with relevant regulatory guidelines and internal rules and procedures. We require the project team performing the due diligence to retain the complete working papers, and conduct spot check or inspection on a regular basis to further control operational risks that may arise from the due diligence process.

Internal review

We have established internal review teams for our investment banking business (including dedicated internal review teams for equity and fixed-income projects, respectively) to perform internal review and exercise quality control on all the projects to be submitted to the regulatory authorities for approval. Applications will not be submitted to the regulatory authorities for approval unless a majority of the members of the internal review team vote in favor of the project. The relevant internal rules and procedures contain specific provisions regarding the standards for the election of the members of the internal review teams, the proportion of internal/external experts and compliance and risk control personnel, as well as the procedures for appointing the members of the internal review teams.

Review and approval by the regulatory authorities

Our project team performs due diligence on a continual basis and promptly reports any major issues to our relevant internal departments to facilitate them in taking further actions as appropriate. Our quality control department shall review the project team's responses to the inquiries concerning the project and comments concerning the application materials raised by the regulatory authorities.

Underwriting risk management

We seek to control underwriting risks through, among others, due diligence, valuation, price inquiries, roadshows, and stress testing.

Post-deal management

We begin post-deal management upon the completion of a project in accordance with relevant rules and procedures. Post-deal management includes providing supervision and guidance for projects in which we are a sponsor or a financial advisor, or acting as the bond entrust manager for debt offerings. We maintain and adjust from time to time a pool of projects classified by their risk levels, and implement differentiated post-deal management strategies. We also maintain monitoring mechanism that enables us to stay alert on negative industry trends and publicity concerning our projects. The personnel shall report issues identified in the course of post-deal management to the relevant internal departments to assist them in taking further actions.

Wealth Management

We adopt comprehensive risk management and internal control policies to manage risks associated with our wealth management business and to ensure that our wealth management business comply with applicable laws and regulations.

Securities Brokerage Business

We have adopted the following measures to manage risks associated with our securities brokerage business:

Client suitability

We have established a comprehensive set of procedures to screen our clients and to verify their identities under the “know your clients,” or KYC, requirements as well as regulatory requirements pertaining to client suitability. These measures primarily include:

- We collect information about a client and its *de facto* controllers and beneficiaries to have a comprehensive understanding of their identities, business/employment and sources of funds. We adopt higher standards in identifying clients with a higher risk of being involved in money-laundering and terrorism financing activities;
- We require opening of an account to be approved by two officers. We have in place relevant mechanism to prevent our personnel from opening accounts for ineligible clients and hold personnel who have done so accountable. We also take risk control measures, such as restricting account activity, against unqualified accounts that were opened in the past; and
- In addition, we impose eligibility requirements on clients that engage in transactions with relatively higher risks, such as option trading and share transfer on the NEEQ, in order to ensure that these clients have the requisite investment expertise and risk tolerance.

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Separation of front, middle and back offices

We seek to ensure that separation of duties and checks and balances are exercised between the front, middle and back offices of our securities brokerage business. The duties of business development, client services, transaction execution, clearing and custody, financial accounting, and IT system management are performed by different departments and units.

Vertical management

The manager, chief accountant, and the head of the IT department of each of our branches report directly to our headquarters. The chief accountant and the head of the IT department shall be responsible for assisting the manager in overseeing and managing the compliance of the business operations of the respective branch with applicable rules and regulations.

Centralized management

We adopt the following measures to achieve centralized management of the risks associated with our securities brokerage business:

- We have established a set of firm-wide rules, procedures and processes with respect to the professional qualifications, client development and code of conducts of securities brokerage agents and have enhanced relevant technical support to improve the guidance and supervision we provide for business development activities of securities brokerage agents;
- We exercise centralized management of our front office officers' access to our counter trading systems and maintain a multi-tiered mechanism for granting such access. We have embedded a compulsory review/approval program in our counter trading systems and implement a multi-level approval process for granting access for key operations;
- We manage our client development and product sales at the headquarters level and establish firm-wide rules and procedures concerning KYC, investor education and client suitability;

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- We formulate firm-wide commission policies, while our branches shall make specific plans to implement such policies. Implementation plans that are inconsistent with our firm-wide commission policies shall be submitted to the headquarters for approval; and
- We exercise centralized management over our brokerage business systems. Servers used in our trading activities are located, and our operating data are stored, at our headquarters. We also implement firm-wide, standardized strategies for the management of the level of authority of our business personnel and our operational parameters.

Monitoring of abnormal transactions and operations

We have developed rules and procedures regarding the monitoring of abnormal transactions, with established divisions of duties and working procedures for relevant departments and branches in a variety of areas, including the monitoring, reporting and control of abnormal transactions and operations, as well as the co-management of such transactions and operations.

Reporting of and dealing with risk information

We have developed a risk information reporting mechanism with defined risk reporting obligations of our branches as well as the working procedures for the reporting of and dealing with risk information so as to ensure that risk information is reported and handled in a timely manner.

Risk monitoring

The Brokerage Business Management Committee is responsible for monitoring the risks associated with our branch network planning, distribution of third-party products and the day-to-day operations of our branches; for example, such committee tracks the adverse changes in, among others, our brokerage business market share and our brokerage business income. The Risk Management Department also monitors the risks associated with our securities brokerage business independently.

Securities Financing Business

Margin Financing and Securities Lending Business

We have developed a comprehensive risk control structure for our margin financing and securities lending business. The Board of Directors is responsible for formulating relevant business policies, and it has authorized the Executive Committee to set and adjust the maximum size limit for our margin financing and securities lending business. The Risk Management Committee under the Executive Committee is responsible for setting various risk limits and determining the evaluation models for underlying securities. The Securities Financing Business Decision-making Committee makes business decisions at a day-to-day level and is primarily responsible for reviewing and approving relevant internal rules and procedures and business plans, approving the adoption of risk control parameters, as well as reviewing and approving other major matters. The Legal & Compliance Department, the Risk Management Department and the Audit Department shall independently perform monitoring and auditing, while the Securities Financing Department is responsible for, together with the Brokerage Business Management Committee and our branches, controlling risks throughout the cycle of our margin financing and securities lending business.

The primary types of risk arising from our margin financing and securities lending business include credit risk, market risk, liquidity risk, operational risk, and compliance risk. We manage these risks primarily through the following measures:

Eligibility requirements for branches

The Securities Financing Decision-making Committee reviews the qualification of our branches that apply to operate margin financing and securities lending business. To be allowed to operate such business, a branch must, among others:

- Have been in strict compliance with laws and regulations and our internal rules and procedures with strong risk control capabilities;
- Have been effectively implementing KYC requirements and the comprehensive client relationship management, or CRM, rules and procedures that are centered on client suitability;
- Assign at least two back office officers who are familiar with margin financing and securities lending business and are able to effectively manage our credit accounts; and

- Have not been subject to administrative penalty imposed by the regulatory authorities for the past two years with no records of major risks identified in our internal auditing and inspections on business operations.

Recommender system

We maintain a recommender system for margin financing and securities lending business. Employees acting as the recommenders are responsible for performing preliminary review of, and issuing opinions on, the creditworthiness of the clients applying to participate in margin financing and securities lending business. They are also responsible for explaining the business rules and disclosing the potential risks of such businesses to the clients. The Management Department under the Brokerage Business Management Committee is responsible for arranging training and certification examinations for recommenders on an as-needed basis. Front office officers at our branches that plan to engage in margin financing and securities lending business are qualified to participate in such examinations only after he or she has finished at least one full cycle of business training.

*Client screening, credit assessment
and credit extension*

We have established a system for screening our clients, assessing their creditworthiness as well as granting them credit lines:

- We require the clients applying to participate in margin financing and securities lending business to satisfy the following requirements: (i) the average daily value of the securities assets shall be no less than RMB500,000 for the last 20 trading days; and (ii) the client must have engaged in stock trading activities for no less than six months at the time the account is opened. We also require such clients to meet certain other requirements concerning investment experience and risk tolerance;
- We assign credit ratings to our clients based on a variety of factors, including their financial condition, securities investment experience, credit history and the value of the asset used as collaterals, in order to make a comprehensive assessment of their risk tolerance level and default risk;

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- We review applications for credit from our clients based on their credit ratings. The credit we extend to a single client shall not exceed any of the following: (i) the predetermined maximum amount of credit granted to a single client; (ii) 3.99% of our net capital; (iii) 5% of the total amount of credit we extend to clients; or (iv) the amount of credit that is applied for by such client. Applications for credit exceeding RMB100 million (exclusive) shall be submitted to the Securities Financing Business Decision-making Committee for approval; and
- We record and analyze information about the creditworthiness and financial condition of, and transactions by, our clients on an ongoing basis, and adjust their credit ratings and amount of credit as appropriate.

Risk and information disclosure

We require our staff to explain the terms of the margin financing and securities lending contracts as well as the relevant operational rules and processes as well as fully disclose the potential risks to the clients. We also make announcements to our clients in a timely manner to inform them of adjustments that are made to, among others, the discount rates for securities pledged as collaterals, the collateral ratios for the underlying securities, as well as the interest rates.

Business expansion management

We control the size of our margin financing and securities lending business through implementing a maximum amount set by the Executive Committee as authorized by the Board of Directors. The aggregate amount of our margin financing and securities lending business shall not exceed such limit.

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Collateral ratio management

We monitor the collateral ratios of our clients engaging in margin financing and securities lending business on a real-time basis to reduce the default risks due to market fluctuations. Collateral ratio is calculated by dividing the total balance of a client's margin account, which includes cash and securities held in the account, by the client's margin balance, which is the sum of margin loans extended, the securities lent and any accrued interest and fees. We send a reminder of the potential risks to the client when the collateral ratio of the client falls below 145%, and send a margin call to the client requesting additional collaterals when the collateral ratio of the client falls below 130%. We enforce mandatory liquidation of the client's position when the collateral ratio falls below 110%.

As of June 30, 2016, the overall collateral ratio for our margin financing and securities lending business was 336.72%. In 2013, 2014 and 2015 and for the six months ended June 30, 2016, the total amount of assets held by us as collaterals that were subject to mandatory liquidation was RMB104.2 million, RMB129.1 million, RMB1,112.4 million and RMB54.8 million, respectively, in our margin financing and securities lending business.

Securities concentration management

We control securities concentration risks by implementing certain concentration limits. These limits shall not be exceeded unless otherwise permitted by the Securities Financing Business Decision-making Committee.

Risk hedging

We use derivatives, such as stock index futures, to hedge against market risks associated with the securities in our securities lending business, which enables us to maintain our exposure at a tolerable level.

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Collateralized Stock Repurchase and Contractual Repurchase Business

We have developed a comprehensive internal control and risk management system for our collateralized stock repurchase and contractual repurchase business. We primarily adopt the following measures to manage risks associated with such businesses:

Risk limits

We have adopted a set of risk limits in terms of the client's creditworthiness, the underlying securities and the duration of the transaction, and have strictly implemented these risk limits in our business operations.

Hierarchy of approval authority

We strictly implement a hierarchy of approval authority for our collateralized stock repurchase and contractual repurchase business. The authorized approver is the member of the Executive Committee who is in charge of our securities financing business or, where certain thresholds are exceeded, the Securities Financing Business Decision-making Committee. In particular, we require collateralized stock repurchase transactions that exceed the applicable risk limits to be reported to the authorized approver after being reviewed and approved by the Credit Risk Sub-committee under the Risk Management Committee.

Client and underlying securities eligibility management

We apply eligibility requirements to the clients and conduct due diligence and creditworthiness assessment on them. Clients that fall below a certain credit rating are not allowed to enter into collateralized stock repurchase/contractual repurchase transactions. We also conduct assessment on and apply eligibility requirements to the underlying securities. We have developed models to determine the applicable discount rates, and have set parameters to monitor the concentration to particular underlying securities or clients. We also maintain a blacklist of ineligible securities, and update such list on a regular and irregular basis.

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Ongoing risk monitoring

We monitor the creditworthiness of clients on a continual basis. We also maintain established mark-to-market mechanism for our collateralized stock repurchase and contractual repurchase business. During the term of a transaction, our designated personnel track the price fluctuations of the underlying securities, while keeping a close eye on events that may have a material effect on the value of the underlying securities. When a material event occurs, the relevant personnel shall timely report it to the member of the Executive Committee in charge of collateralized stock repurchase/contractual repurchase business and the Risk Management Department and take measures as appropriate to the extent authorized.

Collateral coverage ratio management

We monitor on a real-time basis the collateral coverage ratio of our clients engaging in collateralized stock repurchase and contractual repurchase business. The collateral coverage ratio for collateralized stock repurchase is the ratio of the market value of the interests pledged by the client to the sum of the loans we extend to such client and the accrued interests, and the collateral coverage ratio for contractual repurchase business is the ratio of the market value of underlying securities sold to us by the client to the loans we extend to such client and the accrued interests. As of June 30, 2016, the overall collateral coverage ratios for our collateralized stock repurchase business and contractual repurchase business were 294.52% and 243.58%, respectively.

Futures Brokerage Business

We conduct futures brokerage business through China Securities Futures, one of our subsidiaries. China Securities Futures manages the risks associated with futures brokerage business primarily through the following measures:

Account opening management

China Securities Futures verifies the identities of the clients who apply to open accounts, and conducts assessment of their suitability and creditworthiness. China Securities Futures requires its staff to disclose the potential risks associated with futures trading business to the clients before opening futures accounts for them. China Securities Futures also performs assessment of the risk tolerance of the clients in order to provide services that are commensurate with their level of risk tolerance.

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Client deposits

China Securities Futures requires its clients to make deposits as collaterals for the performance of their settlement obligations. China Securities Futures manages deposits of the clients separately from its own funds in order to mitigate the risk of monetary loss of the clients and prevent embezzlement.

Trading activity management

China Securities Futures has established various rules and procedures to manage futures trading activities, including those preventing our employees from accepting client orders in a non-compliant manner, entering into futures trading themselves, or inducing clients to enter into futures trading.

Risk monitoring

China Securities Futures conducts risk monitoring on futures trading with a focus on high-risk accounts and abnormal transactions. China Securities Futures makes margin calls to a client when the balance of the client's account after daily settlement falls below a given threshold, and China Securities Futures has the right to enforce mandatory liquidation of the client's position if such client fails to provide additional collaterals in a timely manner.

Distribution of Financial Products

To ensure that our financial products are distributed in a prudent manner, we have established a set of relevant measures, which primarily include:

Third-party custody of clients' funds and account monitoring

According to laws and regulations on custody of clients' funds and account monitoring, we deposit transaction settlement funds of our clients in custodian accounts we maintain with qualified commercial banks and monitor the activities of such custodian accounts.

Electronic management platform

We have developed an electronic platform to manage the financial products we distribute to achieve centralized management of account opening, order placing, clearing and settlement. This also enables us to monitor the sales activities and achieve information tracking throughout the entire business process.

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Review and approval of product eligibility

We perform necessary due diligence in relation to third-party financial products we distribute in various aspects, including the capabilities of the product managers, the structure of the products, as well as the risks associated with the products. We only introduce third-party financial products that have been approved by the Financial Product Marketability Committee and independently reviewed and permitted by the Legal & Compliance Department and the Risk Management Department. The Legal & Compliance Department is responsible for reviewing relevant contracts. For self-developed financial products, both the Legal & Compliance Department and the Risk Management Department shall be involved in the design of the product.

Routine risk monitoring

The business departments are the primary responsible units for the risk control in the ordinary course of financial product distribution, and their responsibilities include handling investor enquiries, tracking major developments, and reporting information about the financial products we distribute to the Risk Management Department. The Risk Management Department is responsible for: routine monitoring of the risks arising in the distribution of financial products; participating in risk assessment of the products we sell and issuing risk alerts based on the result of the assessment; and conducting risk reporting on a regular and irregular basis. The Legal & Compliance Department is responsible for handling client complaints.

Client suitability management

We divide our clients into professional investors and non-professional investors and conduct a comprehensive assessment of their risk tolerance based on the information provided by our clients. We classify our clients into five categories in terms of risk tolerance, namely, low-risk, low-to-medium risk, medium-risk, medium-to-high risk, and high-risk, and provide clients with products that are commensurate with their risk tolerance.

Proprietary Trading Business

The risks associated with our proprietary trading business primarily include market risk, credit risk, liquidity risk, operational risk, and compliance risk. To ensure that our proprietary investment decisions are executed within the permitted scope of authorization, we have established a three-level authorization and decision-making structure consisting of “Board of Directors — Executive Committee — trading departments.” In particular:

- *The Board of Directors.* The Board of Directors is the ultimate decision-making body for our proprietary trading business. It is responsible for determining the maximum size and risk tolerance limits for our proprietary trading business and authorizing the Executive Committee to carry out the operation and management of our proprietary trading business. When determining these limits, the Board of Directors takes into consideration various factors, including, among others, the regulatory requirements on net capital and other risk control indicators, the shareholders' returns, as well as the Company's ability to sustain its revenue growth and credit ratings.
- *The Executive Committee.* The Executive Committee is the ultimate management body for our proprietary trading business. We have established a Securities Investment Decision-making Committee under the Executive Committee which is responsible for making proprietary investment decisions to the extent authorized by the Board of Directors.
- *The trading departments.* The trading departments execute our proprietary investment decisions. Our trading departments include the Trading Department, the Derivatives Trading Department, the Fixed Income Department, and the Treasury Operation Department. The trading departments are responsible for determining the authorizations for specific products, investment strategies and trading teams, as well as managing our investment portfolios.

We manage the risks associated with our proprietary trading business primarily through the following measures:

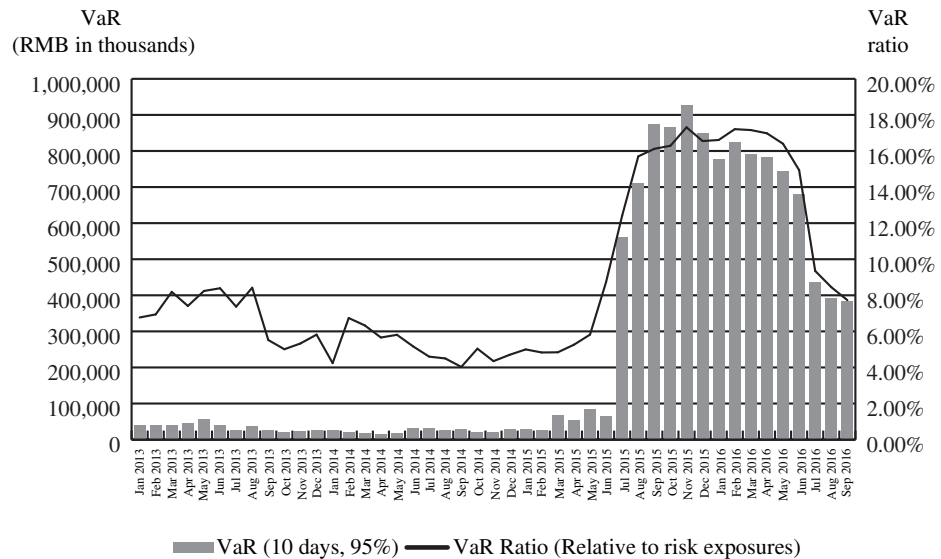
- The trading departments formulate specific investment strategies in accordance with our analysis of the macro-economic and market environments as well as our own business plans and relevant risk limit requirements. Prior to executing an investment strategy, the trading departments conduct simulations to verify its validity and to understand its applicability, restrictions, and potential risks. For high-risk investment strategies that potentially have a significant impact on our business, the Risk Management Department independently conducts verification test;
- We seek to reduce our investment concentration risk by diversifying our portfolios to cover different industries and regions while keeping our total investment size unchanged;

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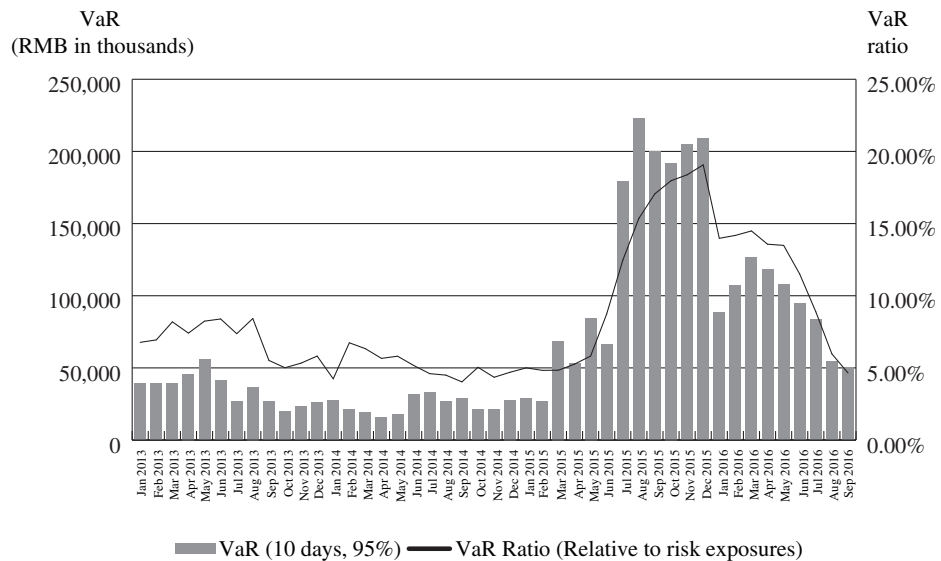
- We set and strictly follow various risk limits for our proprietary trading business. These risk limits are determined based on our annual risk appetite and risk tolerance as well as relevant regulatory requirements, while taking into consideration various other factors, such as the investment size and performance of risk indicators for the previous year, market fluctuations, and our business plans and budgets for the current year. We monitor our compliance with such risk limits through our proprietary investment monitoring system.
- In 2016, the maximum risk tolerance limit the Board of Directors set for our proprietary trading business was 3.8% of our net capital as of the end of 2015, or RMB0.93 billion; the maximum limit for losses under stress scenario (when both the stock and debt markets experience maximum adverse movements for 20 consecutive trading days in the period from 2008 to date) was 12% of our net capital as of the end of 2015, or RMB2.94 billion.
- We assign investment size or exposure limits for each of our proprietary trading departments. In 2016, we assigned an investment size limit of RMB2 billion (excluding the market-stabilizing investments by the CSFCL, direct equity investment, and equity investment held for hedging) for equity investments by the Trading Department, an exposure limit of RMB0.8 billion for the Derivatives Trading Department, and an investment size limit of RMB40 billion for the Fixed-income Department.
- We assign stop-loss limits for each of our trading departments. In 2016, the stop-loss limits we assigned for the Trading Department, the Derivatives Trading Department and the Fixed-income Department were RMB130 million, RMB70 million and RMB300 million, respectively. In addition, the Trading Department has set an internal stop-loss limit of RMB5 million for investment in a single stock, and the Derivatives Trading Department has set internal stop-loss limits of RMB50 million and RMB20 million, respectively, for our trading on the exchanges and in the OTC market.
- We assign VaR limits (measured by a 95% confidence interval and a holding period of 10 trading days) for each of our proprietary trading departments and manage relevant risks by closely monitoring VaR fluctuations. In 2016, the VaR limits we assigned for the Trading Department, the Derivatives Trading Departments and the Fixed-income Department were RMB360 million (excluding the market-stabilizing investments by the CSFCL), RMB90 million and RMB500 million, respectively.

The following charts illustrate the movements of our month-end VaR and VaR ratios during the Track Record Period. We experienced significant fluctuations in the VaR for our investments in equity securities and derivatives since the second quarter of 2015, primarily due to (i) the substantial increase in our VaR ratios (VaR/exposure) caused by the increased volatility in the A-share market, and (ii) the significant increase in our equity investment position as a result of our participation in the stabilization measures taken by the PRC Government. For more information about these measures, please see “Financial Information — Factors Affecting Our Results of Operations — Stabilization Measures in the PRC Stock Market.”

**Month-end VaR for Proprietary Investment in Equity Securities and Derivatives
(including investments by the CSFCL on our behalf)**

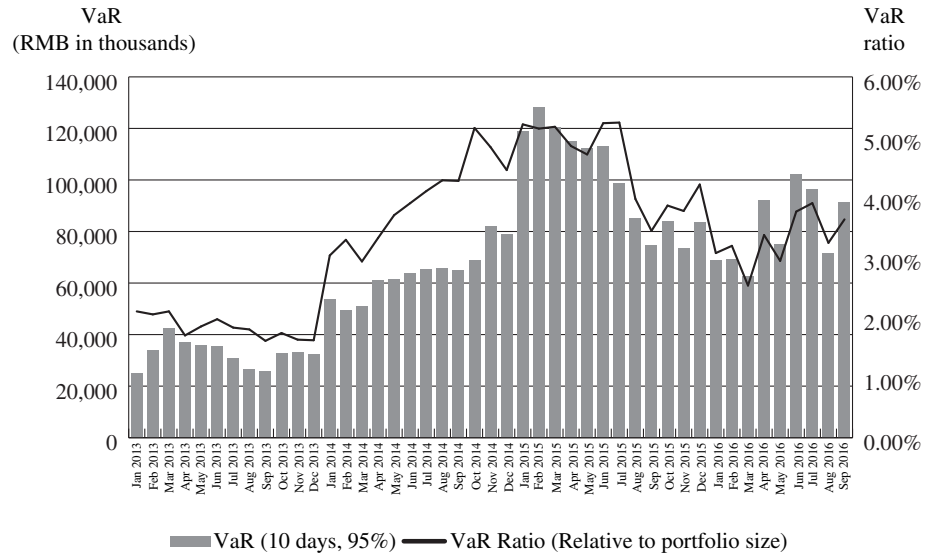


**Month-end VaR for Proprietary Investment in Equity Securities and Derivatives
(excluding investments by the CSFCL on our behalf)**



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Month-end VaR for Proprietary Investment in Fixed-Income Securities and Derivatives



- We seek to ensure that indicators, such as investment size and risk exposure, are maintained within the limits by establishing business parameters. When the limit for a given risk indicator is to be reached, our proprietary trading departments shall adopt timely control measures to prevent it from being exceeded. The Risk Management Department is responsible for monitoring our exposure against various risk limits at the end of each trading day and reporting to the Chief Risk Officer and our proprietary trading departments. If a risk indicator exceeds 80% of its limit, the Risk Management Department shall issue risk warning and to alert the Risk Management Committee under the Executive Committee and the relevant proprietary trading department(s).
- If a risk limit is exceeded, the Risk Management Department shall report the risks to Risk Management Committee under the Executive Committee and the management of the Company and shall oversee the resolution of the risks; our proprietary trading departments shall reduce the relevant risk indicator to a level below such limit within a specified period of time by adjusting portfolio positions and hedging. We require the business departments to reduce the indicators to a level below the limit within five days in the event that VaR and risk sensitivity limits are exceeded. If the stop-loss limit is reached, our proprietary trading departments shall execute stop-loss immediately. In the event of changes in the market condition and our business plans and budgets, the proprietary trading departments may submit an application to adjust risk limits in consultation with the Risk Management Department. The adjusted risk limits will be implemented only upon the approval as authorized by the Company by the units that are authorized to establish them.

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- We maintain eligible securities pools to limit the scope of securities under our directional investment strategies and to control unsystematic risks associated with our securities portfolio. We maintain a “basic pool” of securities that satisfy certain criteria. These securities are chosen based on analysis of our internal researchers and third-party researchers. We also maintain individual securities pools for specific investment strategies;
- Pursuant to applicable regulatory requirements, our holding of a single stock shall not exceed 5% of our total share capital or 30% of our net capital. We have also established certain internal limits on our holding of a single stock based on our risk appetite and investment strategies, such as that the accumulative cost of a single stock shall not exceed RMB300 million and that the market value of a single stock held by us shall not exceed RMB450 million;
- In respect of the scope of credit bond investment, we primarily purchase bonds with external rating of AA or above, and exercise strict control over the size of the bonds that we hold with external ratings of AA- or below. As of June 30, 2016, approximately 98.5% of the credit bonds we held had external rating of AA or above;
- We seek to hedge against risks and contain our exposure at a controllable level by entering into stock index futures, treasury futures and interest rate swap transactions, so as to prevent significant fluctuations in the performance of our investment portfolios;
- We closely monitor our business scale, collateral ratios, changes in the value of the collaterals we hold and other significant information that may affect securities prices and perform mark-to-market for changes in the market value of our investment portfolios, fluctuations in the price or value of a particular security or derivative, as well as risk limits. As for the OTC derivatives trading business and securities repurchase business, we have established control standards in terms of the type of permitted collateral, collateral ratio, concentration and liquidity and the limits for margin calls and mandatory liquidation based on a various factors, including the type of risks involved in the relevant business, market fluctuations and the creditworthiness of the counterparties, in order to ensure the effectiveness of the collaterals in mitigating risks associated with the counterparties. In the duration of the transaction, our business departments are required to designate personnel to perform mark-to-market on the value fluctuation of the collaterals. The Risk Management Department monitors our exposure to each counterparty and the adequacy and fluctuations in the value of the collaterals, performs analysis and evaluation, and sends risk alerts to relevant business departments. When the limit for margin calls is reached, we request the client in a timely manner to provide additional collaterals. When the limit for mandatory liquidation is reached, our business departments dispose of the collaterals pursuant to the relevant agreements and makes filings to the Risk Management Department regarding the disposition; and

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- We implement the following measures to manage the risks related to our other proprietary investments, which primarily include wealth management products, trust schemes and asset management schemes: (i) evaluating the credentials of the potential counterparties and limiting our investment to products issued by financial institutions with sound creditworthiness and strong management capabilities; (ii) establishing limits on the amount of investment by each of our proprietary trading departments in these products; for wealth management products issued by commercial banks which we purchase for liquidity management purposes, we have also established requirements on the creditworthiness of the issuer as well as limits on the amount of investment in products issued by a single issuer; (iii) carrying out comprehensive due diligence on the creditworthiness of the ultimate borrowers and establishing limits on our exposure to such ultimate borrowers; and (iv) designating differentiating internal funding cost based on various parameters, such as capital utilization, liquidity and risk profile, for each type of these products in order to ensure reasonable allocation of resources.

Investment Management Business

Asset Management Business

We have developed a comprehensive risk management system for our asset management business, which covers:

- *The Board of Directors.* The Board of Directors is the ultimate decision-making body for our asset management business. The Board of Directors authorizes the Executive Committee to carry out the operation and management of our asset management business.
- *The Executive Committee.* The Executive Committee is the ultimate management body for our asset management business. We have established a Securities Asset Management Decision-making Committee under the Executive Committee which is responsible for the overall management of our asset management business, including determining the amount allocated to major asset classes, investment areas and investment restrictions, and approving new products.
- *The Asset Management Department.* The Asset Management Department is responsible for the day-to-day operation of our asset management business. The Asset Management Department maintains a set of well-established operational rules and procedures and is responsible for implementing various risk management measures at the execution level.

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We manage the risks associated with our asset management business primarily through the following measures:

Separation of duties

We have a clear division of duties within the Asset Management Department to ensure that investment decision-making is segregated from other roles, such as sales, trading, custody and clearing. The investment managers for collective asset management products shall not concurrently act as the managers for targeted asset investment products.

Investment decision-making

We conduct extensive research on the macro-economics, industry and investment targets in order to identify potential risks in a timely manner, quantify the potential losses when such risks materialize, and promptly take appropriate actions.

Custody of client funds

We deposit with third-party custodian banks the clients' funds which shall be strictly segregated from our own funds.

Take-profit and stop-loss

We set take-profit and stop-loss limits on our asset management business. The Risk Management Department issues profit warnings to the relevant investment managers when the take-profit limit is exceeded, and requires relevant investment managers to enforce stop-loss immediately when the stop-loss limit is exceeded. If there are reasonable reasons for not closing out the position, the relevant investment manager shall report such decision to his or her supervisors for approval pursuant to our internal rules and procedures. Where it is decided, after internal consultation, not to enforce take-profit/stop-loss for certain securities, such decision shall be reported to the Securities Asset Management Business Decision-making Committee for approval.

Private Equity Investment

We engage in private equity investment through China Securities Capital, one of our subsidiaries. China Securities Capital adopts a comprehensive risk management strategy and has established a sound risk management system. China Securities Capital maintains well-established risk and compliance management rules and procedures and exercises risk and compliance management throughout the business cycle, including project initiation, due diligence, investment decision-making, post-investment management, and exit. China Securities Capital establishes a dedicated working team for each investment project and

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requires the risk management officers and the business personnel to be jointly responsible for completing the applicable risk control procedures concerning the major types of risk associated with key investment projects. China Securities Capital also requires the heads of the project teams to report potential risks identified in the course of investment management in a timely manner. In addition, consistent with market practice, China Securities Capital requires the members of the decision-making committee and the project teams to invest in the funds, align their interests with those of the investors and to further mitigate potential moral hazards and operational risks. We also dispatch personnel at the Risk Management Department and the Legal & Compliance Department to work at China Securities Capital's risk management committee and requires China Securities Capital to submit a monthly risk event report to us in order to enhance our management of risks associated with our private equity investment business.

Mutual Fund Business

We engage in mutual fund business through China Securities Funds, one of our subsidiaries. China Securities Funds maintains a well-established investment decision-making mechanism and has adopted the following measures to manage the risks associated with mutual fund business: (i) requiring fund managers and members of the investment decision-making committee to make investment decisions within their respective scope of authorization and in accordance with the procedures set forth in the offering documents; (ii) closely monitoring factors that may affect the liquidity of our funds, such as cash flows generated by subscriptions and redemptions as well as seasonality, and establishing portfolio liquidity monitoring parameters to achieve real-time liquidity management; (iii) establishing standardized operational procedures and requiring key business operations to be approved by two officers; (iv) intensifying maintenance of IT systems, formulating standardized procedures for fund formation and parameter setting, and managing parameter setting for product launch and day-to-day product operation in strict compliance with our internal procedures; (v) disclosing information in relation to our mutual funds in a timely and accurate manner; and (vi) submitting monthly risk event reports to the headquarters.

Overseas Business

We engage in overseas business primarily through China Securities International, one of our subsidiaries. The risk management measures China Securities International has taken primarily include: (i) establishing a comprehensive risk management structure with defined categories of risk and a well-established division of responsibilities, and allocating sufficient manpower to cover major business lines and types of risk; (ii) formulating risk management rules and procedures in accordance with the risk management structure to provide specific guidance on risk assessment and control activities; (iii) assessing the risks associated with its various business lines pursuant to relevant rules, procedures and processes to maintain these risks at a tolerable level; (iv) requiring transactions to be approved, as the case may be, by a committee or another authorized approver under a chain of authority so as to ensure the effectiveness of risk management; (v) performing day-to-day monitoring of market risks and credit risks and preparing regular reports, which provide information and recommendations to facilitate the overall risk control and management; (vi) identifying, preventing and resolving potential risk issue at an early stage; and (vii) designating interdepartmental risk management coordinators and creating similar positions at various business departments and middle and

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back offices. In addition, we seek to further intensify risk management in relation to our overseas business by setting and monitoring risk limits in connection with our overseas proprietary business and liquidity management on a monthly basis; dispatching risk control, compliance, and financial management personnel to China Securities International; and requiring China Securities International to submit monthly risk event reports to the headquarters.

New Businesses and Products

We define “new businesses and products” as (i) proposed businesses or products which may have a material effect on our business operations or pose certain level of risks, or those in which we invest our own funds; and (ii) proposed innovative businesses and products that have not been defined under current regulatory framework. We have taken the following measures to manage the risks associated with our new businesses and products: (i) maintaining a clear division of responsibilities among the Board of Directors, the Executive Committee and the Risk Management Committee thereunder as well as various other departments in connection with the launch of new businesses and products; (ii) requiring a feasibility report to be prepared before the launch of new businesses and products; (iii) requiring the business department that contemplates launching a new business or product to prepare and improve a proposal based on its business plans and feedback from other relevant departments; (iv) requiring the Risk Management Department to issue a risk evaluation report and the Legal & Compliance Department to issue a legal and compliance opinion for the proposed new business or product; (v) requiring the proposals to be submitted to the Risk Management Committee under the Executive Committee for review and approval and, for certain proposals, to be also submitted to the Executive Committee or the Board of Directors for review and approval in accordance with predetermined division of approval authority; and (vi) formulating risk limits and risk control standards specific to new businesses and products and, in a timely manner, expand our comprehensive risk management system to cover such businesses and products.

Conflicts of Interest and Chinese Walls

In accordance with relevant laws and regulations, we maintain a set of well-established internal rules and procedures concerning conflicts of interest as well as information barriers, or Chinese walls. We seek to ensure that our employees and business departments act with an appropriate level of independence when engaging in business involving potential conflicts of interest; for existing and potential conflicts of interest, we make full disclosure to our clients to enable them to make an informed decision in light of relevant risks. Where necessary, we impose limitations on relevant business operations, guided by the notion that our clients come first and that all clients shall be equally treated. Our measures on conflicts of interest and information barriers mainly include:

- Enforcing strict segregation among our various businesses, including proprietary trading, asset management, brokerage and investment banking businesses, in a variety of aspects such as personnel, information, accounts, funds, financing accounting and clearing;

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- Formulating specific guidelines with detailed provisions for key aspects of the information barrier, including the basic rules, scope of sensitive information, and “cross the wall” mechanism, as well as requirements relating to the management of watch and restricted lists;
- Defining the duties of the management and our employees concerning information barrier; in particular: (i) the Board of Directors shall be ultimately responsible for decision-making in connection with, and overseeing the effectiveness of, our Chinese walls; (ii) the Executive Committee shall be directly responsible for leading our efforts in implementing information barrier; (iii) the heads of each of our business lines and functional departments shall be responsible for ensuring that the activities of the relevant business line and departments are in compliance with our Chinese walls; and (iv) all of our employees shall comply with laws and regulations and internal rules concerning information barrier and are required to report any existing or potential violations of such laws, regulations and rules committed by other employees;
- Our securities underwriting and sponsorship business and financial advisory business relating to securities trading and investment, among others, are known as private side because these groups may have access to insider information or are otherwise required to do so as business operations demand, while all other businesses are known as the public side. We maintain Chinese Walls between the private side and the public side. Collaborations between business departments across the wall shall be subject to the approval by the department requesting insider information, the department providing such information, as well as the Legal & Compliance Department. Personnel that receive any insider information when crossing the wall are not allowed to disclose such information until it becomes public;
- Exercising centralized management of sensitive information by maintaining a restricted list and a watch list. The Legal & Compliance Department is responsible for maintaining such lists; and
- Providing continuous compliance training, conducting compliance inspections and enforcing accountability policies to ensure that our rules and procedures and other relevant measures on information barrier are strictly implemented.

Anti-money Laundering

We strictly comply with PRC applicable anti-money laundering laws and regulations and relevant PBOC and CSRC regulations and have incorporated anti-money laundering into our internal control system and our day-to-day business operations. We maintain a three-level anti-money laundering organizational structure consisting of an anti-money laundering leading team at the management level, an anti-money laundering office consisting of the heads of the Legal & Compliance Department and other relevant departments, as well as anti-money laundering leading teams at our various business departments and branches. We verify the identities of our clients and classify them in terms of the risk of involving in money laundering activities, and properly maintain their identity information and transaction data.

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We maintain higher standards of scrutiny and monitoring for high-risk clients. In addition, we perform ongoing monitoring, screening and reporting of large and suspicious transactions in accordance with applicable regulatory requirements. The Legal & Compliance Department reports anti-money laundering information to the Anti-money Laundering Monitoring and Analysis Centre of the PBOC on a regular basis.

In addition, from time to time, we organize publicity activities aimed at raising our clients' awareness of the importance of anti-money laundering and organize special training sessions on anti-money laundering for our employees. We facilitate the PBOC in conducting onsite inspection and offsite monitoring of our anti-money laundering activities. The Legal & Compliance Department and the Audit Department are jointly responsible for organizing firm-wide internal inspections on anti-money laundering.

We have not participated or intentionally assisted in any money laundering activities. For risks concerning money laundering, please see "Risk Factors — Risks Relating to Our Business and Industry — We may not be able to fully detect money laundering and other illegal or improper activities in our business operations on a timely basis."

INFORMATION TECHNOLOGY

Our IT systems are critical to our business operations and our future sustainable development. Our IT Department is dedicated to developing and maintaining our IT systems. We have established a full range of IT systems covering our various business lines and management and functional departments with a client-centric business philosophy and a goal of supporting our business operations to the greatest extent possible.

We have adopted a series of measures to improve the stability and reliability of our IT systems and manage IT risks in our business operations so as to safeguard our business continuity and information security. For example, we utilize various IT safety control measures, including firewalls, data encryption and intrusion detection, customer identity verifications and SSL certificates as well as IP and MAC address tracking, to ensure our Company's and our customers' information safety and the smooth operation of our IT systems. In addition, our online trading system remains stable under high trading volumes, due to the load-balancing technology applied in our application server, which enables us to distribute workloads across multiple computing resources. To reduce risks arising from system failures, we have adopted various data backup measures for our key systems. We have established a multi-tiered disaster recovery system at three central server farms in Beijing and Shanghai, providing data back-up for our online and mobile platforms and allowing for high-speed switching between principal and back-up systems for our core businesses during emergencies. We also use multiple telecom networks and have established multiple access servers at different locations, which enables our customers to connect to our online platforms with stable and secure connection.

For the past years, we have consistently invested large amount of resources in improving and upgrading our IT systems to provide safe and stable technical services and to support our continuous business growth. As of June 30, 2016, we had 401 technicians in the IT Department. In 2013, 2014 and 2015 and for the six months ended June 30, 2016, our capital expenditure for information technology was RMB104.1 million, RMB143.6 million,

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RMB208.5 million and RMB53.1 million, respectively. We believe that our IT systems will continue to enable us to improve our transaction management and client services and enhance the level of efficiency of our internal management and operations.

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we did not own any registered trademarks in the PRC. We are licensed by the CITIC Group to use its certain registered trademarks in the respective registration areas for a term of three years expiring on April 30, 2019. Considering our good relationship with CITIC Group, we anticipate that we will continue to be able to renew the license upon its expiry to use the aforementioned trademarks. Please see “Appendix VI — Statutory and General Information — Further Information about Our Business — Intellectual Property Rights” to this prospectus for further information. We have not been subject to any material infringement of our intellectual property rights or allegations of infringements by third parties during the Track Record Period and up to the Latest Practicable Date.

INSURANCE

We purchase insurance for our IT systems, vehicles and certain other property. Consistent with market practice in the PRC, we do not maintain any business interruption insurance. We believe that we have purchased sufficient insurance coverage to the extent necessary for our business operations in accordance with the industry practice. All of our insurance policies are underwritten by reputational insurance companies. We review our insurance policies on an annual basis.

EMPLOYEES

As of June 30, 2016, we had 8,633 employees. The following table sets out the breakdown of our employees by function as of June 30, 2016:

	Number of employees	% of total
Principal businesses	7,355	85.2%
Risk management	35	0.4%
Legal & compliance	209	2.4%
Finance & accounting	309	3.6%
Information technology	401	4.6%
Others	324	3.8%
Total	8,633	100.0%

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The following table sets out the breakdown of our employees by region as of June 30, 2016:

	<u>Number of employees</u>	<u>% of total</u>
Beijing	2,513	29.1%
Other directly-administered municipalities and provinces in the PRC	5,958	69.0%
Hong Kong	162	1.9%
Total	8,633	100.0%

The following table sets out the breakdown of our employees by age as of June 30, 2016:

	<u>Number of employees</u>	<u>% of total</u>
30 or below	4,582	53.1%
31 to 40	2,583	29.9%
41 to 50	1,180	13.7%
50 or above	288	3.3%
Total	8,633	100.0%

The following table sets out the breakdown of our employees by academic qualifications as of June 30, 2016:

	<u>Number of employees</u>	<u>% of total</u>
Doctor's degree	51	0.6%
Master's degree	2,437	28.2%
Bachelor's degree	4,292	49.7%
Junior college graduate and below	1,853	21.5%
Total	8,633	100.0%

We enter into employment contract with each employee as required under relevant PRC laws and regulations. Consistent with market practice, our compensation structure consists of base salary which is determined based on the specific position, requirements of qualification and working experience and market demand, as well as performance-based bonuses. As required under PRC laws and regulations, we provide our employees with benefit plans, which include pension insurance, medical insurance, workplace injury insurance, unemployment insurance, maternity insurance, and contribution to housing funds. We also provide our employees with various supplementary compensation benefits, including annual medical examination, holiday allowance, and relocation allowance.

Professional employees are an important cornerstone for our long-term growth. To improve our employees' professional skills, we provide a variety of trainings for our employees at different levels, including orientation training for new employees, professional skills training, qualification training, overseas exchange programs, and E-learning.

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We have set up a labor union in accordance with PRC laws and regulations. We believe that we have maintained good working relationships with our employees. During the Track Record Period, we have not experienced any strike, protest or other serious labor disputes that may severely damage our business or reputation.

PROPERTIES

Our headquarters are located at Hong'an International Building, No. 188 Chaonei Avenue, Dongcheng District, Beijing, PRC. As of the Latest Practicable Date, we owned 14 properties in the PRC with a total GFA of approximately 49,377.8 square meters. As of June 30, 2016, we leased 329 properties in the PRC with a total GFA of approximately 192,618.4 square meters and five properties in Hong Kong with a total GFA of approximately 19,736 square feet.

As of the Latest Practicable Date, no single property accounted for 15% or above of our consolidated total assets by book value. Therefore, this prospectus is exempt from the requirements under Chapter 5 of Hong Kong Listing Rules and Paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance that the interests in the lands and buildings shall be included in the valuation report according to section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Self-owned Properties

As of the Latest Practicable Date, we have obtained complete and effective building ownership certificates for all of the 14 properties we owned. Our PRC legal advisor has confirmed that we have the legal title to such properties and thus have the right to occupy, use, transfer, lease, pledge or otherwise dispose of such properties.

Leased Properties

As of June 30, 2016, we leased 329 properties in the PRC with a total GFA of approximately 192,618.4 square meters. Among such leased properties:

- the lessors of 294 leased properties (representing approximately 91.6% of the total GFA of our leased properties) have provided us with the building ownership certificates or other valid ownership certificates for such leased properties. Our PRC legal advisor has confirmed that we have the lawful right to occupy and use such leased properties;
- the lessors of 34 leased properties (representing approximately 8.2% of the total GFA of our leased properties) failed to provide the building ownership certificates or other valid title documents for such leased properties. As of the Latest Practicable Date, among such properties, the lessors of 32 properties (representing approximately 8.1% of the total GFA of our leased properties) have undertaken to compensate us for economic losses incurred as a result of the title defects in such leased properties; and
- the lessor of one leased property (representing approximately 0.2% of the total GFA of our leased properties) was not the owner of the leased property as shown on the building ownership certificate and did not provide proof of lawful authorization

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from the owner for leasing such property. As of the Latest Practicable Date, the lessor of such property has undertaken to compensate us for economic losses incurred as a result of risks and disputes relating to the invalidity, revocation, rescission or impossibility of performance of the lease contract caused by the absence of lawful authorization.

Under PRC laws, if the lessor of a leased property does not own such property or is not otherwise authorized by the owner to lease such property, we may lose our right to continue to lease such property. However, we believe that the above-mentioned leased properties with title defects would not have a material adverse effect on our business operations and financial condition, because (i) the defective leased properties accounted for a small portion of our total leased properties; (ii) the defective leased properties have been used primarily as offices and staff dormitory, and we are able to relocate to alternative premises in adjacent regions without a material adverse impact on our operations and financial position; and (iii) our PRC legal advisor confirmed that under PRC laws, if we were not able to continue to lease any of the defective properties due to such title defects, we have the right to require the relevant lessor to compensate us for our losses pursuant to the relevant lease contract and/or, if applicable, the undertaking made by such lessor.

In addition, as of the Latest Practicable Date, we leased five properties in Hong Kong with a total GFA of approximately 19,736 square feet. Such properties were used as offices or for residential purposes.

LAWS AND REGULATIONS

Licensing Requirements

We conduct our business mainly in the PRC and are therefore subject to the regulatory requirements of the PRC. Our Directors and PRC legal advisor confirm that, during the Track Record Period and up to the Latest Practicable Date, we have complied with relevant PRC regulatory requirements and guidelines in all material respects and have obtained the permits and licenses necessary for our operations in the PRC in accordance with PRC laws and regulations. We renew our business permits and licenses according to relevant laws and regulations from time to time. To the knowledge of our Directors after due inquiry, our Directors confirmed that as of the Latest Practicable Date, all of our employees and brokers have obtained the relevant licenses as required for their business activities.

Under relevant regulatory requirements in Hong Kong, our Hong Kong subsidiaries shall obtain necessary licenses as required under applicable laws before engaging in relevant businesses in Hong Kong. Please see “Regulatory Environment — Hong Kong Laws and Regulations — Types of Regulated Activities” for more information regarding the business licenses currently held by our Hong Kong subsidiaries. Our Directors confirm that, save as otherwise disclosed in this prospectus, during the Track Record Period and up to the Latest Practicable Date, we have complied with the relevant regulatory requirements and guidelines of Hong Kong in all material respects and obtained the permits and licenses necessary for our operations in Hong Kong in accordance with the laws and regulations of Hong Kong.

Legal Proceedings

We may become a party to legal proceedings arising in the ordinary course of our business. Our Directors confirm that, up to the Latest Practicable Date, there were no pending or threatened legal proceedings against us or our Directors that could, individually or in aggregate, have a material adverse effect on our business, financial condition, results of operations, or reputation. As of the Latest Practicable Date, we were involved in one pending litigation with a claim amount of over RMB10 million.

Dispute with Yu Xiaofeng over Margin Financing and Securities Lending Business

On June 1, 2016, the People's Court of Chaoyang District of Beijing (the "**Court of First Instance**") accepted the civil lawsuit filed against us by Yu Xiaofeng ("**Ms. Yu**"). In September 2012, Ms. Yu entered into a Margin Financing and Securities Lending Business Contract (the "**Business Contract**") with us and opened a credit account to engage in margin financing and securities lending business. Ms. Yu alleged that she suffered substantial economic loss because we accessed her credit account without her prior consent, and later enforced mandatory liquidation of her position on June 30, 2015 (the "**Mandatory Liquidation Date**"). Ms. Yu therefore demanded that we restore her account to the state in terms of assets as of June 1, 2015, namely RMB371,334.55 in cash and certain stocks, and bear the relevant litigation expenses. The case was tried on July 6 and July 21, 2016. During the trials, Ms. Yu amended her claims, requiring us to restore her account to the state in terms of assets as of the Mandatory Liquidation Date, namely RMB4,333,680 in cash and certain stocks, and to bear the relevant litigation expenses. On July 13, 2016, we filed an objection to the jurisdiction of the Court of First Instance pursuant to the arbitration clause in the Business Contract. On September 19, 2016, the Court of First Instance rendered a decision to dismiss Ms. Yu's claims based on the ground that the dispute shall be settled by arbitration as agreed by both parties, and delivered to Ms. Yu and us the decision the next day. On September 26, 2016, Ms. Yu appealed to the Third Intermediate People's Court of Beijing (the "**Court of Second Instance**"), requesting that the case be remanded to the Court of First Instance. As of the Latest Practicable Date, the Court of Second Instance has not rendered any judgment on this case.

Based on (i) our and our PRC legal advisors' assessment of a low probability for the court to rule in favor of Ms. Yu, (ii) the amount of our maximum potential liability in connection with this litigation, (iii) that we were not subject to any administrative penalties or regulatory measures from the authorities in connection with this case (although the employee involved in this incident processed Ms. Yu's trading instructions without proper authorization and was therefore subject to administrative penalties from the CSRC and our internal disciplinary actions), and (iv) that none of our Directors or senior management was implicated in Ms. Yu's allegations or otherwise involved in the case, our Directors and our PRC legal advisors confirm that the above litigation will not have any material adverse effect on our business, financial position or results of operations.

Regulatory Non-compliance

We are subject to various regulatory requirements and guidelines promulgated by the regulatory authorities and self-regulatory organizations in the PRC and Hong Kong, including but not limited to the CSRC, the PBOC, the SFC, Shanghai Stock Exchange, Shenzhen Stock Exchange, Hong Kong Stock Exchange, the NEEQ Company, the AMAC and the SAC, as well as, where applicable, their respective local branches and offices. We and our employees may be involved in regulatory non-compliance incidents from time to time. We set out below details of non-compliance incidents that led to deduction of regulatory points during the Track Record Period and up to the Latest Practicable Date, as well as the primary remedial or rectification measures we adopted. The main consequence of a deduction of regulatory points is that it may lead to a downgrade of our regulatory rating. Please see “Regulatory Environment — PRC Laws and Regulations — Corporate Governance and Risk Control — Corporate Governance and Risk Control of Securities Firms — Classified Regulation” for details of the system of regulatory points. The non-compliance incidents as set out below did not result in the downgrade of our regulatory rating.

<u>Non-compliance Incidents</u>	<u>Our Primary Remedial or Rectification Measures</u>
<p>On March 1, 2013, the CSRC Guangdong Regulatory Bureau (the “CSRC Guangdong Bureau”) required our Guangzhou futures branch (the “Guangzhou Futures Branch”) to take rectification measures. The CSRC Guangdong Bureau determined that the futures accounts of two of our clients had been handled by third parties other than the account holders. Such third parties answered all the telephone calls requesting additional collaterals, deposited the additional collaterals, and closed out the positions without being appointed by the account holders as their agents pursuant to the relevant futures brokerage contracts between the account holders and the Guangzhou Futures Branch. The CSRC Guangdong Bureau also found that although the Guangzhou Futures Branch was aware of the issues described above, it failed to disclose the potential risks to the account holders or require them to complete relevant procedures; nor did it take any measures to ensure the security of client transactions and assets. The CSRC Guangdong Bureau determined that the above conduct violated the futures brokerage business rules and regulatory requirements concerning risk management and security of client transactions and assets, and required us to take rectification measures and submit a written rectification report.</p>	<p>This incident was due to the failure of the Guangzhou Futures Branch to effectively implement regulatory rules and internal control requirements regarding risk disclosure to clients. After the incident occurred, we imposed certain internal disciplinary actions against the manager of the Guangzhou Futures Branch and other personnel involved in the incident, and took the following rectification measures: (i) conducting comprehensive investigation through telephone interviews with, and on-site visits to, the clients who had traded on-site at the Guangzhou Futures Branch since 2013 in order to determine whether the accounts were operated by the account holders; (ii) requiring our staff to confirm whether the accounts were operated by the account holders and, if not, disclose the potential risks to the clients and require them to complete relevant procedures; (iii) requiring our staff who are responsible for opening accounts to strictly perform follow-up interviews on clients; and (iv) requiring all the branches to physically segregate the office area and the trading area.</p> <p>In March 2013, the CSRC Guangdong Bureau issued a certificate to prove that we had passed the acceptance check on the rectification measures we had adopted. As of the Latest Practicable Date, we have not received any further comments from the CSRC Guangdong Bureau regarding such incident.</p>

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Non-compliance Incidents

On July 19, 2013, the CSRC Beijing Regulatory Bureau (the “**CSRC Beijing Bureau**”) imposed certain regulatory measures against us, including requiring us to increase the frequency of compliance inspections. The CSRC Beijing Bureau determined that the funds under the Guibin No. 1 Special Capped Collective Asset Management Plan (the “**Guibin No. 1**”) we launched in February 2013 had been invested in single capital trust plans, exceeding the scope of permitted investment as stipulated in the Implementation Rules for Collective Asset Management Business of Securities Firms. The CSRC Beijing Bureau therefore required us to increase the frequency of internal compliance inspections, requiring us to conduct an internal compliance inspection every three months on our asset management business for the period from August 1, 2013 to July 31, 2014 (the “**Filing Management Restricted Period**”) and submit an inspection report within 10 business days after the completion of each inspection. On August 15, 2013, the China Securities Capital Market Development Monitoring Centre Company Limited (the “**Monitoring Centre**”) classified our asset management business into the “restricted category” in respect of the issues above.

Our Primary Remedial or Rectification Measures

This incident was due to our failure to effectively implement regulatory rules regarding the scope of permitted investment for asset management business at the time the incident occurred. After the incident occurred, we increased the frequency of our internal compliance inspections and submitted inspection reports as required by the CSRC Beijing Bureau, and strictly followed the rules concerning filing of relevant products in accordance with requirements of the Monitoring Centre during the Filing Management Restricted Period. Moreover, we have adopted the following measures to prevent similar violations in the future: (i) requiring personnel of the business departments to enhance their understanding of relevant laws and regulations; (ii) identifying potential compliance risks in our asset management business in accordance with current laws and regulations; (iii) further strengthening preventive, concurrent and corrective risk monitoring and management for our asset management business transaction; and (iv) conducting regular compliance inspections, and rectifying the problems identified during such inspections in a timely manner. In addition, as the asset manager, we liquidated Guibin No. 1 upon its maturity in February 2015 and completed asset distribution pursuant to the terms of the relevant contract.

We submitted a written rectification report in respect of the above measures to CSRC Beijing Bureau in October 2013. In November 2013, the Monitoring Centre had restored the filing category of our asset management business from “restricted” to “normal.” As of the Latest Practicable Date, we have not received any objections or further comments from the CSRC Beijing Bureau in respect of the above-mentioned rectification report.

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Non-compliance Incidents

In its evaluation of securities firms in 2014, the CSRC Beijing Bureau determined that during the review period we had failed to maintain an independent director with five or more years of related accounting experience in the Audit Committee under the Board of Directors. The CSRC Beijing Bureau determined that this violated relevant provisions in the Rules for Governance of Securities Firms and required us to take rectification measures.

On August 26, 2013, the CSRC Shenzhen Regulatory Bureau (the “**CSRC Shenzhen Bureau**”) required our securities branch located at CNNC Tower, Shennan Zhong Road, Shenzhen, Guangdong (the “**CNNC Tower Securities Branch**”) to take certain rectification measures. The CSRC Shenzhen Bureau determined that on June 1, 2013, a broker at the CNNC Tower Securities Branch organized a seminar within the premises of the CNNC Tower Securities Branch for the purpose of developing new clients. However, certain attendees who spoke at the seminar did not have the qualification for providing securities investment advisory services. In addition, the CNNC Tower Securities Branch failed to retain the meeting materials and information of the attendees. The CSRC Shenzhen Bureau determined that such conduct violated relevant regulatory requirements and required us to take rectification measures, conduct internal investigation and hold relevant personnel accountable as well as submit a written rectification report.

Our Primary Remedial or Rectification Measures

This incident was due to our failure to timely appoint at least one qualified independent director. We had appointed an additional independent director and had completed relevant procedures for such appointment with the CSRC Beijing Bureau in June 2015. As of the Latest Practicable Date, we have not received any further comments in respect of such incident from the CSRC Beijing Bureau.

This incident was due to the failure of the CNNC Tower Securities Branch to effectively implement regulatory rules and internal control requirements regarding the practices of securities brokers. After the incident occurred, we terminated our agency arrangement with the broker involved and took certain internal disciplinary action against other relevant personnel at the CNNC Tower Securities Branch. In addition, we had adopted the following rectification measures to prevent the reoccurrence of similar incidents: (i) forming a rectification supervisory team and a special rectification team to fully implement the rectification; (ii) going through relevant internal rules and procedures and providing internal compliance training to strengthen the management of the conducts of securities brokers and investment advisory activities carried out at our branches; (iii) requiring all of our branches to conduct comprehensive self-assessment and rectification, intensifying the management of our securities brokers and increasing the number of personnel responsible for the management of securities brokers; and (iv) conducting ongoing supervision on the CNNC Tower Securities Branch and implementing more stringent requirements on the management of existing brokers and engagement of new brokers.

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Non-compliance Incidents

On January 27, 2014, the CSRC imposed administrative penalties on Ding Yansen, formerly an analyst at our securities branch located at Hong Qi Nan Lu, Tianjin. The CSRC determined that in March, 2009, Ding Yansen consented to the publishing of stock recommendation articles in his name on the internet in exchange for certain financial gains, and by doing so, Ding Yansen breached his fiduciary duties as an industry practitioner and relevant regulatory requirements. The CSRC therefore imposed on Ding Yansen a fine of RMB30,000, confiscated his illegal gains, and suspended his qualification for providing securities investment advisory services for one year. Ding Yansen departed in 2010.

Our Primary Remedial or Rectification Measures

We submitted a written rectification report to the CSRC Shenzhen Bureau in respect of the above measures in September 2013. As of the Latest Practicable Date, we have not received any objections or further comments in respect of such report from the CSRC Shenzhen Bureau.

This incident was due to the failure of Ding Yansen to comply with regulatory rules regarding the fiduciary duties of an industry practitioner and indicates that our supervision of the professional practices of our employees was inadequate at the time the incident occurred. We imposed certain internal disciplinary actions on Ding Yansen after the incident occurred in 2009. In addition, to further enhance the management of investment advisory services provided through our branches, we required the staff at our branches engaging in investment advisory services to identify the name of the Company or the respective branch, and to complete necessary approval procedures, including submitting it to the Legal & Compliance Department at the headquarters for approval, before publishing any article in any media.

We were not required by the CSRC to submit a written rectification report for the incident. As of the Latest Practicable Date, we have not received any further comments in respect of such incident from the CSRC.

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Non-compliance Incidents

On July 4, 2014, the NEEQ Company decided to conduct a regulatory meeting with us. The NEEQ Company determined that certain information in the 2013 annual report of AVIC BIAM New Materials Technology and Engineering Co., Ltd. (“**AVIC New Materials**”) was not disclosed in a manner that complies with relevant regulatory guidelines, and we, as the chief agency broker that provided recommendation and quotation services and ongoing supervision and guidance for AVIC New Materials, was not able to fulfil our obligations of providing supervision and guidance when we supervised the preparation of the annual report of AVIC New Materials.

Our Primary Remedial or Rectification Measures

This incident occurred because we, as the chief agency broker, failed to effectively review the compliance with applicable regulatory requirements of the information disclosure documents of AVIC New Materials. After the incident occurred, we circulated a notice of criticism on the project team for AVIC New Materials within our investment banking division. We have also adopted various rectification measures, mainly including: (i) requiring the project team members who are responsible for supervision and guidance to learn about the compliance requirements, and reiterating their duties in conducting prior reviews; (ii) requiring the project team member who is responsible for supervision and guidance to conduct comprehensive self-examinations on the performance of the ongoing supervision and guidance obligations and summarizing the issues identified, and intensifying our business training efforts; (iii) requiring project teams to intensify their assistance for companies that pursue quotation on NEEQ in improving their information disclosure and requiring the Investment Banking Department to increase the frequency of information disclosure training for NEEQ quoted companies; (iv) creating a position of ongoing supervision & guidance specialist who shall be responsible for reviewing the formalities of information disclosure documents of NEEQ quoted companies.

We were not required by the NEEQ Company to submit a written rectification report for the above measures. As of the Latest Practicable Date, we have not received any further comments in respect of the incident from the NEEQ Company.

Non-compliance Incidents

On October 16, 2014, the CSRC Zhejiang Regulatory Bureau (the “**CSRC Zhejiang Bureau**”) decided to have a regulatory meeting with our sponsor representatives who were in charge of the private placement of Aerospace Communications Holdings Co., Ltd. According to the CSRC Zhejiang Bureau, (i) such sponsor representatives did not conduct on-site inspections in the course of performing ongoing supervision and guidance and failed to identify recognizing revenue from fraudulent transactions, as well as certain internal control deficiencies including non-compliant authorization procedures for the shareholders’ meeting and loans extended to third parties in a manner that violated relevant internal rules; and (ii) such sponsor representatives failed to fulfil their obligations in providing supervision and guidance for listed companies to ensure that they operate in a compliant manner and that information is properly disclosed, and had therefore violated relevant regulatory requirements.

Our Primary Remedial or Rectification Measures

This incident was due to our failure to fully discharge our obligations of providing ongoing supervision and guidance for the issuer in such project in strict compliance with relevant regulatory requirements. After the incident occurred, we had held the relevant sponsor representatives accountable and imposed internal penalties against them. We have also adopted the following measures to reduce the risks arising from inadequate performance of our ongoing supervision and guidance obligations: (i) clarifying that the respective responsible persons of the various departments within our investment banking business shall be responsible for the quality management and risk control of that department; (ii) further improving rules and procedures concerning ongoing supervision & guidance specialists, increasing the number of personnel responsible for ongoing supervision and guidance, and intensifying our efforts to manage on-site inspections; and (iii) conducting regular on-site examinations on the performance of the ongoing supervision and guidance obligations of our personnel and increasing our efforts in conducting project review.

Except for a written report we volunteered to submit to the CSRC Zhejiang Bureau in October 2014, we were not required by the CSRC Zhejiang Bureau to submit a written rectification report. As of the Latest Practicable Date, we have not received any further comments from the CSRC Zhejiang Bureau regarding the incident.

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Non-compliance Incidents

On January 23, 2015, the CSRC decided to have a regulatory meeting with us in relation to the following findings: (i) while acting as the independent financial advisor in connection with a related party transaction involving material asset sale and acquisition of assets by issuing shares by Powerise Information Technology Co., Ltd., we provided incorrect opinions, in our responses to the CSRC's inquires, concerning the recognition of certain non-recurring profit and loss items and the valuation method used for equity assets to be sold; and (ii) we failed to fulfil our obligations as an independent financial advisor in an honest and diligent manner and had thus violated relevant regulatory requirements.

Our Primary Remedial or Rectification Measures

This incident was due to our failure to fully comply with relevant regulatory requirements in the course of deal execution and quality control in such project. After the incident occurred, we imposed certain internal disciplinary actions against the relevant personnel, and adopted the following rectification measures: (i) providing special trainings for all of employees in our Investment Banking Department to further enhance their awareness of the duty of diligence and, on a continual basis, improve their project management capabilities; (ii) further enhancing the awareness of quality control of our employees in our Investment Banking Department and requiring them to strengthen communication with the other parties in the projects; (iii) improving and strictly enforcing the internal review procedures of material assets restructuring projects; (iv) intensifying our efforts in implementing quality control inspections, special compliance inspections conducted by the Legal & Compliance Department and special auditing conducted by the Audit Department; and (v) further increasing quality control staffing and intensifying our efforts in approving and managing our projects.

In April 2015, we submitted a written rectification report in respect of the above measures to the CSRC. As of the Latest Practicable Date, we have not received any objections or further comments in respect of such report from the CSRC.

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Non-compliance Incidents

The CSRC's special IT inspection team conducted an on-site inspection on our IT systems from August 17, 2015 to August 21, 2015 (the "**On-site IT Inspection**"), and in August 2015 issued a letter for the issues identified during the On-site IT Inspection, which include:

- We failed to meet certain regulatory requirements concerning, among others, IT governance, IT staffing, IT system maintenance and management, business continuity management, resolution of cyber security problems, and IT outsourcing;
- Leveraged financing in violation of applicable regulatory rules was identified in connection with certain external accounts that were connected to our own IT systems, and our control of the risks associated with such external platforms was insufficient;
- Certain third-party trust plans may have engaged in leveraged financing through our brokerage services.

On November 6, 2015, the CSRC issued a Decision Letter on Regulatory Measures (the "**Decision Letter**") to us. According to the Decision Letter, the CSRC determined that we had allowed certain external third-party trading platforms to connect to our trading systems; these platforms enabled sub-accounts to be opened under a single securities trading account. The CSRC also determined that we failed to (i) effectively manage such external platforms; (ii) adequately verify the identities of the clients involved, and (iii) report all of the external platforms identified in our self-inspection to the CSRC. The CSRC determined that the above conduct violated applicable regulatory requirements, and demanded that we suspend opening of new securities accounts for one month (the "**Suspension Period**").

Our Primary Remedial or Rectification Measures

This incident was due to our failure to exercise effective control of our IT security and, in particular, the external platforms connected to our IT systems. Following the On-site IT Inspection and receipt of the Decision Letter, we adopted certain remedial and rectification measures which include the following:

- Enhancing information system security and management, including: (i) increasing our IT staffing, and building a sound IT governance structure; (ii) improving the IT risk management strategies, as well as relevant rules and procedures; (iii) enhancing our IT system maintenance and management capabilities through engaging developers and service providers, and upgrading our IT systems; (iv) improving our centralized monitoring system to enhance the management of abnormal client transactions; (v) enhancing our capabilities in managing business continuity and resolving cyber security problems; and (vi) strengthening our IT outsourcing management capabilities;
- Strengthening the management of external platforms connected to our IT systems, including: (i) optimizing relevant rules and procedures and specifying the respective duties of our departments; (ii) suspending the access of third-party platforms and promoting the use of our own systems; (iii) organizing more extensive trainings on our own IT systems; (iv) enhancing our capabilities in controlling IT risks, specifying relevant risk indicators, and optimizing our monitoring systems; and (v) strengthening the management of distribution of third-party products and channel-based businesses, and increasing client surveys;
- During the Suspension Period, we did not add any brokerage clients to strictly follow the requirements of the CSRC. We resumed opening of new accounts after the expiration of the Suspension Period in December 2015; and

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Non-compliance Incidents

Our Primary Remedial or Rectification Measures

- We closed the accounts that were allegedly involved in leveraged financing. We had closed all such accounts as of October 2015.

We submitted a written rectification report in respect of the above measures to the CSRC in October 2015. As of the Latest Practicable Date, we have not received any objections or further comments in respect of such report from the CSRC.

In addition to the non-compliance incidents that led to deduction of regulatory points as described above, during the Track Record Period and up to the Latest Practicable Date, we were also involved in the following three non-compliance incidents that may lead to deduction of regulatory points:

On August 22, 2016, the NEEQ Company issued a warning letter to us and required us to take certain corrective measures (the “**NEEQ Decision**”). The NEEQ Company determined that we violated applicable regulatory requirements by engaging in the following acts: (i) prior to May 2016, we determined client suitability to engage in NEEQ transactions based on the market value of client-held assets at the time such client was given the access to the NEEQ system at our counters instead of, as required under relevant regulatory guidelines, based on the market value of client-held securities as of the end of the last trading day prior to the date the relevant agency contract was signed, and therefore had opened accounts for certain clients that were not eligible to trade on the NEEQ; (ii) we failed to disclose all of the accounts we opened for ineligible clients in a report we submitted to the NEEQ Company in April 2016 concerning the implementation of client suitability requirements; and (iii) we failed to make filings to the NEEQ Company to report the eligibility of a client. The NEEQ Company required us to submit a written rectification report within three months after the receipt of the NEEQ Decision. The rectification measures we have taken primarily include: (i) requiring each of our branches to evaluate its own management of NEEQ client suitability and to take rectification measures as appropriate; (ii) amending relevant internal rules and procedures and further specifying the standards and requirements for determining NEEQ client suitability; (iii) enhancing management of investor suitability and the monitoring of associated risks, and (iv) taking internal disciplinary actions against the accountable personnel. In October 2016, we submitted a written report to the NEEQ Company in respect of the above rectification measures. As of the Latest Practicable Date, we have not received of any further comments in respect of such report from the NEEQ Company.

On November 17, 2016, we received a warning letter from the NEEQ Company dated November 14, 2016 (the “**Warning Letter**”). This Warning Letter was issued in relation to our role as chief agency broker and independent financial advisor for Sanmenxia Suda Traffic Energy-saving Technology Co., Ltd., (“**Suda Technology**”) a NEEQ quoted company that was found to have failed to timely and accurately disclose its material asset reorganization in the NEEQ system based on the following facts: (i) Suda Technology published an announcement of its proposed acquisition of 10.44% equity interest in Henan Suda Automobile Technology Co., Ltd. (“**Suda Auto**”) on April 14, 2016; (ii) on April 15, 2016, the NEEQ Company

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suspended the trading of Suda Technology's stocks upon its application based on suspicion of material asset reorganization and on April 20, 2016, Suda Technology published a suspension notice for material asset reorganization; (iii) we confirmed in the NEEQ system on May 3, 2016 that the proposed acquisition of Suda Auto constituted material asset reorganization; and (iv) on August 26, 2016, Suda Technology made its first information disclosure for material asset reorganization and the NEEQ Company found that the reorganization target asset transfer were completed on June 3, 2016 before reorganization procedures had been duly completed. Based on these facts, the NEEQ Company found us to have failed to correctly assess the reorganization transaction and to properly guide Suda Technology to follow necessary NEEQ disclosure procedures, which constituted a violation of relevant NEEQ rules and regulations. The NEEQ Company required us to submit a written commitment. Apart from these, no other penalties or requests were mentioned in the Warning Letter and as of the Latest Practicable Date, we do not foresee any additional penalties that may be imposed by relevant regulatory authorities. We have taken various measures to rectify the issues identified in this incident. These measures primarily include: (i) providing more trainings to supervised enterprises on complying with NEEQ disclosure requirements and enhancing communication with supervised enterprises; (ii) reviewing our internal NEEQ systems and procedures to achieve real-time monitoring of our NEEQ reorganization projects; (iii) optimizing our internal procedures for disclosure compliance in executing NEEQ reorganization projects; (iv) increasing training of NEEQ supervisory professionals to improve their understanding of relevant NEEQ rules; (v) requiring self-review for disclosure compliance in executing all current NEEQ reorganization projects; and (vi) holding relevant personnel accountable for this incident. On November 23, 2016, we submitted a written report to the NEEQ Company in respect of the rectification measures we had taken. Pursuant to our PRC counsel's opinion, based on the self-disciplinary commitment imposed by the NEEQ Company, this incident does not constitute serious violation of relevant regulations and rules. In addition, as of the Latest Practicable Date, our NEEQ business was being conducted on a normal basis. Based on the above, our Directors are of the view that this incident will not have any material adverse effect on our business, financial position or results of operations.

From July 4, 2016 to July 19, 2016, the Luzhou Central Sub-branch of the PBOC (the "**Luzhou PBOC Central Sub-branch**") conducted an on-site inspection on our Luzhou Yinghui Road Securities Branch (the "**Yinghui Road Securities Branch**") and determined that the Yinghui Road Securities Branch failed to (i) verify the identities of certain clients as required by relevant regulatory rules, and (ii) assign ratings to our clients according to their risks of involving in money laundering activities and maintain such ratings in accordance with applicable regulatory requirements. The Luzhou PBOC Central Sub-branch, therefore, imposed on us a fine of RMB200,000, and a fine of RMB10,000 on each of relevant personnel at the Yinghui Road Securities Branch, including the major persons-in-charge, the personnel that are directly responsible for anti-money laundering activities, as well as other responsible personnel. The rectification measures we have taken primarily include: (i) intensifying anti-money laundering training and, in the course of such training, performing analysis of the issues identified in the on-site inspection; (ii) conducting firm-wide anti-money laundering self-assessment and taking rectification measures as appropriate, and (iii) taking internal disciplinary actions against the accountable personnel. On November 7, 2016, we submitted a written report to the Luzhou PBOC Central Sub-Branch in respect of the above rectification measures. On November 8, 2016, the Luzhou PBOC Central Sub-Branch provided us with written feedback, stating that the above measures satisfy its requirements on the rectification of anti-money laundering deficiencies.

Our Directors confirm that no Directors were involved in any of the non-compliance incidents as described above or any other major regulatory violations, penalties or other regulatory measures. Given that (i) our Directors and PRC legal advisor confirmed that the non-compliance incidents described above did not cause any material and adverse effects to our business, financial conditions or operating results; (ii) we have investigated these incidents and taken effective remedial or rectification measures to strengthen our risk management and internal control; (iii) as of the Latest Practicable Date, no objections or further comments were raised by relevant regulatory authorities in respect of the rectification measures we had taken and/or the rectification reports we had submitted in connection with such non-compliance incidents; (iv) we were rated “Class A Grade AA” by the CSRC for each year during the Track Record Period, our Directors are of the view that (i) our internal control system is sufficient and effective; (ii) it is not necessary to make any provision for these non-compliance incidents; and (iii) such non-compliance incidents do not affect the suitability of our Directors and our suitability for listing. After making reasonable inquiries regarding such non-compliance incidents and our rectification measures, nothing has caused the Joint Sponsors to disagree with our view.

Regulatory Inspections

The CSRC, the SFC and other regulatory authorities conduct inspections, reviews and inquiries on our compliance with applicable laws, regulations and guidelines. These inspections, reviews and inquiries revealed that there existed certain deficiencies, to some extent, in our business operations, risk management and internal control. We have taken rectification measures in a timely manner and improved our risk management and internal control systems pursuant to the recommendations of the regulatory authorities.

On-site Inspections by the CSRC Heilongjiang Bureau

Yu Xinghua, our former employee at the Shangjing Avenue Securities Branch located in Harbin, Heilongjiang (the “**Shangjing Avenue Securities Branch**”), was involved in disputes with certain clients in connection with the discretionary investment arrangements and pledge agreements he entered into with such clients without our knowledge, which violated applicable laws, regulations and regulatory rules; he was also suspected to have forged the official seal of the Shangjing Avenue Securities Branch to engage in fraudulent activities and other criminal conduct (collectively, the “**Yu Xinghua Incident**”). In March 2015, the public security authority commenced the investigations on the Yu Xinghua Incident. In April 2015, Yu Xinghua was wanted by the public security authority. As of the Latest Practicable Date, Yu Xinghua has not been brought to justice.

After the Yu Xinghua Incident occurred, the CSRC Heilongjiang Regulatory Bureau (the “**CSRC Heilongjiang Bureau**”) conducted an on-site inspection on the Shangjing Avenue Securities Branch in March 2015. The major issues identified in the inspection primarily include: (i) certain employees, before obtaining necessary qualifications for doing so, opened accounts for clients; (ii) certain employees opened credit accounts used for margin financing and securities lending business for clients who had engaged in securities trading for less than six months, thus violating applicable regulatory requirements; (iii) the publicly-shown licenses and complaint hotline were not up-to-date; (iv) the follow-up risk assessments of clients were not conducted in a timely manner; and (v) the management of standard forms was inadequate.

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We have taken the following measures to address the above issues:

- Regarding (i) above, we have demanded that the Shangjing Avenue Securities Branch terminate the relationships between such employees and the clients they had served. In addition, we have reiterated to all our employees the requirement of obtaining the necessary qualifications before engaging in business activities and client development and service activities;
- Regarding (ii) above, we conducted a comprehensive review of the status of the credit accounts for margin financing and securities lending business of the Shangjing Avenue Securities Branch to ensure their full compliance with the applicable regulatory requirements;
- Regarding (iii) above, we had required the Shangjing Avenue Securities Branch to replace the display bulletin pursuant to relevant requirements and to renew the license and the complaint hotline;
- Regarding (iv) above, we had started to use new risk assessment questionnaires and embedded risk assessment systems in our trading systems, and had required the Shangjing Avenue Securities Branch to make corresponding rectification measures; and
- Regarding (v) above, we required the Shangjing Avenue Securities Branch to take appropriate measures to enhance its staff's understanding of the rules and procedures concerning the use of blank standard forms. We had also strengthened the management of our standard forms and archives, and required the use of standard forms to be approved by both the client service manager and the compliance manager.

In June 2015, we submitted a written rectification report for the above measures to the CSRC Heilongjiang Bureau. As of the Latest Practicable Date, we have not received any objections or further comments regarding such rectification report from the CSRC Heilongjiang Bureau.

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In February 2016, the CSRC Heilongjiang Bureau conducted another on-site inspection on the Shangjing Avenue Securities Branch. The major issues identified during this inspection include: (i) Yu Xinghua was suspected to have engaged in wealth management on behalf of clients, forging the official seal of the Shangjing Avenue Securities Branch, as well as other serious fraudulent and unlawful activities during his time serving at the Shangjing Avenue Securities Branch; (ii) the internal control system of the Shangjing Avenue Securities Branch was inadequate; (iii) the investment advisory services we provided at the Shangjing Avenue Securities Branch and the content of our advertisements did not comply with applicable rules and regulations; and (iv) certain employees at the Shangjing Avenue Securities Branch did not have the qualifications necessary for providing securities services.

We have taken the following measures to address the above issues:

- Facilitating law enforcement and regulatory authorities with the investigation into the Yu Xinghua Incident;
- Strengthening position management of the Shangjing Avenue Securities Branch, establishing strict segregation of duties between positions in the front and back offices, and setting clear roles and responsibilities for each of our personnel. The personnel in the back office who are responsible for conducting client callbacks and visits shall not be allowed to engage in client services;
- Improving the effectiveness of compliance management, prohibiting compliance specialists from engaging in client services, requiring the Shangjing Avenue Securities Branch to increase the frequency of monitoring of client transactions and strengthening the management of the practice of its employees and securities brokers; and
- Intensifying the management of the investment advisory business to ensure that personnel providing investment advisory services have obtained the necessary qualifications; requiring all the information to be published to be reviewed by the relevant personnel and to keep record of the information published.

In May 2016, we submitted a written rectification report for the above measures to the CSRC Heilongjiang Bureau. As of the Latest Practicable Date, we have not received any objections or further comments regarding such rectification report from the CSRC Heilongjiang Bureau.

As of the Latest Practicable Date, we have not received any administrative penalties, nor have any of our regulatory points been deducted, due to the Yu Xinghua Incident or the issues identified in the above regulatory inspections.

Inspections, Visits, Reviews and Enquiries by the SFC

Upon its review of specific aspects of the internal controls and systems of China Securities (International) Corporate Finance Company Limited relevant to the sponsor work, on January 8, 2016, the SFC notified China Securities (International) Corporate Finance Company Limited that, since the commencement of its sponsor work in 2013, it failed to carry out an assessment annually on the effectiveness of its systems and controls in a timely manner as required under paragraph 17.12 of the Code of Conduct for Persons Licensed by or Registered with the SFC. China Securities (International) Corporate Finance Company Limited subsequently completed its annual assessment and provided the SFC with the annual assessment report on February 19, 2016. On March 4, 2016, the SFC indicated that it had no further comments on this matter.

Upon its review of the financial returns of China Securities (International) Brokerage Company Limited for the month ended January 31, 2016 and the relevant supporting documents, on March 24, 2016, the SFC notified China Securities (International) Brokerage Company Limited of its findings regarding high client and stock concentration in its margin loan book and expressed its concern of the liquidity of the collaterals. On April 19, 2016, China Securities (International) Brokerage Company Limited submitted response to the SFC and explained the measures it has taken to reduce the risks, including requiring additional cash deposits from the clients, conducting due diligence on the clients' financial position and the potential strengthening of the liquidity of China Securities (International) Brokerage Company Limited.

Upon its enquiry, in March 2016, the SFC notified China Securities (International) Brokerage Company Limited of its finding concerning the omission of margin loan in statements of account issued to its certain margin client, which was in contravention of Sections 8(2) and 11(3) of Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules. China Securities (International) Brokerage Company Limited promptly rectified the matter by including the outstanding margin loan in the said client's account statements dated March 18, 2016 and on a monthly basis going forward. In July and August 2016, China Securities (International) Brokerage Company Limited submitted responses to the SFC explaining the various measures to be taken to prevent occurrence of similar incident in the future, including conducting more trainings about the regulatory requirements and strengthening its internal communication by organizing meetings among its responsible officer, legal and compliance team, finance and operation team to reiterate the matter.

As of the Latest Practicable Date, the SFC did not raise any further query with respect to the above matters. None of these matters resulted in any enforcement action taken by the relevant regulatory authorities against us.

We confirm that except for the matters described above, during the Track Record Period and up to the Latest Practicable Date, we have not experienced any other material issues identified in regulatory inspections or material regulatory non-compliance incidents.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

RELATIONSHIP WITH BSCOMC

BSCOMC is a whole people-owned enterprise approved by Beijing Municipal Government and established with the entire capital contributed by Beijing SASAC. It was incorporated on December 30, 2008 with a registered capital of RMB35 billion. BSCOMC is an investment and financing entity focusing on the operation of state-owned capital and the management of state-owned equities with the objective of achieving the securitization of state-owned capital and maximizing its value. BSCOMC primarily acts as the industry investment entity for achieving the strategic goals of Beijing Municipality Committee and Beijing Municipal Government, the financing entity for capital operation in a market-oriented manner, the industry consolidation entity for promoting the reform and reorganization of state-owned enterprises and realizing an orderly advance and retreat of state-owned capital, the venture investment entity for promoting pioneering industry development and technological innovation of enterprises, the equity management entity holding the equity of enterprises which are listed as a whole or whose main businesses are listed, and the service entity for debt restructuring of enterprises and solving the historical problems. BSCOMC constitutes a PRC Government Body under the Listing Rules.

As of the Latest Practicable Date, BSCOMC held 45% of our total share capital in aggregate. Immediately following completion of the Global Offering, BSCOMC will hold approximately 37.46% of our total share capital, assuming that the Over-allotment Option is not exercised (or approximately 36.52% if the Over-allotment Option is exercised in full).

RELATIONSHIP WITH CENTRAL HUIJIN

Central Huijin is a state-owned investment company established in accordance with the PRC Company Law. Central Huijin, which is headquartered in Beijing, was established in December 2003 and mandated to exercise the rights and the obligations as an investor in major state-owned financial enterprises on behalf of the PRC Government. In September 2007, the Ministry of Finance issued special treasury bonds and acquired all the shares of Central Huijin from the PBOC. The acquired shares were injected into China Investment Corporation as part of its initial capital contribution. However, Central Huijin's principal shareholder rights are exercised by the State Council. The members of the board of directors and Supervisory Committee of Central Huijin are appointed by and are accountable to the State Council.

In accordance with authorization by the State Council, Central Huijin makes equity investments in major state-owned financial enterprises, and shall, to the extent of its capital contribution, exercise the rights and perform the obligations as an investor on behalf of the PRC Government in accordance with applicable laws, and achieve the goal of preserving and enhancing the value of state-owned financial assets. Central Huijin does not conduct any other business or commercial activity. In view of the fact that Central Huijin was established by the PRC Government as a state-owned investment company engaging in investments in the financial industry, its other affiliated enterprises are engaged in or participate in securities business. Such business activities are all carried out under the principle of fair market competition, and Central Huijin does not intervene in the day-to-day business operations of the enterprises in which it invests.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Central Huijin held 40% of our total share capital in aggregate. Immediately following completion of the Global Offering, Central Huijin will hold approximately 33.29% of our total share capital, assuming that the Over-allotment Option is not exercised (or approximately 32.46% if the Over-allotment Option is exercised in full).

Pursuant to the PRC Company Law, our Shares issued prior to the Listing shall not be transferred within one year from the Listing Date. For further details, see “Share Capital — Transfer of Shares Issued Prior to the Global Offering” and “Appendix IV — Summary of Principal Legal and Regulatory Provisions — The Company Law, Special Regulations and Mandatory Provisions — Transfer of Shares” in this prospectus. For further details of the lock-up undertakings given by BSCOMC and Central Huijin pursuant to Rule 10.07 of the Listing Rules, see “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Undertakings pursuant to the Hong Kong Listing Rules and the Hong Kong Underwriting Agreement — (B) Undertakings by the Controlling Shareholders” in this prospectus.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

OVERVIEW

Our Board consists of fourteen Directors, among which, two are executive Directors, seven are non-executive Directors and the remaining are independent non-executive Directors. The Directors are elected at the Shareholders' meetings. Directors serve for a term of three years and shall be subject to re-election upon expiry of the term of office. Independent non-executive Directors shall not hold office for more than six consecutive years.

Our Supervisory Committee consists of six Supervisors, including the chairman of the Supervisory Committee. The Supervisors include two employee representative Supervisors and four shareholder representative Supervisors. The shareholder representative Supervisors are elected at the Shareholders' meetings, and the employee representative Supervisors are elected at the employee representative meetings, employee meetings or through any other democratic elections. Supervisors serve for a term of three years and shall be subject to re-election upon expiry of the term of office.

The following tables set forth information regarding our Directors, Supervisors and senior management. All of the Directors, Supervisors and senior management have met the qualification requirements under the relevant PRC laws and regulations and the Hong Kong Listing Rules for their respective positions.

Directors, Supervisors and senior management

The following table sets forth the key information of our Directors:

Name	Age	Date of joining our Group	Date of appointment as Director	Position	Responsibility
Mr. WANG Changqing (王常青)	53	November 2005	February 16, 2007	Chairman of the Board Executive Director Chairman of the Executive Committee	Overseeing the affairs of the Board and supervising and inspecting the implementation of Board resolutions; participating in decision-making in respect of major issues, such as business operation strategies; in charge of the overall operation of the Company, convening and overseeing the Executive Committee; and overseeing the Executive Office, the Human Resources Department and the Financial Planning Department of the Company
Mr. YU Zhongfu (于仲福)	46	March 2011	March 25, 2011	Vice Chairman of the Board Non-executive Director	Assisting the chairman in overseeing the affairs of the Board and supervising the implementation of Board resolutions; and participating in decision-making in respect of major issues, such as business operation strategies

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Date of appointment as Director	Position	Responsibility
Ms. HU Donghui (胡冬輝)	53	August 2016	August 20, 2016	Vice Chairman of the Board Non-executive Director	Assisting the chairman in overseeing the affairs of the Board and supervising the implementation of Board resolutions; and participating in decision-making in respect of major issues, such as business operation strategies
Mr. QI Liang (齊亮)	47	March 2012	March 20, 2012	Executive Director General Manager Member of the Executive Committee	Participating in decision-making in respect of major issues, such as business operation strategies; responsible for the day-to-day operation of the Company, overseeing the IT Department, the Treasury Operation Department, the Proprietary Trading Department, the Derivatives Trading Department, the Capital Market Department, and China Securities International; and assisting in overseeing the Executive Office of the Company
Mr. WANG Chenyang (王晨陽)	46	April 2015	April 25, 2015	Non-executive Director	Participating in decision-making in respect of major issues, such as business operation strategies
Mr. WANG Shouye (王守業)	45	March 2011	August 20, 2016	Non-executive Director	Participating in decision-making in respect of major issues, such as business operation strategies
Mr. LIU Dingping (劉丁平)	54	March 2011	March 25, 2011	Non-executive Director	Participating in decision-making in respect of major issues, such as business operation strategies
Ms. WANG Shumin (王淑敏)	60	March 2011	March 25, 2011	Non-executive Director	Participating in decision-making in respect of major issues, such as business operation strategies
Mr. QIU Jianyang (邱劍陽)	54	March 2011	March 25, 2011	Non-executive Director	Participating in decision-making in respect of major issues, such as business operation strategies
Mr. FENG Genfu (馮根福)	59	April 2015	April 25, 2015	Independent non-executive Director	Participating in decision-making in respect of major issues, such as business operation strategies; and expressing independent opinions on major issues involving the interests of minority shareholders

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Date of appointment as Director	Position	Responsibility
Ms. ZHU Shengqin (朱聖琴)	39	April 2015	April 25, 2015	Independent non-executive Director	Participating in decision-making in respect of major matters, such as business operation strategies; and expressing independent opinions on major issues involving the interests of minority shareholders
Mr. DAI Deming (戴德明)	54	August 2016	August 20, 2016	Independent non-executive Director	Participating in decision-making in respect of major matters, such as business operation strategies; and expressing independent opinions on major issues involving the interests of minority shareholders
Mr. BAI Jianjun (白建軍)	61	August 2016	August 20, 2016	Independent non-executive Director	Participating in decision-making in respect of major matters, such as business operation strategies; and expressing independent opinions on major issues involving the interests of minority shareholders
Mr. LIU Qiao (劉俏)	46	August 2016	August 20, 2016	Independent non-executive Director	Participating in decision-making in respect of major matters, such as business operation strategies; and expressing independent opinions on major issues involving the interests of minority shareholders

The following table sets forth the key information of our Supervisors:

Name	Age	Date of joining our Group	Date of appointment as Supervisor	Position	Responsibility
Mr. LI Shihua (李士華)	57	November 2005	April 2014	Chairman of the Supervisory Committee	Overseeing the affairs of the Supervisory Committee and supervising business operation and financial activities of our Company as well as the performance of Directors and senior management
Ms. WANG Jing (王京)	45	August 2016	August 2016	Supervisor	Supervising business operation and financial activities of our Company as well as the performance of Directors and senior management

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Date of appointment as Supervisor	Position	Responsibility
Ms. AI Bo (艾波)	45	August 2016	August 2016	Supervisor	Supervising business operation and financial activities of our Company as well as the performance of Directors and senior management
Mr. LIU Hui (劉輝)	44	March 2011	March 2011	Supervisor	Supervising business operation and financial activities of our Company as well as the performance of Directors and senior management
Ms. LU Ya (陸亞)	50	November 2005	March 2011	Employee representative Supervisor	Supervising business operation and financial activities of our Company as well as the performance of Directors and senior management on behalf of employees
Mr. WU Lili (吳立力)	46	November 2005	March 2011	Employee representative Supervisor	Supervising business operation and financial activities of our Company as well as the performance of Directors and senior management on behalf of employees

The following table sets forth the key information of our senior management:

Name	Age	Date of joining our Group	Date of appointment as senior management	Position	Responsibility
Mr. QI Liang (齊亮)	47	March 2012	March 2012	Executive Director General Manager Member of the Executive Committee	Participating in decision-making in respect of major issues, such as business operation strategies; responsible for the day-to-day operation of the Company; overseeing the IT Department, the Treasury Operation Department, the Proprietary Trading Department, the Derivatives Trading Department, the Capital Market Department, and China Securities International; and assisting in overseeing the Executive Office of the Company
Mr. ZHOU Zhigang (周志綱)	52	November 2005	November 2005	Member of the Executive Committee Chief Compliance Officer Chief Risk Officer	Overseeing the Legal & Compliance Department and the Risk Management Department

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Date of appointment as senior management	Position	Responsibility
Mr. YUAN Jianmin (袁建民)	55	November 2005	November 2005	Member of the Executive Committee	Overseeing the Securities Financing Department, the Operation Management Department, and the Custodian Department
Mr. JIANG Yueqin (蔣月勤)	49	January 2007	May 2009	Member of the Executive Committee	Overseeing the Asset Management Department, the Research and Development Department, and China Securities Funds
Mr. ZHOU Xiaoyu (周笑予)	52	November 2005	January 2016	Member of the Executive Committee	Overseeing China Securities Futures, and responsible for the day-to-day operation of the Human Resources Department
Mr. PENG Heng (彭恒)	44	November 2005	January 2009	Member of the Executive Committee Chief Financial Officer	Responsible for the day-to-day operation of the Financial Planning Department and the Treasury Operation Department
Mr. LI Tiesheng (李鐵生)	45	June 2013	June 2013	Member of the Executive Committee	Overseeing China Securities Capital
Mr. WANG Guangxue (王廣學)	44	November 2005	January 2014	Member of the Executive Committee Secretary of the Board	Responsible for the day-to-day operation of the Executive Office of the Company, and responsible for the information disclosure, corporate governance and equity management
Mr. ZHANG Xinfan (張昕帆)	47	November 2005	January 2014	Member of the Executive Committee	Overseeing the Brokerage Business Management Committee of the Company, and responsible for the day-to-day operation of the Brokerage Business Management Committee
Mr. LIU Naisheng (劉乃生)	45	March 2006	January 2014	Member of the Executive Committee	Overseeing the Investment Banking Department and the Shanghai Free Trade Pilot Zone Branch, and responsible for the day-to-day operation of the Investment Banking Department

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Date of appointment as senior management	Position	Responsibility
Mr. HUANG Ling (黄凌)	40	November 2005	January 2014	Member of the Executive Committee	Overseeing the Debt Underwriting Department, and responsible for the day-to-day operation of the Debt Underwriting Department
Mr. ZOU Yingguang (邹迎光)	45	November 2005	January 2014	Member of the Executive Committee	Overseeing the Fixed Income Department, and responsible for the day-to-day operation of the Fixed Income Department
Mr. HU Bin (胡斌)	35	June 2014	January 2016	Member of the Executive Committee	Overseeing the International Business Department, and responsible for the day-to-day operation of the International Business Department and China Securities International

Mr. Wang Changqing, the Chairman of the Board, our executive Director and the Chairman of the Executive Committee, is in charge of the overall operation of the Company and convening and overseeing the Executive Committee. Mr. Qi Liang, our executive Director and General Manager, is responsible for the day-to-day operation of the Company. Our non-executive Directors (including independent non-executive Directors) perform their duties through the Board of Directors. The Company has established the Executive Committee to exercise its discretion in the operation and management of business. According to the Articles of Association, the Executive Committee consists of chairman of the Board, vice chairman of the Board (if an executive Director), general manager, secretary of the Board, chief financial officer and other members of the senior management.

DIRECTORS

Mr. WANG Changqing (王常青), aged 53, is the Chairman of the Board, an Executive Director and the Chairman of the Executive Committee. Mr. Wang joined our Company in November 2005, and has been serving as an executive Director since February 16, 2007, the Chairman of the Board and Chairman of the Executive Committee since September 2011, and the Party Committee Secretary since September 2011. Mr. Wang has been serving as a director of China Securities International since July 2012. Mr. Wang is currently the vice chairman of the investment banking committee of the SAC, the executive vice president of the Securities Association of Beijing, a member of the second session of the supervisory committee of the Shanghai Stock Exchange and a member of the strategic planning committee of the council of the Shenzhen Stock Exchange.

Mr. Wang served as the deputy plant manager of the Copper Powder Plant in Beijing Smelting Factory from August 1984 to September 1986; the deputy director of production planning department in Beijing Non-Ferrous Metal Industry Corporation from October 1986 to November 1992; the director and deputy general manager of Beijing Kaibao Travel and Food Company from November 1992 to October 1993; the head of the equity underwriting department of the Beijing representative office of Daiwa Securities Group from October 1993

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to September 1999; the general manager of investment banking department of the Shanghai branch, the deputy general manager of investment banking department, the administrative head and managing director of the investment banking business and vice-chairman of the corporate finance committee in CITIC Securities from October 1999 to November 2005; and the deputy general manager, general manager and member of the Executive Committee of the Company from November 2005 to September 2011.

Mr. Wang obtained a Bachelor of Engineering degree from Northeastern Institute of Technology (currently known as Northeastern University) in the PRC in July 1984 and a Master's degree in Economics from Renmin University of China in January 2002.

Mr. YU Zhongfu (于仲福), aged 46, is the Vice Chairman of the Board and a non-executive Director. Mr. Yu has been serving as a Director of the Company since March 25, 2011, the Vice Chairman of the Board since August 2016, the deputy general manager of BSCOMC since May 2009. Mr. Yu has been serving as a director of Beijing Rural Commercial Bank Co., Ltd. since May 2010, a director of Wangfujing Group Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600859) since June 2011, and a non-executive Director of Beijing Jingneng Clean Energy Co., Limited (a company listed on the Hong Kong Stock Exchange, stock code: 00579) since December 2011.

Mr. Yu served as a staff of Shijingshan District Political Consultative Conference, staff and deputy chief of industry section of Planned Economy Committee of Shijingshan District, Beijing from July 1992 to September 1996; a senior staff, principal staff, subsequently deputy director of department of small and medium enterprises of Beijing Municipality Commission of Economy from September 1996 to July 2003; the deputy director (in charge) of the division of enterprise reform of Beijing Municipality Commission of Economy from July 2003 to November 2003; the deputy director of division of reform and development (general office), deputy director then director of division of enterprise reform of SASAC of Beijing Municipality from November 2003 to May 2009; and a director of Beiqi Foton Motor Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600166) from July 2013 to November 2015.

Mr. Yu obtained a Bachelor of Engineering degree from North China University of Technology in the PRC in July 1992. He completed a post-graduate program in finance at Central University of Finance and Economics in the PRC and obtained a certificate of completion in July 2002. He also obtained a Master of Public Administration (MPA) degree from a joint program organized by Peking University and the National Institute of Administration in the PRC in July 2011.

Ms. HU Donghui (胡冬辉), aged 53, is the Vice Chairman of the Board and a non-executive Director. Ms. Hu has been serving as a Director and the Vice Chairman of the Board of the Company since August 20, 2016, and the deputy director and managing director of the securities institution management department and the insurance institution management department of Central Huijin since February 2012 and July 2014, respectively.

Ms. Hu served as the director of the finance department of Hunan Mechanical Construction Factory from July 1983 to April 1995; the manager of the audit department of China Huajian Audit Firm from April 1995 to April 1998; the manager of the finance

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department of China Huaxing Group Company from April 1998 to August 2003; the chief accountant of China Lucky Film Corporation from August 2003 to September 2009; the designated director (designated to work for People's Insurance Company Group of China) appointed by Central Huijin (non-banking department) and the deputy director of non-banking department of Central Huijin from September 2009 to February 2012.

Ms. Hu obtained a Master's degree in Accounting from Renmin University of China in January 2007, and obtained a certificate of senior accountant in December 2001.

Mr. QI Liang (齊亮), aged 47, is an executive Director, the General Manager and a member of the Executive Committee. Mr. Qi joined our Company and has been serving as an executive Director, the General Manager and a member of the Executive Committee since March 20, 2012, and the Deputy Secretary of the Party Committee since July 2013. Mr. Qi has been serving as the chairman of the board of China Securities International since January 2013 and the director of Zhongguancun Equity Exchange Services Group Limited since January 2013. Mr. Qi is also the vice chairman of the brokerage committee of the SAC, a member of the bond market committee of the NAFMII, a council member of the green finance committee of the China Society for Finance and a standing committee member of the National Financial System Youth Federation.

Mr. Qi served as a staff of the Beijing branch of Industrial and Commercial Bank of China from August 1992 to June 1993; the deputy business manager of the trading department, the assistant general manager of the Beijing Dongsu branch, the deputy general manager of the Hunan branch, the deputy general manager of the Harbin branch, the deputy general manager of the clients asset management center, the deputy general manager then the general manager of the research and development department, the director of the research institute and the assistant to president of Huaxia Securities from June 1993 to November 2005; the deputy manager of the Company from September 2005 to August 2007; and the vice president of China Galaxy Securities Co., Ltd from September 2007 to February 2012.

Mr. Qi obtained a Bachelor's degree in Economics from China Institute of Finance in June 1992, a Master's degree in Economics from the Central University of Finance and Economics in the PRC in June 1999 and an Executive Master of Business Administration ("EMBA") degree from Peking University in the PRC in April 2001.

Mr. WANG Chenyang (王晨陽), aged 46, is a non-executive Director. Mr. Wang has been serving as a Director of the Company since April 25, 2015; the deputy general manager of BSCOMC since November 2014; a director of AVIC Aviation High-Technology Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600862) since January 2016; and a non-executive director of China Resources Pharmaceutical Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 03320) since June 2015.

Mr. Wang served as a staff member, the deputy section chief and the section chief of the component department of the Beijing Municipal Government from August 1992 to April 2000; the principal staff member and the assistant consultant for management of officials of publicity, education, and political-legal affairs of the organization department of Beijing Municipal Committee of the Party of China from April 2000 to August 2007; the

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division-level cadre of the general office of the Beijing Municipal Committee of the Party of China from August 2007 to November 2012; and the deputy bureau-level cadre of the general office of the Beijing Municipal Government from November 2012 to November 2014.

Mr. Wang obtained a Bachelor of Arts degree from University of International Relations in the PRC in August 1992 and a Master of Arts degree from Renmin University of China in July 2003. He has also obtained a certificate of senior political officer.

Mr. WANG Shouye (王守業), aged 45, is a non-executive Director. Mr. Wang has been serving as a Director of the Company since August 20, 2016; and the chief financial officer of BSCOMC since June 2010.

Mr. Wang served as a staff of labor and human resources division, a staff and deputy director of financial planning division and deputy manager of labor and human resources department of the 4th Factory of Beijing Coal Corporation from July 1992 to April 2001; the director of finance and audit department of Beijing Coal Corporation from April 2001 to January 2002; the director of finance and audit department, director of finance and price department and director of finance department of Beijing Jintai Hengye Co., Ltd. from January 2002 to March 2009; the assistant to chairman (temporary post) of the Beijing Municipal State-owned Enterprises Supervisory Board from March 2009 to August 2009; the director of audit department (temporary post) of SASAC of Beijing from August 2009 to June 2010; and a supervisor of the Company from March 2011 to August 2016.

Mr. Wang graduated from the School of Continuing Education of Renmin University of China in July 1997, obtained a Master's degree in Economics from Liaoning Technical University in the PRC in June 2006, and obtained a certificate of senior accountant in January 2006.

Mr. LIU Dingping (劉丁平), aged 54, is a non-executive Director. Mr. Liu has been serving as a Director of the Company since March 25, 2011. He served as a designated director appointed by Central Huijin since November 2010.

Mr. Liu served as a cadre of Anhui provincial branch of China Construction Bank from July 1984 to February 1992; a cadre and deputy general manager of Hainan Trust Investment Company of China Construction Bank from February 1992 to July 1998; an assistant to general manager and the general manager of Shenzhen head office of Hong Yuan Trust and Investment Company Limited from July 1998 to June 2000; an executive director and the general manager of Hong Yuan Securities Company Limited from June 2000 to January 2005; and the deputy general manager of the securities department of China Cinda Asset Management Corporation and the head of clearance division of Han Tang Securities Co., Ltd. respectively from January 2005 to June 2007.

Mr. Liu obtained a Bachelor's degree in Economics from the School of Infrastructure and Economics of the Liaoning Institute of Finance and Economics in the PRC in July 1984, a Master of Business Administration ("MBA") degree from the School of Economics and Management in Tsinghua University in the PRC in July 2006 and obtained a certificate of senior economist in December 1997.

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Ms. WANG Shumin (王淑敏), aged 60, is a non-executive Director. Ms. Wang has been serving as a Director of the Company since March 25, 2011. She served as a designated director appointed by Central Huijin since September 2004.

Ms. Wang served as the deputy director and director of the regulation and law department of the MOF from January 1982 to October 1991, the director and deputy department chief of the policy and law department, deputy department chief of balance of payments department and administration and inspection department of the SAFE, as well as the inspector and press secretary of the SAFE from November 1991 to September 2004; a director of China Construction Bank Corporation (a company listed on the Hong Kong Stock Exchange, stock code: 00939 and on the Shanghai Stock Exchange, stock code: 601939) from September 2004 to June 2011; a director of China Everbright Bank Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 06818 and the Shanghai Stock Exchange, stock code: 601818) from February 2012 to June 2016; and a director of China Everbright Group Ltd. from December 2014 to June 2016.

Ms. Wang obtained a Bachelor's degree in Law from Hubei School of Finance and Economics (currently known as Zhongnan University of Economics and Law) in the PRC in 1982. Ms. Wang was qualified as a PRC lawyer in January 1987 and obtained a certificate of senior economist in June 1993. Ms. Wang is currently an arbitrator of China International Economic and Trade Arbitration Commission.

Mr. QIU Jianyang (邱劍陽), aged 54, is a non-executive Director. Mr. Qiu has been serving as a Director of the Company since March 25, 2011; the general manager of the investment department of Century Jinyuan since November 2007; and a non-executive Director of China Innovative Finance Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 00412) since September 2015.

Mr. Qiu worked for the planning bureau of Chinese Academy of Sciences from August 1985 to October 1991. He served as the head of the finance department of China Everbright Foreign Trade Corporation from November 1991 to December 1995; the manager of finance department of branch I of China United Network Communications Group Co., Ltd from January 1996 to April 2000; and the deputy general manager of CITIC Information Technology Investment Co., Ltd from May 2000 to October 2007.

Mr. Qiu graduated from the undergraduate school of Hunan College of Finance and Economics (currently known as Hunan University) in the PRC in July 1985, and was qualified as the Chinese Certified Public Accountant in December 2000.

Mr. FENG Genfu (馮根福), aged 59, is an independent non-executive Director. Mr. Feng has been serving as an independent Director of the Company since April 25, 2015; a professor and doctoral supervisor of the School of Finance and Economics of Xi'an Jiaotong University since May 2000; an independent non-executive director of Datang International Power Generation Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 00991 and the Shanghai Stock Exchange, stock code: 601991) since August 2014; an independent director of Bode Energy Equipment Co., Ltd. (a company listed on the Shenzhen

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Stock Exchange, stock code: 300023) since August 2015; and an independent director of Hubei Biocause Pharmaceutical Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000627) since May 2016.

Mr. Feng served as the director and chief editor of the editorial department of university journal as well as the dean of the Business School and the doctoral supervisor of Shaanxi Institute of Finance and Economics from July 1982 to April 2000; the dean of the School of Finance and Economics of Xi'an Jiaotong University from May 2000 to February 2016; an independent director of China Kejian Corporation Limited (a company listed on the Shenzhen Stock Exchange, stock code: 000035) from May 2002 to May 2004; an independent director of Shaanxi Jinye Science Technology and Education Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000812) from April 2002 to April 2006; an independent director of Shaanxi Fenghuo Electronics Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000561) from March 2010 to June 2015; an independent director of AVIC Aircraft Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000768) from April 2008 to April 2014; an independent director of China Non-ferrous Metal Industry's Foreign Engineering and Construction Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000758) from April 2008 to May 2014; an independent director of Shaanxi Broadcast & TV Network Intermediary Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600831) from May 2008 to December 2014; and an independent director of Shaanxi Aerospace Power Hi-Tech. Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600343) from March 2007 to September 2014.

Mr. Feng obtained a Bachelor's degree in Economics from Shaanxi Institute of Finance and Economics in the PRC in July 1982, a Master's degree from Shaanxi Institute of Finance and Economics in July 1988, a Doctor's degree from Shaanxi Institute of Finance and Economics in July 1997, and has been enjoying special governmental allowance from the State Council since 1993.

Ms. ZHU Shengqin (朱聖琴), aged 39, is an independent non-executive Director. Ms. Zhu has been serving as an independent Director of the Company since April 25, 2015; the chairman of the board of Beijing HuiYuan UCF Capital Holding Co., Ltd. since July 2013; an executive director of China Huiyuan Juice Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1886) since August 2014; and the chairman of the board of Sunrise Financial Leasing Company Limited since August 2015.

Ms. Zhu joined China Huiyuan Juice Group Limited in 1996. She has held various positions, including the marketing manager, deputy general manager of the investment division, director of the office of the board, officer of operation teams, and a vice president of the group.

Ms. Zhu obtained an MBA degree from Cheung Kong Graduate School of Business in the PRC in September 2007 and an EMBA degree from PBC School of Finance, Tsinghua University in the PRC in January 2016.

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Mr. DAI Deming (戴德明), aged 54, is an independent non-executive Director. Mr. Dai has been serving as an independent Director of the Company since August 20, 2016; a professor and doctoral supervisor of the department of accounting of Renmin University of China since July 1996 and January 1997, respectively; an independent director of China Zheshang Bank Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 02016) since February 2015; a director of Qingdao Haier Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600690) since June 2015; an independent director of Beijing Capital Development Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600376) since September 2015; and an independent director of BOC Aviation Limited (a company listed on the Hong Kong Stock Exchange, stock code: 02588) since May 2016. He is also the vice chairman of the Accounting Society of China.

Mr. Dai served as an external supervisor of China Construction Bank Corporation (a company listed on the Hong Kong Stock Exchange, stock code: 939, and the Shanghai Stock Exchange, stock code: 601939) from June 2007 to June 2013; and an independent director of CSR Corporation Limited (a company listed on the Shanghai Stock Exchange, stock code: 601766, and the Hong Kong Stock Exchange, stock code: 01766, which merged with China CNR Corporation Limited and subsequently renamed CRR Corporation Limited in 2015) from December 2007 to June 2014; an independent director of Shanxi Taigang Stainless Steel Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000825) from May 2011 to October 2016; and an independent director of Beijing Xinwei Telecom Technology Group Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600485) from September 2014 to August 2016.

Mr. Dai obtained a Bachelor's degree in Economics, majoring in Industry Finance and Accounting from Hunan College of Finance and Economics (currently known as Hunan University) in the PRC in July 1983, a Master's degree in Economics, majoring in Professional Accounting from Zhongnan University of Economics in the PRC in October 1986, and a Doctor's degree in Economics from Renmin University of China in June 1991.

Mr. Dai served as an independent director of Tus-Guhan Group Corp., Ltd. (formerly known as Unisplendour Guhan Group Corporation Limited (“**Unisplendour Guhan**”)) (a company listed on the Shenzhen Stock Exchange, stock code: 000590) from May 2002 to April 2007. The CSRC Administrative Penalty Decision ([2013] No. 9) and the Shenzhen Stock Exchange Penalty Decision (Shenzhengshang [2013] No. 233) found that, from 2005 to 2008, Unisplendour Guhan recorded certain false information in its audit reports and failed to disclose a joint venture agreement entered into by Unisplendour Guhan in 2005, and imposed penalties on Unisplendour Guhan and certain of its officers and directors (which did not include Mr. Dai) for the non-compliance incidents stated above.

In the non-compliance incidents above, the CSRC and the Shenzhen Stock Exchange did not impose any penalty on Mr. Dai. Mr. Dai has also confirmed that he was not involved in such non-compliance incidents. Our Company is of the view, and the Joint Sponsors concur, that the non-compliance incidents above will not affect Mr. Dai's ability to perform his fiduciary duties as a Director of our Company pursuant to Rule 3.08 of the Listing Rules and he is competent in performing the duties of a Director of our Company in accordance with Rule 3.09 of the Listing Rules.

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Mr. BAI Jianjun (白建軍), aged 61, is an independent non-executive Director. Mr. Bai has been serving as an independent Director of the Company since August 20, 2016; an external supervisor of China Construction Bank Corporation since June 2013. Mr. Bai has been teaching in Peking University since July 1987 and serves as a professor and doctoral supervisor at the Law School, director of the Research Institute of Empirical Legal Affairs, deputy director of the Criminal Law Theoretical Research Center and deputy director of the Financial Law Research Center. Mr. Bai has been serving as an independent director of Beijing Boya Yingjie Science & Technology Co., Ltd. (a company listed on the NEEQ, stock code: 430082) since November 2010.

Mr. Bai pursued his visiting research at New York University in United States from September 1991 to October 1992 and had been a visiting professor at Niigata University in Japan from October 1996 to October 1997.

Mr. Bai obtained a Master's degree in Law from Peking University in the PRC in July 1987 and the Juris Doctor degree from Peking University in the PRC in June 2003. The doctoral dissertation written by Mr. Bai, was granted the National Excellence Doctoral Dissertation Award in 2005. Mr. Bai's monograph was granted the Outstand Achievement Award by China Society for Criminology Research in 2007.

Mr. LIU Qiao (劉俏), aged 46, is an independent non-executive Director. Mr. Liu has been serving as an independent Director of the Company since August 20, 2016; a member of the expert panel of the Shenzhen Stock Exchange since March 2006; a supervisor of the post-doctoral station of Shenzhen Stock Exchange since September 2007; the professor of finance and economics, doctoral supervisor, associate dean and director of EMBA Center at the Guanghua School of Management of Peking University since December 2010; a supervisor of the post-doctoral station of CSRC since September 2011; a supervisor of the post-doctoral station of China Minsheng Bank Corp., Ltd since September 2011; a supervisor of the post-doctoral station of China Financial Futures Exchange since September 2012; an independent director of Hexie Health Insurance Co., Ltd. since October 2014; and an independent director of ZH International Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 00185) since July 2015.

Mr. Liu served as an assistant professor at School of Economics and Finance of the University of Hong Kong from September 2000 to November 2001; a consultant of the Asia-Pacific Corporate Finance & Strategy Practice of McKinsey & Company from December 2001 to July 2003; and an assistant professor and associate professor (with tenure) at the Faculty of Business and Economics of the University of Hong Kong from August 2003 to December 2010.

Mr. Liu obtained a Bachelor of Science degree in Economics and Mathematics from Renmin University of China in July 1991, a Master's degree in International Finance and Economics from the Institute of Finance of PBOC (currently known as PBC School of Finance, Tsinghua University) in April 1994 and a Ph.D. in Economics from University of California, Los Angeles in the United States in June 2000. Mr. Liu was granted the Outstanding Youth Award of National Natural Science Foundation of China (國家自然科學基金傑出青年獎) in December 2013 and awarded the title of distinguished professor (特聘教授) of Changjiang Scholars Program by Ministry of Education in December 2014.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. LI Shihua (李士華), aged 57, is the Chairman of the Supervisory Committee. Mr. Li joined our Company in November 2005 and has been serving as the Chairman of the Supervisory Committee since April 2014; and the Deputy Secretary of the Party Committee since June 2014. Mr. Li has been serving as the chairman of the supervisory committee of China Securities Futures since May 2011.

Mr. Li served as the deputy director and director (section level) of the business department of Hengshui branch and deputy chief of technology reform division of Hebei provincial branch of Industrial and Commercial Bank of China from December 1985 to September 1997; the director of the board office and general manager of the administration department of Huaxia Securities from September 1997 to November 2005; the general manager of the Administration Department, the administrative head of the President's Office, the member of Executive Committee, the secretary of the Board and the secretary of the Disciplinary Committee of the Company from November 2005 to April 2014.

Mr. Li graduated from the undergraduate school of Hebei Institute of Education in the PRC in June 1995 and from the post graduate school of Chinese Academy of Social Sciences in April 1998.

Ms. WANG Jing (王京), aged 45, is a Supervisor. Ms. Wang has been serving as a Supervisor of the Company since August 2016; the deputy general manager of BSCOMC since January 2014; a director of BAIC Motor Corporation Limited (a company listed on the Hong Kong Stock Exchange, stock code: 01958) since April 2014; a director of BOE Technology Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000725) since May 2014; and a non-executive director of China Resources Pharmaceutical Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 03320) since June 2016.

Ms. Wang served as a staff of the corporate securities department of Beijing Lightbus Corporation Limited from June 1992 to March 1993; an officer of the general office of Beijing Municipal Commission of Economic Restructuring from March 1993 to March 1998; an assistant to the manager and deputy manager of the financing department of the Hong Kong head office of Beijing Enterprises Holdings Limited from March 1998 to February 2003; the manager of the corporate management department in Beijing Enterprises Holdings Investment Management Co. Ltd. from February 2003 to January 2004; the deputy general manager, manager of the corporate management department and the assistant to general manager of Beijing Holdings Investment Management Center as well as the chairman of the board directors and the general manager of Beijing Inland Port International Logistics Co., Ltd., both of which are under Beijing Holdings Limited, from January 2004 to May 2009; and the general manager of the investment management department of BSCOMC from May 2009 to January 2014.

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Ms. Wang obtained a Bachelor's degree in Economics from Beijing Institute of Finance and Trade (currently known as Capital University of Economics and Business) in the PRC in July 1992. She also obtained a Master's degree in Law from Renmin University of China in July 1999, and an MBA degree from Murdoch University in Australia in March 2000. Ms. Wang obtained a certificate of senior economist in September 2005, and a certificate of corporate legal advisor in October 2008.

Ms. AI Bo (艾波), aged 45, is a Supervisor. Ms. Ai has been serving as a Supervisor of the Company since August 2016; and the senior manager of the department of discipline inspection and supervision of China Investment Corporation since February 2012.

Ms. Ai worked for the secretariat for confidential matters of the general office of the Ministry of Supervision, the general supervision office of supervision department under the Central Commission for Discipline Inspection and the second discipline inspection office under the Central Commission for Discipline Inspection from July 1991 to May 2008, and served as the deputy director of the second discipline inspection office under the Central Commission for Discipline Inspection from September 2005 to May 2008. Ms. Ai also served as the designated supervisor of Central Huijin (designated to work for New China Life Insurance Company Ltd.) from January 2010 to February 2012.

Ms. Ai obtained a Master's degree in Management from Kunming University of Science and Technology in the PRC in June 2015 and obtained a certificate of certified enterprise risk manager in June 2014.

Mr. LIU Hui (劉輝), aged 44, is a Supervisor. Mr. Liu has been serving as a Supervisor of the Company since March 2011. Mr. Liu has been working for Central Huijin since March 2007 and currently serves as the senior manager of the management department I of the banking institution.

Mr. Liu served as the senior staff of Agricultural Development Bank of China from July 1995 to September 1999; the head of the strategic research department and the head of the market research department of Beijing life insurance branch of Ping An Insurance (Group) Company of China, Ltd. from November 2001 to September 2002; and the consultant of finance and private enterprises development department of Beijing representative office of The World Bank from June 2006 to February 2007.

Mr. Liu obtained a Bachelor's degree in Economics from China Institute of Finance in July 1995, a Graduate Diploma in economics from University of Cambridge in United Kingdom in September 2000 and a Doctor's degree in Business and Management Economics from University of Cambridge in United Kingdom in March 2006.

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Ms. LU Ya (陸亞), aged 50, is an employee representative Supervisor and Administrative Head of the Risk Management Department. Ms. Lu joined our Company in November 2005, and has been serving as an Administrative Head of the Risk Management Department since January 2008, an employee representative Supervisor since March 2011, and a supervisor of China Securities Capital since August 2009. Ms. Lu has been serving as a member of the financial accounting and risk control committee of the SAC since August 2011.

Ms. Lu worked in Renmin University of China from August 1988 to August 1990. Ms. Lu served as the accounting head of the securities department of Beijing Real Estate Trust and Investment Company from July 1993 to December 1993; the analyst of the research and development department of China Securities Market Research and Design Centre from January 1994 to June 1994; the Certified Public Accountant of Beijing Jing Du Certified Public Accountants from July 1994 to August 1995; the senior auditor of the audit department, the head of the securities investment department and the assistant general manager of the risk management department of Huaxia Securities from September 1995 to November 2005; and the assistant to general manager of the Risk Management Department of the Company from November 2005 to December 2007.

Ms. Lu obtained a Bachelor's degree in Economics from the School of Accounting of Renmin University of China in July 1988 and a Master's degree in Economics from the School of Accounting of Renmin University of China in June 1993. She was qualified as a Certified Public Accountant in 1993 and obtained a certificate of senior accountant in 1999.

Mr. WU Lili (吳立力), aged 46, is an employee representative Supervisor and deputy general manager of the securities branch located at Danling Street of Haidian District in Beijing. Mr. Wu joined our Company in November 2005 and has been serving as the deputy general manager of the securities branch located at Danling Street of Haidian District in Beijing since January 2008. He has been serving as an employee representative Supervisor since March 2011.

Mr. Wu served as a tour guide in Beijing Teachers' Travel Agency from 1989 to 1996; the department manager and deputy general manager of the securities branch located at Haidian South Road in Beijing of Huaxia Securities from March 1996 to November 2005.

Mr. Wu graduated from Beijing Institute of Business in the PRC majoring in Monetary Banking in July 1999 and graduated from the undergraduate school of University of International Business & Economics in the PRC majoring in International Trade and Economics in July 2005.

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SENIOR MANAGEMENT

Mr. QI Liang (齊亮), is an executive Director, the General Manager and a member of the Executive Committee. For the biography of Mr. Qi, please see “— Directors” of this section.

Mr. ZHOU Zhigang (周志綱), aged 52, is a member of the Executive Committee, the Chief Compliance Officer and Chief Risk Officer. Mr. Zhou joined our Company in November 2005. He has been serving as a member of the Executive Committee since February 2009, the Chief Compliance Officer and Chief Risk Officer since April 2016, and a member of Party Committee since December 2005. Mr. Zhou has been serving as a director of China Securities Futures since August 2006.

Mr. Zhou served as the assistant director of the application software chamber of Institute of Computer Technology of East China from September 1988 to May 1992; the deputy director of computer center, deputy director and director of the research and development center of Shanghai Wanguo Holdings Ltd. from May 1992 to May 1996; the chief engineer and the general manager of the E-commerce department of Huaxia Securities from May 1996 to November 2005; and deputy general manager and chairman of Brokerage Business Management Committee of the Company from November 2005 to April 2014.

Mr. Zhou obtained a Bachelor of Science degree from Fudan University in the PRC in July 1985 and obtained a Master of Science degree from Fudan University in the PRC in July 1988. He obtained a certificate of senior engineer in September 1999.

Mr. YUAN Jianmin (袁建民), aged 55, is a member of the Executive Committee. Mr. Yuan joined our Company in November 2005 and has been serving as a member of the Executive Committee since February 2009 and a member of Party Committee since February 2007. Mr. Yuan has been serving as a director of China Securities Futures since August 2006. Mr. Yuan also serves as a member of the margin financing and securities lending committee of the SAC.

Mr. Yuan served as the deputy director of the real estate credit department under the construction and economy department of the head office, the deputy director of computer management department of the computing center, a director of the planning and finance division of science department, the senior manager of the finance and business department of Beijing development center of information technology department of China Construction Bank from August 1982 to January 2005; the deputy general manager of Jianyin Science Development Center of China Jianyin from February 2005 to October 2005; and the deputy general manager, administrative head of the Treasury Operation Department and administrative head of the Securities and Financing Department of our Company from November 2005 to January 2016.

Mr. Yuan obtained a Bachelor's degree in Economics from Liaoning Institute of Finance and Economics in the PRC in August 1982 and a Master's degree in Economics from Dongbei University of Finance and Economics in the PRC in November 1999. He obtained a certificate of senior economist in December 1993.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. JIANG Yueqin (蔣月勤), aged 49, a member of the Executive Committee. Mr. Jiang joined our Company in January 2007 and has been serving as a member of the Executive Committee since May 2009 and a member of Party Committee since December 2007. He has been serving as the chairman of the board of directors of China Securities Funds since September 2013. Currently, Mr. Jiang also serves as a member of the asset management committee of the AMAC.

Mr. Jiang served as a programmer of Shenzhen Shekou Xinxin Software Company from May 1992 to March 1993; the deputy general manager of Shenzhen branch, general manager of trading department and chief dealer of CITIC Securities from March 1993 to December 2001; the general manager of Changsheng Fund Management Co., Ltd. from 2001 to 2006; the assistant to general manager, administrative head of Institutional Business Department and administrative head of Asset Management Department of our Company from January 2007 to January 2016.

Mr. Jiang obtained a Bachelor of Engineering degree from University of Electronic Science and Technology in the PRC in July 1989 and a Master of Engineering degree from University of Electronic Science and Technology in the PRC in March 1992.

Mr. ZHOU Xiaoyu (周笑予), aged 52, is a member of the Executive Committee and the administrative head of the Human Resources Department. Mr. Zhou joined our Company in November 2005 and has been serving as the Administrative Head of the Human Resources Department since November 2011, a member of the Executive Committee since January 2016, and a member of Party Committee since July 2013. Mr. Zhou has been a director of China Securities Futures since August 2012.

Mr. Zhou served as an assistant engineer and engineer in Guangzhou Design Institute of Ministry of Light Industry from August 1985 to August 1988 and from August 1991 to February 1993, respectively; the executive deputy general manager in Shenzhen branch, the general manager of the business department in Dalian branch, the general manager of Shenyang Branch and the general manager of the brokerage business management of Huaxia Securities from February 1993 to November 2005; and the general manager of the Brokerage Business Management Department, the administrative head of the Treasury Operation Department and the administrative head of the Margin Financing and Securities Lending Department of our Company from November 2005 to November 2011.

Mr. Zhou obtained a Bachelor of Engineering degree from Tianjin Institute of Light Industry in the PRC in July 1985 and Master of Engineering degree from South China University of Technology in the PRC in July 1991.

Mr. PENG Heng (彭恒), aged 44, is a member of the Executive Committee, the Chief Financial Officer, the Administrative Head of the Financial Planning Department and the Administrative Head of the Treasury Operation Department. Mr. Peng joined our Company in November 2005 and has been serving as the Administrative Head of the Financial Planning Department since January 2008, a member of the Executive Committee and Chief Financial Officer since January 2009, and the Administrative Head of the Treasury Operation Department since November 2012. Mr. Peng has been a supervisor of China Securities Futures since November 2008 and a director of China Securities Capital since March 2013.

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Mr. Peng served as a senior staff member in the travel agency and hotel management department of the China National Tourism Administration from August 1996 to January 1998; the business manager of the asset management department, the executive manager of the financial planning department, the assistant to general manager and the deputy general manager of Huaxia Securities from February 1998 to November 2005; and the deputy general manager of the Financial Planning Department of our Company from November 2005 to December 2007.

Mr. Peng obtained a Bachelor's degree in Economics from Renmin University of China in July 1993 and a Master's degree in Economics from Renmin University of China in July 1996. He was also qualified as a Chinese Certified Public Accountant in April 2000.

Mr. LI Tiesheng (李鐵生), aged 45, is a member of the Executive Committee. Mr. Li joined our Company in June 2013 and has been serving as a member of the Executive Committee since June 2013.

Mr. Li served as the business manager of the securities department and the futures department as well as the deputy general manager and general manager of Shenzhen Zhongbaoxin Financial Consultant Co. Ltd in China People's Insurance Trust and Investment Company from August 1993 to March 2000; the deputy manager of Hong Kong Jiangnan Finance Company Limited, deputy director of Great Wall Securities Co., Ltd., general manager of New Jiangnan Investment Company Limited, a member of party committee and the vice-president of Beijing Branch of China Merchants Bank Co., Ltd. from March 2000 to July 2013.

Mr. Li obtained a Bachelor of Engineering degree from Beijing Institute of Technology in the PRC in July 1993 and completed the postgraduate course in Renmin University of China in October 1997.

Mr. WANG Guangxue (王廣學), aged 44, is a member of the Executive Committee, the Secretary of the Board and the Administrative Head of the Executive Office of our Company. Mr. Wang joined our Company in November 2005 and has been serving as the Administrative Head of the Executive Office of our Company since November 2011. He has been serving as a member of the Executive Committee and the Secretary of the Board since January 2014. Currently, Mr. Wang also serves as a member of the self-discipline inspection committee of the SAC.

Mr. Wang served as a staff of the foreign economic relations department of planning committee of Liyang City, Jiangsu Province (now known as the development and reform commission of Liyang City) from August 1992 to September 1995; the business manager, senior business director and assistant to general manager of the investment banking department of Huaxia Securities from July 1998 to November 2005; and the assistant to general manager and deputy general manager of the Investment Banking Department of our Company from November 2005 to November 2011.

Mr. Wang obtained a Bachelor of Science degree from Qingdao Ocean University (currently known as Ocean University of China) in the PRC in July 1992 and a Master's degree in Economics from Fudan University in the PRC in June 1998. He also obtained a Ph.D. in Economics (in-service study) from Fudan University in the PRC in July 2002. He obtained a certificate of sponsor representative of A Shares in April 2004.

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Mr. ZHANG Xinfan (張昕帆), aged 47, is a member of the Executive Committee and the Chairman of the Brokerage Business Management Committee. Mr. Zhang joined our Company in November 2005 and has been serving as a member of the Executive Committee since January 2014 and the Chairman of the Brokerage Business Management Committee since April 2014. Mr. Zhang has been serving as a director of China Securities International since June 2014.

Mr. Zhang served as a loan officer, the director of the securities branch of Dalian branch of Industrial and Commercial Bank of China from August 1991 to October 1994; the manager of Dalian securities branch, the deputy general manager of Shenyang branch and the deputy general manager of the corporate brokerage business management head office of Huaxia Securities from November 1994 to November 2005; and the deputy general manager of the Brokerage Business Management Department, the manager of the securities branch of Beijing Dongzhimen South Street, administrative head of the Wealth Management Department of the Brokerage Business Management committee and the vice-chairman of the Brokerage Business Management Committee of our Company from November 2005 to September 2016.

Mr. Zhang obtained a Bachelor's degree in Economics from Dongbei University of Finance and Economics in the PRC in July 1991 and an EMBA degree from Guanghua School of Management Peking University in the PRC in April 2001. He obtained a certificate of senior economist in August 1999.

Mr. LIU Naisheng (劉乃生), aged 45, is a member of the Executive Committee, the Administrative Head of the Investment Banking Department. Mr. Liu joined our Company in March 2006 and has been serving as the Administrative Head of the Investment Banking Department since April 2011. He has been serving as a member of the Executive Committee since January 2014. Mr. Liu is currently a member of the sixth session of the audit committee for mergers and acquisitions of the CSRC.

Mr. Liu worked in China Xinxing Corporation (Group) from July 1995 to October 1997. He worked in China Science and Technology International Trust and Investment Co., Ltd. from October 1997 to October 2002. He was engaged in investment banking business in China Science and Technology Securities Co., Ltd. from October 2002 to March 2006. He served as the deputy general manager of the Investment Banking Department of our Company from March 2006 to April 2011.

Mr. Liu obtained a Bachelor of Engineering degree from the Beijing Institute of Machinery (currently known as Beijing Information Science & Technology University) in the PRC in July 1995 and an MBA degree (in-service study) from School of Economics and Management, Tsinghua University in the PRC in July 2007. He obtained a certificate of sponsor representative of A Shares in February 2005. He was awarded as the "Best Investment Banker of the Year 2012" by Securities Times in May 2013, and the "Best Investment Banker of the Year 2014" by New Fortune in March 2015.

Mr. HUANG Ling (黃凌), aged 40, is a member of the Executive Committee, the Administrative Head of the Debt Underwriting Department. Mr. Huang joined our Company in November 2005 and has been serving as the Administrative Head of the Debt Underwriting Department since May 2008. He has been serving as a member of the Executive Committee from January 2014.

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Mr. Huang served as a senior business director of the administration department of Huaxia Securities from July 2000 to November 2005; and the senior business director and the assistant to general manager of the debt business department of our Company from November 2005 to May 2008.

Mr. Huang obtained a Bachelor's degree in Economics, majoring in International Finance, from China Institute of Finance in June 1998 and a Master's degree in Economics, majoring in Finance from the Graduate School of the PBOC in October 2000. He obtained a Ph.D. in Economics majoring in Finance from Hunan University in the PRC in June 2005. He obtained a certificate of senior economist in November 2007.

Mr. ZOU Yingguang (鄒迎光), aged 45, is a member of the Executive Committee, the Administrative Head of the Fixed Income Department. Mr. Zou joined our Company in November 2005 and has been serving as the Administrative Head of the Fixed Income Department since March 2007. He has been serving as a member of the Executive Committee since January 2014.

Mr. Zou served as a physician in Beijing Xuanwu Hospital from August 1994 to October 1996; a staff in Hainan Huayin International Trust Company from January 1997 to August 1998; manager of the institutional client division of securities branch located at Beijing Haidian South Road and senior business director of corporate bond business department of Huaxia Securities from July 1998 to November 2005; and a senior business director of the Securities Sales Department and assistant to general manager of our Company from November 2005 to March 2007.

Mr. Zou obtained a Bachelor's degree in Clinical Medicine from Capital Medical University in the PRC in July 1994 and a Master's degree in Economics from Central University of Finance and Economics in the PRC in June 2000. He also obtained an MBA degree from China Europe International Business School in September 2012.

Mr. HU Bin (胡斌), aged 35, is a member of the Executive Committee, the Administrative Head of the International Business Department. Mr. Hu joined our Company in June 2014 and has been serving as a member of the Executive Committee and the Administrative Head of the International Business Department since January 2016, and an executive director and the general manager of China Securities International since January 2016.

Mr. Hu served as a trader in the treasury operation department of Huaxia Bank Co., Ltd. from September 2004 to November 2006; the vice president of the capital markets department of CITIC Securities from November 2006 to January 2010; secretary of the general office of China CITIC Group Limited from January 2010 to June 2014; and the secretary of the disciplinary committee of the Company from June 2014 to January 2016.

Mr. Hu obtained a Bachelor's degree in Economics majoring in Business Management and Economics, and Finance from the Business School of Edinburgh Napier University in United Kingdom and Shandong University of Finance and Economics in the PRC in July 2003, respectively. He obtained a Master's degree in Investment from Business School, University of Birmingham in December 2004. He obtained a Ph.D. in Finance from School of

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Finance, Renmin University of China in June 2012. He completed the postdoctoral research in Applied Economics in Tehua Investment Holding Co., Ltd. in February 2015. Mr. Hu obtained a certificate of associate research fellow of finance in November 2015.

Unless otherwise stated, the dates of appointment of Directors, Supervisors and senior management of our Company disclosed in this section are dates of appointment by the relevant corporate governance bodies of the Company, which are conditional upon the fulfillment of the qualification requirements under the relevant PRC laws and regulations for the respective positions by the Directors, Supervisors and senior management.

Save as disclosed above, none of our Directors has any interests in any business, which competes or is likely to compete, either directly or indirectly, with our business.

Save as disclosed above, none of our Directors, Supervisors and members of the senior management is related to other Directors, Supervisors and members of the senior management.

Save as disclosed above, none of our Directors, Supervisors and members of 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 SECRETARY

Mr. WANG Guangxue (王廣學) was appointed as a joint company secretary of the Company in September 2016. Mr. Wang is also a member of senior management of the Company. Please see “— Senior Management” in this section for his biography.

Ms. WONG Wai Ling (黃慧玲), aged 36, is one of the joint company secretaries of the Company. Ms. Wong has more than 12 years of experience in corporate secretarial affairs. Ms. Wong is the assistant vice president of SW Corporate Services Group Limited and is responsible for assisting listed companies in professional company secretarial work. Prior to joining SW Corporate Services Group Limited, she worked in a corporate service provider from 2008 to 2011 and the company secretarial department of an international accounting firm from 2003 to 2008. Ms. Wong obtained a Bachelor of Arts degree in marketing and public relations from the Hong Kong Polytechnic University in 2007 and a Master’s degree in corporate governance from the Open University of Hong Kong in 2011. Ms. Wong has been an associate of The Hong Kong Institute of Chartered Secretaries and an associate of The Institute of Chartered Secretaries and Administrators in the United Kingdom since 2013.

BOARD COMMITTEES

The Board delegates certain responsibilities to various dedicated committees. In accordance with relevant PRC laws, regulations, the articles and the Hong Kong Listing Rules, we have formed four board committees, namely the Development Strategy Committee, the Risk Management Committee, the Audit Committee and the Remuneration and Nomination Committee.

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The Development Strategy Committee

The Development Strategy Committee consists of eight Directors, namely Mr. WANG Changqing, Mr. YU Zhongfu, Ms. HU Donghui, Mr. QI Liang, Mr. WANG Shouye, Ms. WANG Shumin, Mr. QIU Jianyang and Mr. FENG Genfu. Mr. WANG Changqing currently serves as the chairman of the Development Strategy Committee. The main duties of the Development Strategy Committee include but are not limited to:

- understanding and overseeing the overall operation of the Company;
- understanding, analyzing and monitoring the current situation of the international and domestic industry;
- understanding and monitoring the relevant national policies;
- studying the short, medium and long-term development strategies of the Company or the relevant issues;
- providing consultancy advice on the Company's long-term development strategy and major decisions on major investments, reform and etc.;
- reviewing and approving the special study report on the development strategies;
- publishing daily research reports in regular or irregular manner; and
- performing such other duties determined by the Board and stipulated in the listing rules or regulatory rules of the place where the shares of the Company are listed.

The Risk Management Committee

The Risk Management Committee consists of seven Directors, namely Ms. HU Donghui, Mr. QI Liang, Mr. WANG Chenyang, Mr. LIU Dingping, Mr. QIU Jianyang, Mr. BAI Jianjun and Mr. LIU Qiao. Ms. HU Donghui currently serves as the chairman of the Risk Management Committee. The main duties of the Risk Management Committee include but are not limited to:

- reviewing and advising on the general objectives and basic policies of compliance management and risk management;
- determining strategic structures and resources for the risk management of the Company, and ensuring that they are compatible with the internal risk management policies of the Company;
- overseeing the Company's risk management and internal control systems on an ongoing basis, ensuring that review on the effectiveness of the risk management and internal control systems of the Group being conducted at least once a year;

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- reviewing and advising on the establishment and duties of the institution for compliance management and risk management; ensuring the adequacy of resources, qualifications and experience of staff of the Company's accounting, internal review and financial report function, and their training programmes and budget;
- evaluating the risks relating to major decisions to be considered and approved at the Board and the solutions for such major risks, and providing advice in this regard;
- defining the limits of major risks;
- supervising, examining and making recommendation to the Board on relevant risk management policies;
- reviewing and approving the compliance reports and risk evaluation reports required to be considered and approved by the Board, and providing advice in this regard; and
- performing such other duties determined by the Board and stipulated in the listing rules or regulatory rules of the place where the shares of the Company are listed.

The Audit Committee

The Audit Committee consists of five Directors, namely Mr. DAI Deming, Mr. WANG Chenyang, Ms. WANG Shumin, Mr. FENG Genfu and Ms. ZHU Shengqin. Mr. DAI Deming currently serves as the chairman of the Audit Committee. The main duties of the Audit Committee include but are not limited to:

- monitoring the annual audit and making judgment on the truthfulness, accuracy and completeness of the audited information contained in the financial reports before submitting the reports to the Board;
- proposing to engage or dismiss the external auditor, and supervising the practice of external auditors;
- supervising the internal audit system of the Company and its implementation;
- being responsible for the communications between the internal audit and the external audit;
- reviewing and approving the financial information of the Company and its disclosure;
- examining the internal control system of the Company; and
- performing such other duties determined by the Board and stipulated in the listing rules or regulatory rules of the place where the shares of the Company are listed.

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The Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of seven Directors, namely Mr. BAI Jianjun, Mr. WANG Changqing, Mr. YU Zhongfu, Mr. LIU Dingping, Ms. ZHU Shengqin, Mr. DAI Deming and Mr. LIU Qiao. Mr. BAI Jianjun currently serves as the chairman of the Remuneration and Nomination Committee. The main duties of the Remuneration and Nomination Committee include but are not limited to:

- formulating and implementing performance evaluation system responsive to the changing market conditions, competitive remuneration package and the measures such as performance-based incentives, in accordance with the features of the financial and securities industry, the respective scope, responsibilities, significance of Directors and senior management and remuneration levels of similar positions in other related enterprises;
- assessing the fulfillment of duties of Directors and senior management of the Company and appraising their annual performance;
- reviewing and advising on the appraisal and remuneration management system for Directors and senior management;
- monitoring the implementation of remuneration system of the Company for the Directors and senior management;
- reviewing and advising on the election standards and procedures of the Directors and senior management; searching for eligible candidates for Directors and senior management; reviewing and providing opinions on the qualification criteria of candidates for Directors and senior management; and
- performing such other duties determined by the Board and stipulated in the listing rules or regulatory rules of the place where the shares of the Company are listed.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of our Directors, Supervisors and senior management are paid in the form of salary, allowances, employee benefits, bonuses, fees and retirement benefits.

For the three years ended December 31, 2013, 2014 and 2015 and for the six months ended June 30, 2016, the total compensation before taxation paid to our Directors amounted to RMB11.52 million, RMB10.46 million, RMB13.77 million and RMB12.07 million, respectively.

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Under the arrangements currently in force, the remuneration of our Directors for the year ended December 31, 2016 (excluding annual bonuses) is estimated to be approximately RMB4.86 million.

For the three years ended December 31, 2013, 2014 and 2015 and for the six months ended June 30, 2016, the total compensation before taxation paid to our Supervisors amounted to RMB7.46 million, RMB10.70 million, RMB11.53 million and RMB9.03 million, respectively.

Under the arrangements currently in force, the remuneration of our Supervisors for the year ended December 31, 2016 (excluding annual bonuses) is estimated to be approximately RMB3.58 million.

For the three years ended December 31, 2013, 2014 and 2015 and for the six months ended June 30, 2016, the total emoluments paid to the five highest paid employees (including Directors) by our Group amounted to RMB24.60 million, RMB27.08 million, RMB34.78 million and RMB51.22 million, respectively.

For the three years ended December 31, 2013, 2014 and 2015 and for the six months ended June 30, 2016, no fee was paid by our Group to any of the Directors, Supervisor or the five highest paid employees, in connection with their retirement from employment or as compensation for loss of office with our Company, or as inducement to join or upon joining our Company, or otherwise for services rendered by him in connection with the promotion or establishment of our Company. In addition, there was no other arrangement under which a Director or a Supervisor waived or agreed to waive any remuneration during the Relevant Periods.

For further details, please see “Appendix I — Accountant’s Report — II Notes to the Financial Information — 12 Directors’ and Supervisors’ Remuneration” and “— 13 Five Highest Paid Employees.”

None of the Directors, Supervisors and senior management holds any interest in the 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 after having made all reasonable enquiry, save as disclosed herein, there was 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 was no other information relating to the Directors that is required to be disclosed pursuant to Rules 13.51(2)(b) to (v) of the Hong Kong Listing Rules as of the Latest Practicable Date.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISOR

The Company has appointed China Securities (International) Corporate Finance Company Limited and ABCI Capital Limited as the joint compliance advisors in compliance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our joint compliance advisors will advise us under the following circumstances:

- before the publication of any regulatory announcements, circulars or financial reports;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issuance and share repurchase;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, development or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes any inquiry of us regarding unusual movements in the price or trading volume of Shares of the Company, the possible false market or any other matters.

Meanwhile, pursuant to Rule 19(A).06(3) of the Listing Rules, the joint compliance advisors shall, in a timely manner, 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 any new or amended law, regulation and code in Hong Kong applicable to our Company, and provide advice to the Company on the continuing requirements under the Listing Rules and applicable laws and regulations.

The term of the appointment of the joint compliance advisors shall commence from the Listing Date and end on the date when the Group distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date or until the agreement is terminated, whichever is earlier.

SUBSTANTIAL SHAREHOLDERS

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 Shares:

Name of shareholder	Nature of Interest	Number and class of securities	Approximate percentage of shareholding
BSCOMC	Legal and Beneficial Owner	2,745,000,000 Domestic Shares	45%
Central Huijin	Legal and Beneficial Owner	2,440,000,000 Domestic Shares	40%
CITIC Securities	Legal and Beneficial Owner	427,000,000 Domestic Shares	7%

Immediately following the completion of the Global Offering, and assuming the Over-allotment Option is not exercised, and (in relation to cornerstone investors) based on the Offer Price of HK\$6.81 (being the mid-point of the Offer Price range set out in this prospectus), the following persons will, have interests or short positions in our Shares or underlying Shares of our Company which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Nature of Interest	Number and class of securities	Approximate percentage of shareholding in the total share capital of our Company after the Global Offering	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering
BSCOMC	Legal and Beneficial Owner	2,688,010,412 Domestic Shares	37.46%	44.86%
Central Huijin	Legal and Beneficial Owner	2,389,342,588 Domestic Shares	33.29%	39.87%
CITIC Securities ⁽¹⁾	Legal and Beneficial Owner	427,000,000 Domestic Shares	5.95%	7.13%
Shanghai Shangyan ⁽¹⁾	Legal and Beneficial Owner	150,624,815 Domestic Shares	2.10%	2.51%
Shannan Jinyuan ⁽²⁾	Legal and Beneficial Owner	300,000,000 Domestic Shares	4.18%	5.01%
Glasslake Holdings Limited (鏡湖控股有限公司) ⁽³⁾	Legal and Beneficiary Owner	351,647,000 H Shares	4.90%	29.70%
China Structural Reform Fund Co., Ltd.(中國國有企業結構調整基金股份有限公司) ⁽⁴⁾	Legal and Beneficiary Owner	112,772,500 H Shares	1.57%	9.52%

SUBSTANTIAL SHAREHOLDERS

Notes:

- (1) Shanghai Panxin Equity Investment Management Co., Ltd. (上海磐信股權投資管理有限公司) (“**Panxin**”) is the general partner of Shanghai Shangyan. Panxin is wholly-owned by CITIC Private Equity Funds Management Co., Ltd. (中信產業投資基金管理有限公司) (“**CITIC PE**”), which is owned by CITIC Securities as to 35%. Therefore, each of Panxin, CITIC PE and CITIC Securities is deemed to be interested in the Domestic Shares held by Shanghai Shangyan under the SFO.
- (2) Shannan Jinyuan is a wholly-owned subsidiary of Jingyuan Investment Management Ltd. (西藏景源投資管理有限公司), which is in turn owned by Mr. Huang Tao and Mr. Huang Shiyong, as to approximately 60% and 40% shares respectively. Therefore, each of Jingyuan Investment Management Ltd. (西藏景源投資管理有限公司), Mr. Huang Tao and Mr. Huang Shiyong is deemed to be interested in the Domestic Shares held by Shannan Jinyuan under the SFO. Century Jinyuan is owned by Mr. Huang Rulun, Mr. Huang Tao and Mr. Huang Shiyong as to 80%, 10% and 10% respectively, Mr. Huang Rulun is the father of Mr. Huang Tao and Mr. Huang Shiyong.
- (3) Glasslake Holdings Limited (鏡湖控股有限公司) (“**Glasslake Holdings**”) is a wholly-owned subsidiary of Affluent East Investments Limited (東滿投資有限公司) (“**Affluent East**”), which is in turn wholly-owned by CITIC Limited. CITIC Group indirectly holds a majority of equity interest in CITIC Limited. Therefore, each of Affluent East, CITIC Limited and CITIC Group is deemed to be interested in the H Shares held by Glasslake Holdings under the SFO.
- (4) China Structural Reform Fund Co., Ltd. (中國國有企業結構調整基金股份有限公司) (“**Structural Reform Fund**”) is held as to 38.2% by CCB Principal Asset Management Co., Ltd. (建信投資基金管理有限責任公司) (“**CCB**”), which is in turn held as to 38.2% by China Investment Corporation (中國投資有限責任公司) (“**CIC**”). Therefore, each of CCB and CIC is deemed to be interested in the H Shares held by Structural Reform Fund under the SFO.

For those who are directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of our Group, please see “Appendix VI — Statutory and General Information” to this prospectus.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with the following investors (the “**Cornerstone Investors**”, each a “**Cornerstone Investor**”), pursuant to which the Cornerstone Investors have agreed to (subject to certain conditions) subscribe, for certain number of H Shares at the Offer Price (the “**Cornerstone Placing**”) as described below.

Based on the Offer Price of HK\$6.36 (being the minimum price 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 702,676,000, representing approximately (i) 9.79% of the Shares in issue upon the completion of the Global Offering and 59.34% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 9.58% of the Shares in issue upon completion of the Global Offering and 51.60% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised. Based on the Offer Price of HK\$7.26 (being the maximum price 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 659,162,000, representing approximately (i) 9.19% of the Shares in issue upon the completion of the Global Offering and 55.67% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised; or (ii) 8.98% of the Shares in issue upon completion of the Global Offering and 48.41% of the H Shares offered pursuant to the Global Offering, assuming that the Over-allotment Option is fully exercised.

To the best knowledge of the Company, save as disclosed below, each of the Cornerstone Investors is an independent third party, is not our connected person (as defined under the Listing Rules) or existing shareholder, and is not a close associate of any of our existing shareholders, and each of the Cornerstone Investors is independent of each other, and makes independent investment decisions. Details of the actual number of the Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by our Company on or around December 8, 2016.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid H Shares in issue and will be counted towards the public float of our Company under Rule 8.08 of the Hong Kong Listing Rules. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering other than pursuant to the respective cornerstone investment agreements. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become a substantial shareholder (as defined under the Listing Rules) of our Company. The Cornerstone Investors do not have any preferential rights compared with other public Shareholders in the respective cornerstone investment agreements. In the event of over-subscription under the Hong Kong Public Offering, the number of International Offer Shares may be affected by the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering. In such event, the number of Offer Shares to be subscribed by certain Cornerstone Investors may be affected by the re-allocation of H Shares between the International Offering and the Hong Kong Public Offering. Our Company has applied for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules. See “Structure of the Global Offering” for further details.

CORNERSTONE INVESTORS

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We have entered into cornerstone investment agreements with each of the following Cornerstone Investors in respect of the Cornerstone Placing:

Cornerstone Investor	Investment Amount/ Number of H Shares to be subscribed for by the Cornerstone Investors	Based on the Offer Price of HK\$6.81 (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 Option is not exercised)	Approximate percentage of the Shares in issue immediately following the completion of the Global Offering (assuming that the Option is fully exercised)	Approximate percentage of the H Shares in issue immediately following the completion of the Global Offering (assuming that the Option is not exercised)	Approximate percentage of the H Shares in issue immediately following the completion of the Global Offering (assuming that the Option is fully exercised)
Glasslake Holdings Limited (鏡湖 控股有限公司)	351,647,000 H Shares	4.90%	4.79%	29.70%	25.82%
China Structural Reform Fund Co., Ltd. (中國國有企業結構調 整基金股份有限公司)	US\$100 million ⁽¹⁾	1.57%	1.54%	9.52%	8.28%
Taiping Life Insurance Co., Ltd. (太平人壽保險有限公司)	US\$50 million	0.79%	0.78%	4.81%	4.18%
Daiwa Securities Group Inc.	US\$20 million	0.32%	0.31%	1.92%	1.67%
China Huadian Capital Holdings Company Limited (中國華電集 團資本控股有限公司)	US\$20 million ⁽¹⁾	0.31%	0.31%	1.90%	1.66%
Beijing Shunlong Investment and Development Fund (Limited Partnership) (北京順隆投資發展 基金(有限合夥))	US\$20 million ⁽¹⁾	0.31%	0.31%	1.90%	1.66%
Beijing Xianglong Assets Management Co., Ltd. (北京祥 龍資產經營有限責任公司)	US\$20 million ⁽¹⁾	0.31%	0.31%	1.90%	1.66%
Beijing Urban Construction Investment & Development Co., Ltd. (北京城建投資發展股份有限 公司)	US\$20 million ⁽¹⁾	0.31%	0.31%	1.90%	1.66%
Beijing Capital Development Asset Management Co., Ltd (北京首開 資產管理有限公司)	US\$20 million ⁽¹⁾	0.31%	0.31%	1.90%	1.66%
Guangdong Province Railway Development Fund Co., Ltd. (廣東省鐵路發展基金有限責任 公司)	US\$20 million ⁽¹⁾	0.31%	0.31%	1.90%	1.66%

Note:

- (1) The investment amount includes brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee.

CORNERSTONE INVESTORS

The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing.

Glasslake Holdings

Glasslake Holdings Limited (“**Glasslake Holdings**”) has agreed to subscribe for 351,647,000 H Shares at the Offer Price, representing 4.90% of the Shares and 29.70% of the H Shares, in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Glasslake Holdings is a company incorporated in the British Virgin Islands and is wholly-owned by Affluent East Investments Limited (a wholly-owned subsidiary of CITIC Limited). Glasslake Holdings is an overseas investment holding company controlled by CITIC Limited. CITIC Limited is listed on the Hong Kong Stock Exchange (Stock Code: 00267), and is the largest integrated enterprise group in China and one of the constituent stocks of the Hang Seng Index. CITIC Limited is mainly engaged in finance, resources, energy, manufacturing, engineering contracting and real estate. The full-range finance business of CITIC Limited covers banking, trust, securities and insurance, with a relatively obvious integrated financial advantage.

Structural Reform Fund

China Structural Reform Fund Co., Ltd. (“**Structural Reform Fund**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$100 million at the Offer Price (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee). Assuming the Offer price of HK\$6.81, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Structural Reform Fund would subscribe for would be 112,772,500, representing approximately 1.57% of the Shares and approximately 9.52% of the H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Structural Reform Fund is a company incorporated in the PRC in which the SASAC, via a number of state-owned enterprises, indirectly holds approximately 58% of total equity interests. The remaining shareholding of the Structural Reform Fund is mainly held by certain other state-owned enterprises. The Structural Reform Fund is mainly engaged in business including private fund-raising, equity investment, investment consulting, project investment and asset management and business management consultation.

Taiping Life Insurance Co., Ltd.

Taiping Life Insurance Co., Ltd. has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$50 million at the Offer Price. Assuming the Offer price of HK\$6.81, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Taiping Life Insurance Co., Ltd. would subscribe for would be 56,954,000, representing approximately 0.79% of the Shares and approximately 4.81% of the

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H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Taiping Life Insurance Co., Ltd. is a company incorporated in the PRC of which China Taiping Insurance Group Ltd. is the ultimate controlling shareholder. Taiping Life Insurance Co., Ltd. is a professional life insurance company under China Taiping Insurance Group Ltd. The principal business of Taiping Life Insurance Co., Ltd. covers various types of personal and corporate insurance business, reinsurance business, and other capital funds and business operations approved by the China Insurance Regulatory Commission. The principal business of China Taiping Insurance Group Ltd. covers investment in the insurance industry, supervision and management of investment enterprises, and funds operation as permitted by laws and regulations.

Daiwa Securities

Daiwa Securities Group Inc. (“**Daiwa Securities**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$20 million at the Offer Price. Assuming the Offer price of HK\$6.81, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Daiwa Securities would subscribe for would be 22,781,500, representing approximately 0.32% of the Shares and approximately 1.92% of the H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Daiwa Securities is a company incorporated in Japan and is listed on the Tokyo Stock Exchange (First Section) and the Nagoya Stock Exchange (First Section). Founded in 1943, Daiwa Securities is one of the largest independent, full-service securities group in Japan. Through its global network, the group provides a broad range of financial services to its clients, including wealth management and support for corporate business operations. Its core business includes brokerage, development and distribution of financial products (including equity, bonds and derivatives), underwriting of equity, bond and other securities, M&A advisory services, asset management, and principal investment.

CHD Capital

China Huadian Capital Holdings Company Limited (“**CHD Capital**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$20 million at the Offer Price (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee). Assuming the Offer price of HK\$6.81, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that CHD Capital would subscribe for would be 22,554,500, representing approximately 0.31% of the Shares and approximately 1.90% of the H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

CHD Capital is a company incorporated in the PRC and is a wholly-owned subsidiary of China Huadian Corporation (“**CHD**”), whose principal business includes power generation, heat production and supply, and development of electricity-related primary energy such as

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coal, as well as associated technical services. CHD Capital serves as the core platform for financial development and capital services of CHD. It is principally engaged in the investment, financing, asset management, and management of CHD's existing equity interests in financial institutions.

Shunlong Fund

Beijing Shunlong Investment and Development Fund (Limited Partnership) (“**Shunlong Fund**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$20 million at the Offer Price (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee). Assuming the Offer price of HK\$6.81, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Shunlong Fund would subscribe for would be 22,554,500, representing approximately 0.31% of the Shares and approximately 1.90% of the H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Shunlong Fund is established in the PRC, and is principally owned by a number of state-owned enterprises controlled by the Beijing SASAC, several among which are directly controlled by BSCOMC. As such, Shunlong Fund is a close associate of BSCOMC under the Listing Rules. The principal activities of Shunlong Fund are bonds and equity investments.

Beijing Xianglong

Beijing Xianglong Assets Management Co., Ltd. (“**Beijing Xianglong**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$20 million at the Offer Price (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee). Assuming the Offer price of HK\$6.81, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Beijing Xianglong would subscribe for would be 22,554,500, representing approximately 0.31% of the Shares and approximately 1.90% of the H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Beijing Xianglong is a company incorporated in the PRC. It is a municipal-level enterprise functioning as the investment entity of the Beijing SASAC, and is also a wholly-owned subsidiary of BSCOMC. Its principal business covers investment and investment management. The subsidiaries of Beijing Xianglong are engaged in the business of, among others, automotive services, logistics, commerce and trade, transport and cargo, commercial property and vocational education.

Beijing Urban Construction

Beijing Urban Construction Investment & Development Co., Ltd. (“**Beijing Urban Construction**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$20 million at the Offer Price (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee). Assuming the Offer price of HK\$6.81, being the mid-point

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of the Offer Price range set out in this prospectus, the total number of H Shares that Beijing Urban Construction would subscribe for would be 22,554,500, representing approximately 0.31% of the Shares and approximately 1.90% of the H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Beijing Urban Construction is a company incorporated in the PRC and was listed on the Shanghai Stock Exchange (Stock Code: 600266) on February 3, 1999. It is held as to 40.39% by its controlling shareholder Beijing Urban Construction Group Company Limited (“**Urban Construction Group**”), which is in turn wholly-owned by the Beijing SASAC. Urban Construction Group is principally engaged in the authorized operation and management of state-owned assets; the general contracting of various kinds of industrial, energy, transportation, civil and municipal engineering construction projects; real estate development and sales; mechanical construction and equipment installation. Beijing Urban Construction is principally engaged in property development, sales of commercial housing, investment and investment management, sales of metal materials, wood, building materials, machinery and electrical equipment; information consultation (excluding intermediary services); environmental technology development and technical services.

Beijing Capital Development Asset Management

Beijing Capital Development Asset Management Co., Ltd (“**Beijing Capital Development Asset Management**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$20 million at the Offer Price (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee). Assuming the Offer price of HK\$6.81, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Beijing Capital Development Asset Management would subscribe for would be 22,554,500, representing approximately 0.31% of the Shares and approximately 1.90% of the H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Beijing Capital Development Asset Management is a company incorporated in the PRC, and is wholly-owned by Beijing Capital Development Holding (Group) Co., Ltd. which is in turn wholly-owned by BSCOMC. Beijing Capital Development Management is principally engaged in asset management, investment consultation and project investment.

Guangdong Province Railway Development Fund Co., Ltd.

Guangdong Province Railway Development Fund Co., Ltd. has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of US\$20 million at the Offer Price (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee). Assuming the Offer price of HK\$6.81, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Guangdong Province Railway Development Fund Co., Ltd. would subscribe for would be 22,554,500, representing approximately 0.31% of the Shares and approximately 1.90% of the H Shares, in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

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Guangdong Province Railway Development Fund Co., Ltd. is a company incorporated in the PRC. It is held by its largest shareholder Guangdong Provincial Railway Construction Investment Group Co., Ltd. (“**Guangdong Railway Construction Investment Group**”), as to 25%. The remaining shareholding is held by several other enterprises. Guangdong Railway Construction Investment Group is principally engaged in investment, investment management, investment consulting, asset management and management of railway, inter-city and other projects, major and medium-sized maintenance of railway and inter-city transportation and other rail transportation equipment, the comprehensive development of railway and land along railways. Guangdong Province Railway Development Fund Co., Ltd. is principally engaged in fund, asset management and consulting, railway construction projects, the investment and management of land development projects and other related business.

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in such agreements;
- (b) neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated;
- (c) the Listing Committee having granted the listing of, and permission to deal in, the H Shares (including the Investor Shares) and such approval or permission having not been revoked;
- (d) the Offer Price having been agreed upon according to the Underwriting Agreements and the Price Determination Agreement;
- (e) no Laws (as defined in the relevant cornerstone investment agreement) shall have been enacted or promulgated which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or under the relevant cornerstone investment agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions.

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RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of our Company and the underwriters' representatives, it will not, whether directly or indirectly, at any time during a period of six months starting from and inclusive of the Listing Date, dispose of (as defined in the relevant cornerstone investment agreement) any of the shares subscribed for by it under the relevant cornerstone investment agreement and any shares or other securities of our Company derived therefrom (the "**Relevant Shares**") or any interest in any company or entity holding any of the Relevant Shares in any way.

Each Cornerstone Investor may transfer the H Shares so subscribed for in certain limited circumstances as set out in the relevant cornerstone investment agreement, such as transfer to a wholly-owned subsidiary of such Cornerstone Investor, provided that prior to such transfer, such wholly-owned subsidiary undertakes, and such Cornerstone Investor undertakes to procure, that such wholly-owned subsidiary agrees to be bound by such Cornerstone Investor's obligations under the relevant cornerstone investment agreement and subject to the restrictions on disposals imposed on the Cornerstone Investor.

SHARE CAPITAL

This section presents certain information regarding our share capital before and upon completion of the Global Offering.

BEFORE THE GLOBAL OFFERING

As of the Latest Practicable Date, the registered capital of our Company was RMB6,100,000,000, comprising 6,100,000,000 Domestic Shares of nominal value RMB1.00 each.

UPON COMPLETION OF THE GLOBAL OFFERING

Immediately following completion of the Global Offering, assuming that the Over-allotment Option is not exercised, our share capital would be categorized as follows:

Description of Shares	Number of Shares	Approximate percentage of issued share capital
Domestic Shares	5,992,353,000	83.50%
H Shares to be converted from Domestic Shares and held by the NSSF	53,823,500	0.75%
H Shares to be issued or sold under the Global Offering	1,130,293,500	15.75%
Total	7,176,470,000	100.00%

Immediately following completion of the Global Offering and assuming that the Over-allotment Option is fully exercised, our share capital would be categorized as follows:

Description of Shares	Number of Shares	Approximate percentage of issued share capital
Domestic Shares	5,976,206,000	81.44%
H Shares to be converted from Domestic Shares and held by the NSSF	61,897,000	0.84%
H Shares to be issued or sold under the Global Offering	1,299,837,000	17.71%
Total	7,337,940,000	100.00%

SHARE CLASSES

Upon completion of the Global Offering, we would have two classes of Shares: Domestic Shares and H Shares. Domestic Shares and H Shares are all ordinary Shares in the share capital of our Company. However, apart from certain qualified domestic institutional investors in the PRC, the qualified PRC investors under the Shanghai-Hong Kong Stock Connect and other persons who are entitled to hold our H Shares pursuant to relevant PRC laws and regulations or upon approvals of any competent authorities, H Shares generally cannot be subscribed for or traded between legal or natural persons of the PRC.

SHARE CAPITAL

Domestic Shares and H Shares are regarded as different classes of shares under our Articles of Association. The differences between the two classes of shares and provisions on class rights, the dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different registers of Shareholders, the method of share transfer and appointment of dividend receiving agents are set out in the Articles of Association and summarized in “Appendix V — Summary of Articles of Association.” The rights conferred on any class of Shareholders may not be varied or abrogated unless approved by a special resolution of the general meeting of Shareholders and by the holders of Shares of that class at a separate meeting. The circumstances which shall be deemed to be a variation or abrogation of the rights of a class are listed in “Appendix V — Summary of Articles of Association.” However, the procedures for approval by separate classes of Shareholders shall not apply (i) where we issue, upon approval by a special resolution of the Shareholders in a general meeting, either separately or concurrently once every 12 months, not more than 20% of each of our existing issued Domestic Shares and H Shares; (ii) where our plan to issue Domestic Shares and H Shares at the time of its establishment is implemented within 15 months from the date of approval by the securities regulatory authorities under the State Council; and (iii) where the conversion of Domestic Shares for listing and trading on the Hong Kong Stock Exchange as H Shares has been approved by the securities authorities under the State Council.

Except for the differences above, Domestic Shares and H Shares will however 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 after the date of this prospectus. All dividends in respect of the H Shares are to be paid by us in Hong Kong dollars or in the form of H Shares.

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

Upon the completion of the Global Offering, we will have two classes of ordinary shares, namely H Shares and Domestic Shares. All our Domestic Shares are not listed or traded on any stock exchange. The holders of Domestic Shares may convert their Domestic Shares into H Shares provided such conversion shall have gone through any requisite internal approval process and complied with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the overseas stock exchange(s) and have been approved by the securities regulatory authorities of the State Council, including the CSRC. The listing of such converted Shares on the Hong Kong Stock Exchange will also require the approval of the Hong Kong Stock Exchange.

Based on the procedures for the conversion of our Domestic Shares into H Shares as disclosed in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of Shares for entry on the H Share register. As any listing of additional Shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it will not require such prior application for listing at the time of our initial listing in Hong Kong.

SHARE CAPITAL

No class Shareholder voting is required for the listing and trading of the converted Shares on the Hong Kong Stock Exchange. Any application for listing of the converted Shares on the Hong Kong Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform Shareholders and the public of such proposed conversion.

After all the requisite approvals have been obtained, the following procedures will need to be completed: the relevant Domestic Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share registrar to issue H Share certificates. Registration on our H Share register will be on the condition that (a) our H Share registrar lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Shares certificates and (b) the admission of the H Shares to trade on the Hong Kong Stock Exchange will comply with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted Shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as we are aware, none of our Shareholders currently propose to convert any of their Domestic Shares into H Shares, except for the Domestic Shares to be converted and transferred to the NSSF or offered for sale by the Selling Shareholders in connection with the Global Offering in accordance with the relevant PRC regulations.

TRANSFER OF STATE-OWNED SHARES

In accordance with Provisional Measures for the Administration of Reduction of State Share Holdings to Raise Funds for Social Security and other relevant rules, BSCOMC and Central Huijin which held 2,745,000,000 Shares and 2,440,000,000 Shares respectively as of the Latest Practicable Date, representing 45% and 40% equity interest in our Company respectively, are required to transfer to the NSSF, in proportion to their respective shareholdings in our Company, such number of Shares in aggregate equivalent to 10% of the number of the Offer Shares, being 56,989,588 Shares and 50,657,412 Shares, respectively before the exercise of the Over-allotment Option, or 65,538,000 Shares and 58,256,000 Shares, respectively upon the exercise of the Over-allotment Option in full, or pay the equivalent cash at the Offer Price under the Global Offering, or a combination of both. At the time of listing of our H Shares on the Hong Kong Stock Exchange, such Domestic Shares will be converted into H Shares on a one-for-one basis. Neither we nor any of these state-owned Shareholders will receive any proceeds from the transfer of such Domestic Shares to the NSSF.

The transfer of state-owned Shares by the above state-owned Shareholders to the NSSF was approved by the SASAC on August 19, 2016. The conversion of those Domestic Shares into H Shares was approved by the CSRC on November 3, 2016. Pursuant to a letter issued by the NSSF on November 22, 2016, the NSSF instructed us to (i) arrange for the sale of the Sale Shares, which represents 50% of the total number of Shares that our state-owned Shareholders shall relinquish in connection with our Global Offering; (ii) remit the proceeds from the sale of Sale Shares to an account designated by the NSSF; and (iii) arrange for the transfer to the NSSF of the remaining 50% of the total number of Shares that our state-owned Shareholders shall relinquish in connection with our Global Offering. Please see “Structure of the Global

SHARE CAPITAL

Offering — The Selling Shareholders.” We have been advised by Tian Yuan Law Firm, our PRC legal advisors, that the conversion, transfer and sale described above have been approved by the relevant PRC authorities and are legal under PRC law.

TRANSFER OF SHARES ISSUED PRIOR TO THE GLOBAL OFFERING

Pursuant to the PRC Company Law, our Shares issued prior to the Listing shall not be transferred within one year from the Listing Date. In addition, pursuant to the Guidelines No. 10 on Administrative Approval for Securities Firms — Increase and Change in Equity Interest of Securities Firms (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), the 300,000,000 Shares held by Shannan Jinyuan and 150,624,815 Shares held by Shanghai Shangyan shall not be transferred within 48 months from July 2016 and September 2016, respectively. However, our Shares to be transferred by certain state-owned Shareholders to the NSSF in accordance with the relevant PRC regulations regarding the transfer of state-owned shares as described above are not subject to such restrictions.

See also “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Undertakings pursuant to the Hong Kong Listing Rules and the Hong Kong Underwriting Agreement — (B) Undertakings by the Controlling Shareholders” for details of the lock-up undertaking given by BSCOMC and Central Huijin pursuant to Rule 10.07 of the Listing Rules.

THE PROPOSED A SHARE OFFERING

Our H Share and A Share offering was approved by our Shareholders’ meeting on July 26, 2016, and is valid for a period of 18 months from the date of approval. According to the approval, the actual offer size of A Shares shall be determined based on our capital needs, communications with domestic and overseas regulatory authorities, and market conditions. The exact timing of the A Share offering depends on our needs to increase capital, market conditions and other factors. Meanwhile, we also need to obtain the approval of the CSRC and a number of regulatory approvals and consents in order to proceed with the A Share offering. At present, we have not yet submitted an A share offering application to the CSRC.

If we proceed with the A Share offering after the Listing, we will make announcement to disclose any major progress on our A share application in accordance with the Hong Kong Listing Rules and other applicable laws and regulations. We shall comply with the Hong Kong Listing Rules and will not issue A Shares or additional securities within six months after the Listing of H Shares. In addition, if our Company issues A Shares within the second six months after the Listing of H shares, we shall ensure that our issuance of A Shares does not cause our controlling shareholders to be in breach of Rule 10.07 of the Hong Kong Listing Rules.

FINANCIAL INFORMATION

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements included in “Appendix I — Accountant’s Report” together with the accompanying notes included elsewhere in this prospectus. Our consolidated financial statements set out in the Accountant’s Report are prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on our experience and analysis on historical trend, current status and expected future development as well as our assumptions and analysis made based on other factors which we believe are reasonable under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Those factors which could result in significant difference between future results and those projected in the forward-looking statements include, but not limited to, factors set out in other sections in this prospectus, in particular the sections headed “Risk Factors” and “Forward-Looking Statements.”

OVERVIEW

We are a leading large full-service investment bank in the PRC with superior value creation capabilities. We have a strong client base, a premier investment banking brand, a balanced business structure and a robust and prudent risk management system. We ranked No. 1 in terms of return on average equity for four consecutive years since 2012 to 2015 among China’s top 20 largest securities firms measured by total assets, consistently generating value to our shareholders.

Our principal business activities consist of: (i) investment banking, (ii) wealth management, (iii) trading and institutional client services and (iv) investment management. We report our financial results in the five reporting segments as identified below:

- Investment banking, which primarily includes underwriting commissions and sponsor fees earned from our equity and debt underwriting services and advisory fees from our financial advisory services;
- Wealth management, which primarily includes fees and commissions we earn from providing brokerage and investment advisory services to individual and corporate clients, as well as interest income we earn from margin financing and securities lending business, reverse repurchase transactions and cash held on behalf of clients;
- Trading and institutional client services, which primarily includes investment gains and interest income we earn from market-making and proprietary trading of equity, debt and derivatives, fees and commissions earned from the agency sales of third-party financial products, as well as fees and commissions we earn from providing trading advisory, margin financing and securities lending, investment research and prime brokerage services to institutional clients;
- Investment management, which primarily includes management fees and advisory fees we earn from providing asset management, fund management and private equity investment management services to clients, as well as investment gains from our private equity and other investments; and
- Others, which primarily includes the interest income from our own funds.

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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

Our financial performance may be materially affected by economic and market conditions. Favorable economic and market conditions include high GDP growth, liquid and efficient capital markets, moderate inflation, high investor confidence, stable geopolitical conditions and strong business earnings. Unfavorable or uncertain economic and market conditions include declines in economic growth, business activities or investor confidence, market volatility and fluctuations, decrease in the availability, or the increase in cost, of credit and capital, significant inflation, increase in interest rates, commodity prices, or exchange rate volatility, outbreaks of hostilities or other geopolitical instability, and natural disasters or pandemics, or a combination of these or other factors. Our business and profitability have been affected and will continue to be affected by market conditions in many ways. For example, changes in equity markets or the level of interest rates affect the value of our clients' portfolios and their trading and investing activities, which in turn may affect the brokerage commissions we earn from executing buy and sell orders, and fees we earn for selling and managing assets. Our investment banking revenue, in the form of financial advisory and underwriting fees, is directly related to the number and size of the transactions in which we participate and would therefore be adversely affected by a sustained market downturn. Changes in financial or economic conditions may also lead to increases or decreases in the number and size of transactions in which we provide underwriting, M&A advisory and other services. In addition, fluctuating market prices could affect the value of our own portfolio of financial assets, and we may be required to record losses that would negatively impact our financial results due to the decline in market prices. We use derivative instruments to reduce our investment portfolio's exposure to price fluctuations, but these risks may not be completely effectively managed through these derivative instruments.

Stabilization Measures in the PRC Stock Market

Since the second quarter of 2015, the A share market experienced significant fluctuations, especially from mid-June to the end of August. The PRC Government has taken a series of measures to stabilize the stock market and restore investor confidence. We, together with 20 other major securities firms in the PRC, issued a joint announcement on July 4, 2015, stating that we would contribute an amount of no less than 15% of our net assets (excluding the effect of other equity instruments on our net assets) as of June 30, 2015, or approximately RMB3,075.0 million, to the CSFCL for investing in the PRC blue chips ETF, and we completed such contribution on July 6, 2015. On September 1, 2015, we further decided to raise our total contribution to the CSFCL to up to no more than 20% of our net assets (excluding the effect of other equity instruments on our net assets) as of July 31, 2015, or approximately RMB4,244.0 million. As of the Latest Practicable Date, we have contributed approximately RMB4,244.0 million to the CSFCL in total, which is accounted for as available-for-sale financial assets on our consolidated statements of financial position. Under the relevant agreements, the securities firms will share the risks and returns from the investments in proportion to their respective contributions. Changes in the fair value of such

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contributions will affect our equity position through other comprehensive income, based on the valuation report from the CSFCL. As of December 31, 2015, June 30, 2016 and September 30, 2016, the fair value of the investment position of the funds contributed to the designated accounts at the CSFCL was RMB4,040.3 million, RMB3,725.0 million and RMB3,854.3 million, respectively. The cumulative decline in the fair value of the investment position amounted to RMB203.7 million (a decrease of 4.8%), RMB519.0 million (a decrease of 12.2%) and RMB389.7 million (a decrease of 9.2%) as of December 31, 2015, June 30, 2016 and September 30, 2016, respectively. The fair value of the investment increased by RMB129.3 million (an increase of 3.5%) between June 30, 2016 and September 30, 2016. Considering the nature and purpose of this investment, its difference from our proprietary trading stock investment, uncontrollable timing for recovery and the movement of its fair value, we recognize that there is not objective evidence of impairment with significant or prolonged decline in the fair value of this investment as of September 30, 2016. As of June 30, 2016, the fair value of our contributions to the designated accounts at the CSFCL represented 14.2%, 2.2% and 11.5% of our total available-for-sale financial assets, total current 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 Shanghai Stock Exchange Composite Index is below 4,500. Because of this commitment, we may lose favorable opportunities to realize gains from our investment. As of July 3, 2015 and June 30, 2016, the net investment position of our A share proprietary trading was RMB110.8 million and RMB180.0 million, respectively.

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:

- since it is unclear how the CSFCL will invest the funds contributed and when our investment will be returned, our contribution may result in losses that materially and adversely affect our financial condition and results of operations;
- we incurred some investment losses in our net long equity trading activities as our ability to reduce our net long trading positions or effectively hedge our exposures through short-selling in a highly volatile market is limited; and
- our increased net long equity 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.

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.

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Competition

The industry we are in is highly competitive. We compete primarily with other securities firms in China and Hong Kong, some of which offer a broader range of services, possess more financial resources, have a larger client base, or have greater operating efficiencies. With the relaxation and deregulation of the PRC securities industry, more competitors, including other financial institutions and financial service providers, may seek to enter or expand in the securities market. Intense competition may also lead to higher demand for talents and increase our staff costs, making it more difficult to attract and retain our employees. We believe that the principal factors affecting our ability to compete involve the price, scope and quality of the products and services we provide, our transaction execution capabilities, experience, expertise and knowledge of the staff, and geographic coverage.

Competition may affect market prices for products and services we offer, especially the prices for standardized services like securities brokerage. Faced with intensified competition in the securities brokerage business in China and the resulting industry trend of decreasing commission rates, we have lowered our brokerage commission rate in order to remain competitive in the market place. In 2013, 2014 and 2015 and for the six months ended June 30, 2015 and 2016, our average stock and fund brokerage commission rate was 0.76‰, 0.63‰, 0.49‰, 0.49‰ and 0.49‰ respectively. After the CSDC switched from a “one investor one account” system to a “one investor multiple accounts” system, our clients may compare commission rates and service level among different securities firms and thus may switch accounts easily, which led to higher pressure on our revenue and service level. At the same time, with more competition in the industry, our investment management business and brokerage and securities financing business face challenges from other financial institutions. We will continue to focus on the pricing of our products and services in relation to our competitors and optimize fee structures to enhance our competitiveness while maintaining our profitability. In addition, we are committed to increasing the revenue from other business lines with relatively high profitability and great growth potential (such as institutional client services and investment banking) to optimize our product mix.

Regulatory Environment in China

We are subject to various regulatory requirements and supervision. Since most of our business are currently carried out in China, the regulatory developments in China and economic and industry policy measures adopted by the PRC Government may affect our business in many ways. In particular, we believe that our ability to expand our business and broaden the scope of our products 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. Regulatory changes may also affect our cost of capital and liquidity, and give rise to new challenges for our risk management and internal control.

The regulatory regime of the PRC securities industry has been evolving and the regulatory authorities are committed to improving capital market efficiency and broadening the scope of new products and services that securities firms can offer. The CSRC encourages securities firms to diversify their product and service offerings and issued specific guidelines

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on product and service innovation. 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 lowering the risk capital reserve requirements for qualified securities firms, and allowing PRC securities firms to issue subordinated bonds to a broader range of investors, such as their shareholders and institutional investors and to issue structured products, such as structured notes.

Interest Rates

Our business is also affected by changes in interest rates, which fluctuate continuously and may be unpredictable. Interest rates in China are regulated by the PBOC. Since January 2013, the PBOC has adjusted the lending rates many times, and the one-year RMB benchmark lending rate was lowered from 6.00% at the beginning of 2013 to 4.35% as of the Latest Practicable Date. Changes in interest rates affect our results of operations and financial condition in different ways:

- Changes in interest rates affect the value of the financial assets we held. An increase in interest rates could cause a corresponding decline in the market value of bond securities we invested in. The decrease of interest rates could also affect the profitability of our derivative financial instruments and hedging strategies depending on the long-short positions we take;
- Decreases in interest rates would also reduce the interest income we would earn on interest-earning assets. Our interest-earning assets mainly include cash and bank balances, clearing settlement funds, financial assets held under resale agreements, deposits with exchanges and other non-bank financial institutions and margin financing and securities lending we provide to our clients;
- Increases in interest rates (in particular interbank market rates) can significantly increase our funding cost, including, but not limited to, the financing cost of margin financing and securities lending and bond proprietary trading as well as the cost of other interest-bearing liabilities; and
- Increases in interest rates could lower our corporate clients' ability or willingness to access the debt capital markets, which could lower the revenue generated by our debt underwriting business.

Exchange Rate

Although a majority of our revenue is derived from China, we also provide securities products and services from Hong Kong to overseas clients. Our functional currency is Renminbi, while we also have a portion of revenue, expenses and borrowings denominated in Hong Kong dollars and US dollars. Therefore, fluctuations in exchange rates, especially those between Renminbi, Hong Kong dollars and US dollars, may affect our profitability and may also cause foreign exchange loss to our foreign currency-denominated assets and liabilities. Furthermore, dividends from our H Shares will be declared in Renminbi and paid in Hong Kong dollars. Therefore, holders of H Shares may be subject to risk from adverse fluctuations in the value of Renminbi against Hong Kong dollars, which may lead to a reduction of

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dividends on H shares paid by us. The exchange rate of Renminbi to the US dollar is under a managed floating exchange rate system and basically has gradually risen over the past decade. On August 11, 2015, the PBOC announced an adjustment to the mechanism of determining the mid-point price of Renminbi to the US dollar to make the exchange rate of Renminbi more market-based. We cannot predict how the Renminbi will fluctuate in the future. See “Risk Factors — Risks Relating to the PRC — Future fluctuations in the exchange rate of Renminbi could have a material and adverse effect on our financial condition and operating results.”

BASIS OF PRESENTATION

Our consolidated financial statements have been prepared in accordance with IFRS and include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

We prepared our consolidated financial statements under the historical cost convention, except for derivative financial instruments, financial assets and liabilities held for trading, financial assets and liabilities designated as at fair value through profit or loss and available-for-sale financial assets (unless the fair value cannot be reliably measured) that have been measured at fair value, as further explained in the respective accounting policies set forth in the Accountant’s Report in Appendix I to this prospectus. Our consolidated financial statements are presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The Accountant’s Report in Appendix I to this document 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 4 of the Accountant’s Report in Appendix I to this document. In the application of our accounting policies, our management is required to make judgments, 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 4 of the Accountant’s Report in Appendix I to this document.

IMPACT OF FUTURE ACCOUNTING POLICY CHANGES

We currently assess the impairment of our investment assets under IAS 39. The IASB, which is responsible for developing and revising international accounting standards, issued IFRS 9 and its amendments from time to time, which will replace the accounting standards relating to classification, measurement and de-recognition of financial assets and financial

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liabilities under IAS 39, and give rise to substantial changes in the classification and measurement of financial assets and financial liabilities. These standards will take effect on January 1, 2018.

The major differences between IFRS 9 and IAS 39 are the measurement categories and the approaches for classifying financial assets. The classification of financial assets under IFRS 9 will require us to consider the business model and the contractual cash flow characteristics of financial assets to determine classification and subsequent measurements. Further, for financial assets that will be classified as “amortized cost” or “fair value through other comprehensive income” under IFRS 9, we will be required to apply a new expected loss impairment model under IFRS 9, which, as compared to the incurred loss model in IAS 39, uses more forward-looking information instead of objective evidence of impairment as a precondition for recognizing impairment losses. In particular, calculation of impairment of financial instruments on an expected impairment loss basis will result in an earlier recognition of, and may result in an increase in, impairment allowances. For details about the differences between IFRS 9 and IAS 39, see Note 2.1(5) to our historical financial information set forth in “Appendix I — Accountant’s Report.”

We are assessing the potential impact on our financial statements resulting from the application of IFRS 9, including assessing the need for any system adjustment related to expected loss model, updating policies for financial instruments impairment and launching relevant staff training. We have not completed our assessment of the full impact of adopting IFRS 9 and therefore its possible impacts on our operating results and financial position have not been quantified at this stage. We will change our current impairment provisioning practice in the future in accordance with IFRS 9 and any authoritative interpretive guidance on its application. It is expected that the implementation of the expected loss impairment model will have an impact on the calculation, amount and timing of the allowance for impairment losses.

Set forth below are the timetables of our system development, internal control policy updates and training programs formulated in order to comply with the requirements of IFRS 9.

Expected Loss Impairment Model and Related Systems

We are conducting an analysis for the risks of financial assets currently held by us and the expected loss impairment model. We expect to start developing a new system program related to the expected loss impairment model in the year of 2017. We plan to complete the development of the new system related to the expected loss impairment model in the year of 2017.

Internal Procedures and Policies

We expect to update our internal control procedures and policies related to the measurement of fair value and impairment of financial instruments in the year of 2017.

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Training Programs

We have arranged trainings for our staff. Staff from the Risk Management, Finance and Accounting and other related departments are required to attend trainings.

For other new accounting standards that come into effect after the prospectus date, see Note 2.1 to our historical financial information set forth in “Appendix I — Accountant’s Report.” We may put in place necessary changes to comply with the new standards from time to time.

OVERALL RESULTS OF OPERATIONS

The following table sets forth selected data from consolidated income statements for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
	(unaudited)				
	(RMB in thousands)				
Revenue					
Fee and commission income	4,387,784	6,540,855	14,900,872	7,125,322	5,127,416
Interest income	1,621,447	2,930,148	5,572,959	2,689,513	2,265,424
Net investment gains	1,246,983	1,902,825	3,979,922	1,943,725	1,164,747
Other income	66,050	77,732	58,713	12,239	73,914
Total revenue	7,322,264	11,451,560	24,512,466	11,770,799	8,631,501
Expenses					
Fee and commission expenses	552,469	860,852	2,237,463	1,144,844	628,722
Interest expenses	1,077,473	1,960,456	3,218,608	1,584,699	1,450,487
Staff costs	1,723,534	2,523,197	4,743,028	2,134,348	1,912,027
Business tax and surcharges	360,653	526,923	1,144,428	545,613	298,713
Other operating expenses and costs	1,011,788	1,195,597	1,552,589	676,922	611,351
Impairment losses/(reversal)	175,835	(158,814)	154,875	17,263	(13,787)
Total expenses	4,901,752	6,908,211	13,050,991	6,103,689	4,887,513
Profit before income tax	2,420,512	4,543,349	11,461,475	5,667,110	3,743,988
Income tax expense	(642,638)	(1,145,156)	(2,809,622)	(1,406,374)	(938,878)
Profit for the year/period	1,777,874	3,398,193	8,651,853	4,260,736	2,805,110

The following discussion describes and compares the major components of our results of operations for the years ended December 31, 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016. In addition, we evaluate our financial results, particularly our revenue composition, through reporting segments. For a discussion of each of our segments, please see “— Segment Operating Results” below.

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Total Revenue

The following table sets forth the components of total revenue for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in thousands)				
Revenue					
Fee and commission income	4,387,784	6,540,855	14,900,872	7,125,322	5,127,416
Interest income	1,621,447	2,930,148	5,572,959	2,689,513	2,265,424
Net investment gains	1,246,983	1,902,825	3,979,922	1,943,725	1,164,747
Other income	66,050	77,732	58,713	12,239	73,914
Total Revenue	<u>7,322,264</u>	<u>11,451,560</u>	<u>24,512,466</u>	<u>11,770,799</u>	<u>8,631,501</u>

Total revenue mainly consist of (i) fee and commission income earned from brokerage business, investment banking, asset management and other business; (ii) interest income earned from margin financing and securities lending, from financial assets held under resale agreements and from bank deposits; (iii) net investment gains from proprietary trading and market-making activities and from our other investment activities; and (iv) other income, such as foreign exchange gains, rental income and government grants.

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Total revenue decreased by 26.7% to RMB8,631.5 million for the six months ended June 30, 2016 from RMB11,770.8 million for the six months ended June 30, 2015. The decrease primarily reflected (i) a RMB1,997.9 million decrease in fee and commission income; (ii) a RMB779.0 million decrease in net investment gains; and (iii) a RMB424.1 million decrease in interest income.

Comparison between 2014 and 2015. Total revenue increased by 114.1% to RMB24,512.5 million in 2015 from RMB11,451.6 million in 2014. The increase primarily reflected (i) a RMB8,360.0 million increase in fee and commission income; (ii) a RMB2,642.9 million increase in interest income; and (iii) a RMB2,077.1 million increase in net investment gains.

Comparison between 2013 and 2014. Total revenue increased by 56.4% to RMB11,451.6 million in 2014 from RMB7,322.3 million in 2013. The increase primarily reflected (i) a RMB2,153.1 million increase in fee and commission income; (ii) a RMB1,308.7 million increase in interest income; and (iii) a RMB655.8 million increase in net investment gains.

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Fee and Commission Income

The following table sets forth the components of fee and commission income for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
				(RMB in thousands)	
Brokerage services	3,062,504	4,200,086	10,686,326	6,086,528	2,535,541
Investment banking	1,011,701	1,959,165	3,397,595	773,189	2,023,015
Asset and fund management	204,162	334,148	776,313	244,236	524,891
Others	109,417	47,456	40,638	21,369	43,969
Total	<u>4,387,784</u>	<u>6,540,855</u>	<u>14,900,872</u>	<u>7,125,322</u>	<u>5,127,416</u>

Brokerage services income refers to the fee and commission income we earned from providing brokerage services for trading in equities, bonds, funds, futures and other securities. Investment banking income refers to our fee and commission income earned from providing sponsor and underwriting services of equity and debt securities and financial advisory services to our clients. Asset and fund management income refers to fee and commission income we earn through our management of various asset management schemes, investment funds and private equity funds for our clients. Other fee and commission income refers to our fee and commission earned from custody, investment advisory and investment research services.

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Total fee and commission income decreased by 28.0% to RMB5,127.4 million for the six months ended June 30, 2016 from RMB7,125.3 million for the same period of 2015, primarily due to a significant decrease of RMB3,551.0 million in brokerage services business from RMB6,086.5 million for the six months ended June 30, 2015 to RMB2,535.5 million for the same period of 2016. Such decrease is mainly attributable to the decrease of stock and fund trading volume of our domestic brokerage clients from RMB9,578.5 billion for the first half of 2015 to RMB3,892.7 billion for the same period of 2016, as a result of the A share market fall in the first half of 2016 compared to the same period of 2015 and lower investment confidence of investors, while our average stock and fund brokerage commission rate almost remained at the same level (0.49‰) for the same period. The significant decrease in brokerage services business income was partly offset by the following increases: (i) a RMB1,249.8 million increase in our investment banking income from RMB773.2 million for the six months ended June 30, 2015 to RMB2,023.0 million for the same period of 2016, which is mainly attributable to the increased underwriting and sponsorship income resulted from the increase of the number and amount of domestic equity and debt securities offering underwritten by us as lead underwriter in the first half of 2016, and the increased financial advisory fees income brought by the rapid growth of our NEEQ quotation business; (ii) a RMB280.7 million increase in our fee and commission income from asset and fund management business from RMB244.2 million for the six months ended June 30, 2015 to RMB524.9 million for the same period of 2016, which is mainly attributable to the significant increase of our domestic asset

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management business income resulting from the increase of the number and size of asset management schemes and the increase of management fee income from China Securities Funds, due to the growth of fund management size.

Comparison between 2014 and 2015. Total fee and commission income increased by 127.8% from RMB6,540.9 million in 2014 to RMB14,900.9 million in 2015. The increase primarily reflected (i) a RMB6,486.2 million increase in brokerage services business income, from RMB4,200.1 million in 2014 to RMB10,686.3 million in 2015, primarily due to the increased stock and fund trading volume of our domestic brokerage clients from RMB5,336.4 billion in 2014 to RMB16,946.8 billion in 2015 under the favorable A share market conditions in the first half of 2015, which was partly offset by the decrease of the average stock and fund brokerage commission rate from 0.63‰ in 2014 to 0.49‰ in 2015; (ii) a RMB1,438.4 million increase in investment banking income, from RMB1,959.2 million in 2014 to RMB3,397.6 million in 2015, mainly attributable to the increase in the amount of the domestic equity and debt securities offering underwritten by us as lead underwriter from RMB345.0 billion in 2014 to RMB674.1 billion in 2015, and the increase in financial advisory fees income brought by the rapid growth of our NEEQ quotation business; and (iii) a RMB442.2 million increase in asset and fund management income, from RMB334.1 million in 2014 to RMB776.3 million in 2015, largely attributable to the increase in number and size of asset management schemes as a result of the active financial market. The AUM of our domestic asset management business increased from RMB299.7 billion as of December 31, 2014 to RMB551.7 billion as of December 31, 2015.

Comparison between 2013 and 2014. Total fee and commission income increased by 49.1% from RMB4,387.8 million in 2013 to RMB6,540.9 million in 2014, primarily reflecting (i) a RMB1,137.6 million increase in our brokerage services business income, from RMB3,062.5 million in 2013 to RMB4,200.1 million in 2014, primarily due to the increased stock and fund trading volume of our domestic brokerage clients from RMB3,295.1 billion in 2013 to RMB5,336.4 billion in 2014, which was partly offset by the decrease in the average stock and fund brokerage commission rate from 0.76‰ in 2013 to 0.63‰ in 2014; (ii) a RMB947.5 million increase in investment banking income, from RMB1,011.7 million in 2013 to RMB1,959.2 million in 2014, mainly attributable to the increase in the amount of the domestic equity and debt securities offering underwritten by us as lead underwriter from RMB222.3 billion in 2013 to RMB345.0 billion in 2014, and the increase in financial advisory fees income brought by the rapid growth of our NEEQ quotation business; and (iii) a RMB129.9 million increase in asset and fund management income, from RMB204.2 million in 2013 to RMB334.1 million in 2014, mainly attributable to the increase in the number and size of asset management schemes due to the active financial market. The AUM of our domestic asset management business increased from RMB148.1 billion as of December 31, 2013 to RMB299.7 billion as of December 31, 2014.

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Interest Income

The following table sets forth the components of interest income for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
	(unaudited)				
	(RMB in thousands)				
Margin financing and securities lending	860,578	1,902,894	3,238,062	1,738,116	1,205,452
Financial assets held under resale agreements	90,227	162,635	109,398	43,382	79,245
Bank deposits	670,642	862,677	2,217,215	906,809	967,355
Others	–	1,942	8,284	1,206	13,372
Total	<u>1,621,447</u>	<u>2,930,148</u>	<u>5,572,959</u>	<u>2,689,513</u>	<u>2,265,424</u>

Interest income is primarily comprised of interest income from margin financing and securities lending, as well as interest income from the cash held on behalf of clients and our own bank deposits. We also earn interest income from financial assets held under resale agreements, which represents the interest income we receive through bond reverse repurchase, collateralized stock repurchase and contractual repurchase transactions. Other interest income mainly includes the interest income earned from gold leasing.

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Interest income decreased by 15.8% from RMB2,689.5 million for the six months ended June 30, 2015 to RMB2,265.4 million for the six months ended June 30, 2016, primarily attributable to the decrease in interest income from our margin financing and securities lending. For the six months ended June 30, 2016, our interest income from margin financing and securities lending decreased by RMB532.6 million to RMB1,205.5 million from RMB1,738.1 million for the same period of 2015, mainly attributable to the decreased daily average balance of our domestic margin financing and securities lending business from RMB38.0 billion for the six months ended June 30, 2015 to RMB27.8 billion for the same period of 2016 due to the weaker A share market performance in the first half of 2016 than that in the first half of 2015 and the decrease of margin financing and securities lending business. The significant decrease in interest income from our margin financing and securities lending business was partly offset by the increase in interest income from financial assets held under resale agreements, interest income from bank deposits and other interest income. For the six months ended June 30, 2016, our interest income from financial assets held under resale agreements increased by RMB35.8 million to RMB79.2 million from RMB43.4 million for the same period of 2015, mainly attributable to the increase of our bond reverse repurchase transactions which led to an increase of its respective interest income. For the six months ended June 30, 2016, our interest income from bank deposits increased by RMB60.6 million to RMB967.4 million from RMB906.8 million for the same period of 2015, mainly attributable to the increase of our own deposits, partly offset by a decrease in cash held on

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behalf of clients as a result of the weaker A Share market performance. The increase in other interest income was primarily due to the increase in interest income from gold leasing transactions; such business was started in 2015 and had a rapid development in 2016.

Comparison between 2014 and 2015. Interest income increased by 90.2% from RMB2,930.1 million in 2014 to RMB5,573.0 million in 2015, primarily reflecting (i) a RMB1,335.2 million increase in interest income from margin financing and securities lending, from RMB1,902.9 million in 2014 to RMB3,238.1 million in 2015, mainly attributable to an increased daily average balance of our domestic margin financing and securities lending business from RMB20.7 billion in 2014 to RMB35.2 billion in 2015 due to the significant growth of the A share market in the first half of 2015, and the stable average interest rate of margin financing and securities lending; and (ii) a RMB1,354.5 million increase in interest income from bank deposits, from RMB862.7 million in 2014 to RMB2,217.2 million in 2015, due to the significant increase in cash held on behalf of clients. The increase in interest income was partly offset by the decrease in interest income from financial assets held under resale agreements, which was mainly because we reduced bond reverse purchase transactions and collateralized stock repurchase transactions based on market conditions.

Comparison between 2013 and 2014. Interest income increased by 80.7% from RMB1,621.4 million in 2013 to RMB2,930.1 million in 2014, primarily reflecting (i) a RMB1,042.3 million increase in interest income from margin financing and securities lending, from RMB860.6 million in 2013 to RMB1,902.9 million in 2014, mainly attributable to an increased daily average balance of our domestic margin financing and securities lending business from RMB9.8 billion in 2013 to RMB20.7 billion in 2014 due to the good performance of the A share market in 2014, and the stable average interest rate of margin financing and securities lending; (ii) a RMB192.1 million increase in interest income from bank deposits, from RMB670.6 million in 2013 to RMB862.7 million in 2014, due to the increase in cash held on behalf of clients; and (iii) a RMB72.4 million increase in interest income from financial assets held under resale agreements, from RMB90.2 million in 2013 to RMB162.6 million in 2014, largely attributable to the increase of bond reverse repurchase transactions and collateralized stock repurchase transactions in 2014.

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Net Investment Gains

The following table sets forth the components of net investment gains for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
	(RMB in thousands)				
Net gains from disposal of available-for-sale financial assets	26,835	127,003	835,995	237,157	126,703
Dividend income and interest income from available-for-sale financial assets	874,105	799,266	800,889	350,735	420,852
Net gains from financial assets held for trading	192,369	1,784,148	2,852,096	1,793,812	517,716
Net gains/(losses) from financial liabilities held for trading	1,472	(5,222)	(35,626)	(21,611)	479
Net (losses)/gains from financial assets designated as at fair value through profit or loss	(25,987)	184,391	52,789	141,530	1,461
Net gains/(losses) from derivatives	178,189	(916,170)	(163,689)	(464,793)	234,811
Interest income from held-to-maturity investments	–	–	12,737	–	12,990
Net gains from disposal of long-term equity investment	–	–	11,818	–	–
Net gains attributable to other interest holders of consolidated structured entities	–	(70,591)	(387,087)	(93,105)	(150,265)
Total	<u>1,246,983</u>	<u>1,902,825</u>	<u>3,979,922</u>	<u>1,943,725</u>	<u>1,164,747</u>

Net gains from disposal of available-for-sale financial assets represents investment returns from our investment, trading and market-making activities. Dividend income and interest income from available-for-sale financial assets are dividends from equity investments and interest from bond products we held. Net gains from financial assets held for trading are gains we earn from transactions in stocks and bond products that we purchase for the purpose of sale in the near term (including holding and disposal). Net gains/(losses) from financial liabilities held for trading are gains we obtain or losses we incur from bond borrowings and selling transactions. Net (losses)/gains from financial assets designated as at fair value through profit or loss are gains we receive or losses we incur from the fair value changes of such financial assets resulted from our holding or disposal of them. Net gains/(losses) from derivatives are gains received or losses incurred from investment in derivatives. Interest income from held-to-maturity investments are investment returns on our investment in offshore Renminbi and US dollars-denominated bonds. Net gains attributable to other interest holders of consolidated structured entities are investment returns attributable to other holders of the asset management schemes we control.

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Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Our net investment gains decreased by 40.1% from RMB1,943.7 million for the six months ended June 30, 2015 to RMB1,164.7 million for the six months ended June 30, 2016, mainly reflecting (i) a decrease of RMB1,276.1 million in net gains from financial assets held for trading from RMB1,793.8 million for the first half of 2015 to RMB517.7 million for the first half of 2016, primarily due to a significant decrease in gains from our disposal of financial assets held for trading resulted from the decrease of price differences incurred from investment in stocks, bonds and funds, as the stock and debt market performance for the first half of 2016 was worse than that of 2015; (ii) a RMB110.5 million decrease in net gains from disposal of available-for-sale financial assets from RMB237.2 million for the first half of 2015 to RMB126.7 million for the first half of 2016, mainly due to the decrease of our net gains from equity and debt securities investment, which was mainly because the stock and debt market performance for the first half of 2016 was worse than that of 2015; and (iii) a RMB140.0 million decrease in net gains from financial assets designated as at fair value through profit or loss from RMB141.5 million for the first half of 2015 to RMB1.5 million for the first half of 2016, mainly due to the fair value decrease of the financial assets we held as affected by market conditions and more investment gains in the first half of 2015 compared with that of the same period of 2016 due to our disposal of financial assets designated as at fair value through profit or loss in the first half of 2015.

Comparison between 2014 and 2015. Our net investment gains increased by 109.2% from RMB1,902.8 million in 2014 to RMB3,979.9 million in 2015, mainly reflecting (i) a RMB1,068.0 million increase in the net gains from financial assets held for trading from RMB1,784.1 million in 2014 to RMB2,852.1 million in 2015, primarily because the A share market had a significant fluctuation in 2015 and we captured such systematic opportunity to make investments, which led to an increase in gains from disposal of financial assets held for trading; in addition, due to the upward bond market, we increased our bond investment size, resulting in an increase of the investment gains from holding of the financial assets held for trading; (ii) a RMB752.5 million decrease in the net losses from derivatives from RMB916.2 million to RMB163.7 million in 2015, primarily because the losses incurred by the short positions we took in our hedging activities decreased as a result of decreased gains incurred by the corresponding long positions, which was mainly attributable to the increase in 2015 compared to 2014 due to stock market volatility; in addition, the contract losses we undertook, as the seller of call options and swaps, also had a corresponding decrease; and (iii) a RMB709.0 million increase in net gains from disposal of available-for-sale financial assets from RMB127.0 million in 2014 to RMB836.0 million in 2015, attributable to increased net investment gains due to the favorable A share market in the first half of 2015 and the increase in investment gains on corporate bonds and mid-term notes as we captured the band opportunity of the volatility in bond market in 2015.

Comparison between 2013 and 2014. Our net investment gains increased by 52.6% from RMB1,247.0 million in 2013 to RMB1,902.8 million in 2014, primarily reflecting (i) a RMB1,591.7 million increase in the net gains from financial assets held for trading from RMB192.4 million in 2013 to RMB1,784.1 million in 2014, largely attributable to the upward A share market in 2014; in addition, as the bond price continued to increase, we increased the trading frequency and size of financial assets held for trading based on the change of market conditions, resulting in a larger increase in investment gains; (ii) a gain of RMB184.4 million for net gains from financial assets designated as at fair value through profit or loss in 2014

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compared to a loss of RMB26.0 million for that in 2013, due to the increase of the fair value of our financial assets designated as at fair value through profit or loss as a result of the favorable performance of the A share market; and (iii) a RMB100.2 million increase in net gains from disposal of available-for-sale financial assets from RMB26.8 million in 2013 to RMB127.0 million in 2014, primarily because there was a continuous price increase in the bond market in 2014 and we reduced the size of available-for-sale bonds we held, resulting in a larger increase in investment gains from disposal of available-for-sale financial assets. Such increases were largely offset by an increase in the net losses from derivatives in 2014, primarily due to losses incurred by the short positions we took during a raising market in our hedging activities while we generated a gain on our long positions and the increased contract losses we undertook as the seller of call options, swap and other business.

Other Income

Our other income primarily includes government grants, rental income, gains on disposal of property, plant and equipment, net gains/(losses) on foreign exchange and others.

The following table sets forth the components of other income and gains for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
				(RMB in thousands)	
Government grants	33,856	33,238	41,167	4,112	62,382
Rental income	16,793	16,655	17,183	6,948	6,132
Gains on disposal of property, plant and equipment	6,400	424	684	300	66
Net gains/(losses) on foreign exchange	215	1,659	(14,375)	(4,638)	(1,032)
Others	8,786	25,756	14,054	5,517	6,366
Total	66,050	77,732	58,713	12,239	73,914

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Our other income increased by 505.7% from RMB12.2 million for the six months ended June 30, 2015 to RMB73.9 million for the six months ended June 30, 2016, primarily due to the significant increase of RMB58.3 million in government grants compared to that for the same period of 2015. The net losses on foreign exchange had a significant decrease in the first half of 2016 compared to that for the same period of 2015, mainly due to the change in exchange rate.

Comparison between 2014 and 2015. Our other income and gains decreased by 24.5% from RMB77.7 million in 2014 to RMB58.7 million in 2015, primarily because (i) the depreciation of RMB in 2015 resulted in a loss on foreign exchange of RMB14.4 million, while there was a RMB1.7 million net gains on foreign exchange in 2014; and (ii) a decrease in others from RMB25.8 million in 2014 to RMB14.1 million in 2015, mainly affected by the decrease in the refund of stamp duties.

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Comparison between 2013 and 2014. Our other income increased by 17.5% from RMB66.1 million in 2013 to RMB77.7 million in 2014, primarily attributable to a RMB17.0 million increase of other income from RMB8.8 million in 2013 to RMB25.8 million in 2014, resulted from the refund of stamp duties and handling fees of collateralization registration from Shenzhen Stock Exchange, which was partially offset by the decreased income from the disposal gains of property, plant and equipment.

Expenses

The following table sets forth the components of our expenses for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
				(RMB in thousands)	
Fee and commission expenses . . .	552,469	860,852	2,237,463	1,144,844	628,722
Interest expenses	1,077,473	1,960,456	3,218,608	1,584,699	1,450,487
Staff costs	1,723,534	2,523,197	4,743,028	2,134,348	1,912,027
Business tax and surcharges	360,653	526,923	1,144,428	545,613	298,713
Other operating expenses and costs	1,011,788	1,195,597	1,552,589	676,922	611,351
Impairment losses/(reversal)	175,835	(158,814)	154,875	17,263	(13,787)
Total expenses	<u>4,901,752</u>	<u>6,908,211</u>	<u>13,050,991</u>	<u>6,103,689</u>	<u>4,887,513</u>

Our expenses consist of (i) fee and commission expenses incurred in our brokerage, investment banking, asset management and other businesses; (ii) interests we paid to the counterparties of repurchase agreements, the holder of our bond and short-term financing instruments and our brokerage customers and the interest we paid for our borrowings; (iii) staff costs, including salaries, bonuses, allowances and other employee benefits; (iv) business tax and surcharges; (v) impairment losses and other operating expenses. Other operating expenses and costs mainly consist of depreciation and amortization expenses, leasing expenses, electronic equipment operating expenses, securities investor protection fund and auditors' remuneration. In 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, the expenses accounted for 66.9%, 60.3%, 53.2%, 51.9% and 56.6% of our total revenue, respectively.

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Our expenses decreased by 19.9% from RMB6,103.7 million for the six months ended June 30, 2015 to RMB4,887.5 million for the six months ended June 30, 2016, primarily reflecting (i) a RMB134.2 million decrease in interest expenses from RMB1,584.7 million for the six months ended June 30, 2015 to RMB1,450.5 million for the same period of 2016; (ii) a RMB516.1 million decrease in fee and commission expenses from RMB1,144.8 million for the six months ended June 30, 2015 to RMB628.7 million for the same period of 2016; (iii) a RMB222.3 million decrease in the staff costs from RMB2,134.3 million for the six months ended June 30, 2015 to RMB1,912.0 million for the same period of 2016; (iv) a RMB246.9 million decrease in business tax and surcharges from RMB545.6 million for the six months ended June 30, 2015 to RMB298.7 million for the same period of 2016.

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Comparison between 2014 and 2015. Our expenses increased by 88.9% from RMB6,908.2 million in 2014 to RMB13,051.0 million in 2015, primarily reflecting (i) a RMB2,219.8 million increase in staff costs, from RMB2,523.2 million in 2014 to RMB4,743.0 million in 2015; (ii) a RMB1,258.1 million increase in interest expenses, from RMB1,960.5 million in 2014 to RMB3,218.6 million in 2015; (iii) a RMB1,376.6 million increase in fee and commission expenses, from RMB860.9 million in 2014 to RMB2,237.5 million in 2015; (iv) a RMB617.5 million increase in business tax and surcharges, from RMB526.9 million in 2014 to RMB1,144.4 million in 2015; and (v) a RMB357.0 million increase in other operating expenses and costs, from RMB1,195.6 million in 2014 to RMB1,552.6 million in 2015.

Comparison between 2013 and 2014. Our expenses increased by 40.9% from RMB4,901.8 million in 2013 to RMB6,908.2 million in 2014, primarily reflecting (i) a RMB799.7 million increase in staff costs, from RMB1,723.5 million in 2013 to RMB2,523.2 million in 2014; (ii) a RMB883.0 million increase in interest expenses, from RMB1,077.5 million in 2013 to RMB1,960.5 million in 2014; (iii) a RMB308.4 million increase in fee and commission expenses, from RMB552.5 million in 2013 to RMB860.9 million in 2014; (iv) a RMB166.2 million increase in business tax and surcharges, from RMB360.7 million in 2013 to RMB526.9 million in 2014; and (v) a RMB183.8 million increase in other operating expenses and costs, from RMB1,011.8 million in 2013 to RMB1,195.6 million in 2014. The increase was slightly offset by a RMB158.8 million reversal of impairment losses in 2014, compared to a RMB175.8 million provision for impairment losses in 2013.

We consider fee and commission expenses, interest expenses and staff costs as the three principal components of our expenses and important variables affecting our financial results. The following discussion addresses these expenses.

Fee and Commission Expenses

The following table sets forth fee and commission expenses for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
				(RMB in thousands)	
Brokerage expenses	399,312	624,091	1,882,637	1,027,743	374,896
Investment banking expenses . . .	141,198	223,962	327,753	105,461	236,900
Others	11,959	12,799	27,073	11,640	16,926
Total	552,469	860,852	2,237,463	1,144,844	628,722

Fee and commission expenses primarily include brokerage expenses, investment banking expenses and other expenses. Brokerage expenses primarily include securities dealing expenses charged by the stock exchanges and other authorized institutions for using their transaction and settlement systems as well as commissions paid to securities and futures brokerage agents by us. Investment banking expenses mainly include commission expenses paid to other financial institutions for distributing the securities that we underwrite. In 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, the fee and commission expenses accounted for 7.5%, 7.5%, 9.1%, 9.7% and 7.3% of our total revenue, respectively.

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Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Fee and commission expenses decreased by 45.1% from RMB1,144.8 million for the six months ended June 30, 2015 to RMB628.7 million for the six months ended June 30, 2016. The decrease was primarily attributable to the significant decrease of RMB652.8 million in our brokerage expenses, from RMB1,027.7 million for the six months ended June 30, 2015 to RMB374.9 million for the same period in 2016, mainly due to the decrease in domestic stock and fund trading volume of our brokerage clients affected by market conditions, resulting in the corresponding decline in domestic brokerage expenses. The significant decrease of brokerage expenses was partly offset by the increase of investment banking expenses. For the six months ended June 30, 2016, the investment banking expenses has an increase of RMB131.4 million from RMB105.5 million for the same period of last year to RMB236.9 million. The growth is mainly due to the significant increase in total number and amount of domestic equity and debt securities offering underwritten by us as lead underwriter and the significant growth of NEEQ business under the financial advisory business, which in turn resulted in an increase in the investment banking expenses.

Comparison between 2014 and 2015. Fee and commission expenses increased by 159.9% from RMB860.9 million in 2014 to RMB2,237.5 million in 2015. The increase was primarily due to (i) the increase in domestic stock and fund trading volume of our brokerage clients resulting in a RMB1,258.5 million increase of brokerage expenses from RMB624.1 million in 2014 to RMB1,882.6 million in 2015; and (ii) the significant increase in the total number and amount of the domestic equity and debt securities offering underwritten by us as lead underwriter and the growth of NEEQ business under the financial advisory, resulting in a RMB103.8 million increase in investment banking expenses, from RMB224.0 million in 2014 to RMB327.8 million in 2015.

Comparison between 2013 and 2014. Fee and commission expenses increased by 55.8% from RMB552.5 million in 2013 to RMB860.9 million in 2014. The increase was primarily due to (i) the increase in domestic stock and fund trading volume of our brokerage clients resulting in a RMB224.8 million increase in brokerage expenses from RMB399.3 million in 2013 to RMB624.1 million in 2014; and (ii) a significant increase in the total number and amount of the domestic equity and debt securities offerings underwritten by us as lead underwriter, resulting in a RMB82.8 million increase in investment banking expenses, from RMB141.2 million in 2013 to RMB224.0 million in 2014.

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Interest Expenses

The following table sets forth interest expenses for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
	(unaudited)				
	(RMB in thousands)				
Accounts payable to brokerage clients ⁽¹⁾	87,211	96,734	311,105	126,169	122,613
Financial assets sold under repurchase agreements	488,143	788,824	1,051,761	650,257	344,535
Placements from banks and other financial institutions	219,578	284,729	281,335	145,229	93,009
Borrowings	38,867	30,529	32,201	15,235	21,946
Bonds issued and short-term financing instruments payable	243,407	738,927	1,385,462	553,996	759,645
Others	267	20,713	156,744	93,813	108,739
Total	<u>1,077,473</u>	<u>1,960,456</u>	<u>3,218,608</u>	<u>1,584,699</u>	<u>1,450,487</u>

Note:

(1) Represents interest expenses on deposits held on behalf of brokerage clients.

Our interest expenses primarily consist of the interest expenses incurred from accounts payable to brokerage clients, financial assets sold under repurchase agreements, placements from banks and other financial institutions, borrowings, bonds issued and short-term financing instruments payable and others. Other interest expenses mainly include interest expenses for gold leasing. In 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, interest expenses accounted for 14.7%, 17.1%, 13.1%, 13.5% and 16.8% of our total revenue, respectively.

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Interest expenses decreased by 8.5% to RMB1,450.5 million for the six months ended June 30, 2016 from RMB1,584.7 million for the six months ended June 30, 2015, primarily reflecting (i) a decrease in interest expenses for financial assets sold under repurchase agreements from RMB650.3 million in the same period of 2015 to RMB344.5 million, largely attributable to the slowdown of the bond market in the first half of 2016 compared to that in the first half of 2015, and the decrease of short-term financing needs for fixed income proprietary trading business; and (ii) a decrease in interest expenses for placements from banks and other financial institutions from RMB145.2 million for the same period of 2015 to RMB93.0 million, mainly due to the significant decrease in interest expenses as a result of the decrease in the borrowings from the CSFCL. The decrease in interest expenses was partly offset by following expenses: (i) the increase in interest expenses for bonds issued and short-term financing instruments payable from RMB554.0 million in the same period of 2015 to RMB759.6 million, mainly attributable to the newly issued corporate bonds in the second half of 2015 and in the first half of 2016, resulting in an increase in interest expenses for the

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first half of 2016; and (ii) the increase in other interest expenses from RMB93.8 million in the first half of 2015 to RMB108.7 million for the same period of 2016, mainly due to the increase in interest expenses incurred from the gold leasing business, which was started in 2015 and had a rapid growth in 2016.

Comparison between 2014 and 2015. Interest expenses increased by 64.2% from RMB1,960.5 million in 2014 to RMB3,218.6 million in 2015, primarily reflecting (i) an increase in interest expenses for financial assets sold under repurchase agreements, from RMB788.8 million in 2014 to RMB1,051.8 million in 2015, mainly because we use more repurchase agreements to make financing for fixed income proprietary trading business; (ii) an increase in interest expenses for bonds issued and short-term financing instruments payable, from RMB738.9 million in 2014 to RMB1,385.5 million in 2015, mainly due to our issuance of corporate bonds, subordinated bonds and structured notes in order to meet our funding needs; and (iii) an increase in interest expenses for accounts payable to brokerage clients, from RMB96.7 million in 2014 to RMB311.1 million in 2015, mainly due to the increased deposits balance of our brokerage business clients.

Comparison between 2013 and 2014. Interest expenses increased by 81.9% from RMB1,077.5 million in 2013 to RMB1,960.5 million in 2014, mainly reflecting (i) an increase in interest expenses for financial assets sold under repurchase agreements, from RMB488.1 million in 2013 to RMB788.8 million in 2014, because we used more repurchase agreements to make financing for fixed income proprietary trading business; and (ii) an increase in interest expenses for bonds issued and short-term financing instruments payable, from RMB243.4 million in 2013 to RMB738.9 million in 2014, mainly due to our new issuance of subordinated bonds in order to meet our funding needs.

Staff Costs

The following table sets forth staff costs for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
				(RMB in thousands)	
Salaries, bonuses and allowances	1,410,515	2,174,464	4,268,723	1,939,045	1,650,421
Staff benefits	195,139	210,487	300,865	118,331	160,457
Contributions to defined contribution schemes	117,880	138,246	173,440	76,972	101,149
Total	<u>1,723,534</u>	<u>2,523,197</u>	<u>4,743,028</u>	<u>2,134,348</u>	<u>1,912,027</u>

We operate in an industry that is highly competitive, and we need to continually recruit, motivate and retain high-quality talent in order to achieve effective competition and business expansion. The contributions to defined contribution schemes include our annuity schemes and pension insurance. In 2013, 2014, 2015 and the six months ended June 30, 2015 and 2016, staff costs accounted for 23.5%, 22.0%, 19.3%, 18.1% and 22.2% of our total revenue, respectively.

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Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Staff costs decreased by 10.4% from RMB2,134.3 million for the six months ended June 30, 2015 to RMB1,912.0 million for the six months ended June 30, 2016, primarily due to the decrease in performance-based bonuses resulted from the decrease in revenue. Such decrease was partly offset by the increased expenses in staff benefits and contributions to defined contribution schemes.

Comparison between 2014 and 2015. Staff costs increased by 88.0% from RMB2,523.2 million in 2014 to RMB4,743.0 million in 2015, primarily attributable to a RMB2,094.2 million increase in salaries, bonuses and allowances, from RMB2,174.5 million in 2014 to RMB4,268.7 million in 2015. Such increase primarily reflected our commitment to attract and retain professional talents including staff hiring to support the fast growing business, as well as an increase in performance-based bonuses for employees, which was in line with the growth trend of revenue and profit in 2015.

Comparison between 2013 and 2014. Staff costs increased by 46.4% from RMB1,723.5 million in 2013 to RMB2,523.2 million in 2014, primarily due to (i) a RMB764.0 million increase in salaries, bonuses and allowances, from RMB1,410.5 million in 2013 to RMB2,174.5 million in 2014, (ii) a RMB15.4 million increase in staff benefits and (iii) a RMB20.3 million increase in contributions to the defined contribution schemes. The increase primarily reflected our staff hiring to support the fast growing business, as well as an increase in performance-based bonuses for employees resulting from our increased revenue in 2014.

Other Operating Expenses and Costs

Our other operating expenses and costs mainly include depreciation and amortization expenses, leasing expenses, electronic equipment operating expenses, securities investor protection fund and auditors' remuneration. These expenses depend on the size of our business and may increase in line with the expansion of our business scale.

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Our other operating expenses and costs decreased by 9.7%, from RMB676.9 million for the six months ended June 30, 2015 to RMB611.4 million for the six months ended June 30, 2016, primarily due to (i) a RMB42.6 million decrease in leasing expenses to RMB112.6 million for the first half of 2016 from RMB155.2 million for the same period of 2015; (ii) a RMB46.8 million decrease in business entertainment expenses from RMB83.8 million for the first half of 2015 to RMB37.0 million for the same period of 2016; (iii) a RMB17.8 million decrease in the securities investor protection fund, from RMB48.5 million for the first half of 2015 to RMB30.7 million for the same period of 2016 due to our decreased revenue during the same period. Such decrease is generally in line with our decrease in revenue for the first half of 2016 and was partly offset by the increase in our fee for exchange memberships.

Comparison between 2014 and 2015. Our other operating expenses and costs increased by 29.9% from RMB1,195.6 million in 2014 to RMB1,552.6 million in 2015, primarily due to (i) a RMB104.9 million increase in electronic equipment operating expenses from RMB99.1 million in 2014 to RMB204.0 million in 2015 to support our business development; (ii) a RMB42.4 million increase in leasing expenses from RMB186.1 million in 2014 to RMB228.5 million in 2015, due to the expansion of our office leasing to support our business development; (iii) a

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RMB52.1 million increase in the securities investor protection fund, from RMB45.6 million in 2014 to RMB97.7 million in 2015 due to our increased revenue during the same period; and (iv) a RMB24.8 million increase in depreciation and amortization from RMB144.7 million in 2014 to RMB169.5 million in 2015. The increases in these expenses are generally in line with our business growth in 2015. In addition, as we effectively controlled the avoidable miscellaneous expenses, other expenses only had a slight increase compared to a significant increase in revenue in 2015 from that of 2014.

Comparison between 2013 and 2014. Our other operating expenses and costs increased by 18.2% from RMB1,011.8 million in 2013 to RMB1,195.6 million in 2014, primarily due to (i) a RMB41.8 million increase in electronic equipment operating expenses from RMB57.3 million in 2013 to RMB99.1 million in 2014 to support our business development; (ii) a RMB26.4 million increase in leasing expenses from RMB159.7 million in 2013 to RMB186.1 million in 2014, due to the expansion of our office leasing to support our business development; (iii) a RMB39.3 million increase in business entertainment expenses from RMB150.8 million in 2013 to RMB190.1 million in 2014; and (iv) a RMB21.0 million increase in depreciation and amortization from RMB123.7 million in 2013 to RMB144.7 million in 2014. The increases in these expenses are generally in line with our business growth in 2014. In addition, other expenses in 2014 decreased slightly as compared to that in 2013, as we effectively controlled avoidable miscellaneous expenses. Therefore, other expenses decreased to a certain extent even though there was an increase in revenue in 2014.

Impairment Losses/(Reversal)

Our impairment losses/(reversal) of impairment losses include provision for and reversal of impairment losses recognized for our available-for-sale financial assets, margin financing and securities lending business, financial assets held under resale agreements and other receivables.

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. We provided for impairment losses of RMB17.3 million for the first six months ended June 30, 2015, as compared to reversal of impairment losses of RMB13.8 million for the first six months ended June 30, 2016, primarily because we accrued impairment losses for margin financing and securities lending based on the risk level of margin financing and securities lending business, resulting in the reversal of impairment losses previously accrued.

Comparison between 2014 and 2015. We provided for impairment losses of RMB154.9 million in 2015, as compared to reversal of impairment losses of RMB158.8 million in 2014, primarily because we made additional provisions for our margin financing and securities lending business to manage our credit risk in light of the rapid growth of margin financing and securities lending size in 2015 and volatile market fluctuation after taking the regulatory policies and overall market risk into judgment.

Comparison between 2013 and 2014. We had a reversal of impairment losses of RMB158.8 million in 2014, as compared to provision for impairment losses of RMB175.8 million in 2013, primarily because we reversed the provision for impairment losses due to the stable and growing margin financing and securities lending market in the second half of 2014.

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Profit before Income Tax

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Our profit before income tax decreased by 33.9 % from RMB5,667.1 million for the six months ended June 30, 2015 to RMB3,744.0 million for the six months ended June 30, 2016. The decrease was mainly due to the decrease in fee and commission income from our brokerage business and the decrease in interest income from margin financing and securities lending and the decrease in net investment gains. These decreases were partly offset by the increase in fee and commission income from investment banking business and asset management business and the decreases in fee and commission expenses, interest expenses and staff costs.

Comparison between 2014 and 2015. Our profit before income tax increased by 152.3% from RMB4,543.3 million in 2014 to RMB11,461.5 million in 2015. The increase was mainly due to the increase in fee and commission income from our investment banking and brokerage business and the increase in interest income from our margin financing and securities lending business and bank deposits and the increase in net investment gains, which was partly offset by the increase in interest expenses, fee and commission expenses and staff costs.

Comparison between 2013 and 2014. Our profit before income tax increased by 87.7% from RMB2,420.5 million in 2013 to RMB4,543.3 million in 2014, mainly due to the increase in fee and commission income from our investment banking and brokerage business and the increase in interest income from our margin financing and securities lending and the increase in net investment gains, which was partly offset by the increase in interest expenses, fee and commission expenses and staff costs.

Income Tax Expense

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which we are domiciled and operate. During the Track Record Period, the Company and all of our PRC subsidiaries except for China Securities Futures were subject to an EIT rate of 25.0% in accordance with the EIT law. China Securities Futures enjoys a preferential EIT rate of 15% in terms of tax calculation and payment pursuant to “the General Administration of Customs and the State Administration of Taxation on Tax Policy Issues concerning Further Implementing the Western China Development Strategy” (No. 58 [2011] of the Ministry of Finance). We enjoy certain beneficial tax treatment, including reduced or no enterprise income tax rates on dividend income from some of our equity investments, distributions from securities investment funds, and interest income from PRC Government debt, local government bonds and railway bonds. The estimated assessable profits of Hong Kong subsidiaries have been calculated at the rate of 16.5% during the Track Record Period. In 2013, 2014 and 2015 and for the six months ended June 30, 2015 and 2016, our effective income tax rate was 26.5%, 25.2%, 24.5%, 24.8% and 25.1%, respectively. As of the Latest Practicable Date and during the Track Record Period, we have fulfilled all our tax obligations and did not have any unresolved tax disputes.

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Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Income tax expense decreased by 33.2% from RMB1,406.4 million for the six months ended June 30, 2015 to RMB938.9 million for the six months ended June 30, 2016. Effective income tax rate increased from 24.8% for the six months ended June 30, 2015 to 25.1% for the six months ended June 30, 2016, primarily because the revenue generated from the intra-company transactions among our wholly-owned subsidiaries was net off in the consolidated profit before income tax, while the corresponding income tax was still incurred by the relevant subsidiaries, resulting in an increase in effective income tax rate.

Comparison between 2014 and 2015. Income tax expense increased by 145.3% from RMB1,145.2 million in 2014 to RMB2,809.6 million in 2015. Our effective income tax rate decreased from 25.2% in 2014 to 24.5% in 2015, primarily due to a decrease in non-deductible expenses and an increase in tax-free income.

Comparison between 2013 and 2014. Income tax expense increased by 78.2% from RMB642.6 million in 2013 to RMB1,145.2 million in 2014. Our effective income tax rate decreased from 26.5% in 2013 to 25.2% in 2014, primarily due to an increase in tax-free income.

Net Profit and Margin

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

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
				(unaudited)	
Profit before income tax (RMB in thousands) ⁽¹⁾	2,420,512	4,543,349	11,461,475	5,667,110	3,743,988
Operating margin ⁽²⁾	33.1%	39.7%	46.8%	48.1%	43.4%
Adjusted operating margin ⁽³⁾	42.5%	52.6%	60.1%	62.7%	57.1%
Net profit for the year/period (RMB in thousands)	1,777,874	3,398,193	8,651,853	4,260,736	2,805,110
Net margin ⁽⁴⁾	24.3%	29.7%	35.3%	36.2%	32.5%
Adjusted net margin ⁽⁵⁾	31.2%	39.4%	45.4%	47.1%	42.8%
Return on average equity of shareholders ⁽⁶⁾	14.3%	22.9%	40.0%	45.1%	21.1%
Return on average total assets ⁽⁷⁾	3.0%	3.6%	5.6%	4.9%	3.1%

Notes:

- (1) Represents the difference between revenue and expenses.
- (2) Calculated by dividing profit before income tax by revenue.
- (3) Adjusted operating margin = (total revenue – total expenses)/(total revenue – fee and commission expenses – interest expenses). Adjusted operating margin is not a standard measure under IFRS but is presented here because PRC securities firms present their operating revenues after deduction of fee and

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commission expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS. We believe that, the adjusted operating margin and adjusted net margin provide appropriate indicators of our results of operations that are more comparable to other PRC securities firms due to different presentation requirements under PRC GAAP. Prospective investors should be aware that adjusted operating margin presented in this prospectus may not be comparable to other similarly titled measures reported by other companies due to different calculation methods or assumptions.

- (4) Calculated by dividing net profit for the year/period by total revenue.
- (5) Adjusted net margin = (net profit for the year/period)/(total revenue – fee and commission expenses – interest expenses). Adjusted net margin is not a standard measure under IFRS but is presented here for the reasons stated in note 3 above.
- (6) Calculated by dividing net profit attributable to ordinary shareholders of the Company by the weighted average balance of equity attributable to ordinary shareholders, deducting the impact of perpetual bond and annualizing the result.
- (7) Calculated by dividing net profit for the year/period by the average balance of total assets at the end of the previous period and the end of the current period, and annualizing the result.

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Net profit for the half year decreased by 34.2% from RMB4,260.7 million for the six months ended June 30, 2015 to RMB2,805.1 million for the six months ended June 30, 2016. Net margin and adjusted net margin decreased to 32.5% and 42.8% for the six months ended June 30, 2016, respectively, from 36.2% and 47.1% for the six months ended June 30, 2015, respectively.

Return on average equity decreased from 45.1% for the six months ended June 30, 2015 to 21.1% for the six months ended June 30, 2016, primarily reflecting the decrease in net margin and increase in weighted average equity of shareholders in the first half of 2016. Return on average total assets was 3.1% for the six months ended June 30, 2016 as compared with 4.9% for the six months ended June 30, 2015.

Comparison between 2014 and 2015. Net profit for the year increased by 154.6% from RMB3,398.2 million in 2014 to RMB8,651.9 million in 2015. Net margin and adjusted net margin increased to 35.3% and 45.4% in 2015, from 29.7% and 39.4% in 2014, respectively.

Return on average equity increased from 22.9% in 2014 to 40.0% in 2015, primarily reflecting increased net profits of our securities brokerage, investment banking, margin financing and securities lending businesses, as well as increased gains from our equity investments. Return on average total assets increased to 5.6% in 2015 as compared with 3.6% in 2014.

Comparison between 2013 and 2014. Profit for the year increased by 91.1% from RMB1,777.9 million in 2013 to RMB3,398.2 million in 2014. Net margin increased from 24.3% in 2013 to 29.7% in 2014, while adjusted net margin increased from 31.2% in 2013 to 39.4% in 2014.

Return on average equity of shareholders and return on average total assets increased to 22.9% and 3.6% in 2014, respectively, from 14.3% and 3.0% in 2013, respectively, primarily

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reflecting increased net profits of our securities brokerage, investment banking, margin financing and securities lending businesses, as well as increased gains from our equity and bonds investments.

SEGMENT OPERATING RESULTS

The following table sets forth the segment revenue and other income, segment expenses, profit before income tax and segment margin of each segment:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
	(unaudited)				
	(RMB in thousands)				
Investment Banking					
Segment revenue and other income	1,011,701	1,959,165	3,397,595	773,189	2,023,015
Segment expenses	(619,697)	(989,282)	(1,507,617)	(453,166)	(892,214)
Profit before income tax	392,004	969,883	1,889,978	320,023	1,130,801
Segment margin ⁽¹⁾	38.7%	49.5%	55.6%	41.4%	55.9%
Wealth Management					
Segment revenue and other income	3,964,101	6,067,195	13,786,081	7,671,703	3,727,922
Segment expenses	(2,797,831)	(3,818,726)	(7,965,550)	(3,886,519)	(2,302,019)
Profit before income tax	1,166,270	2,248,469	5,820,531	3,785,184	1,425,903
Segment margin ⁽¹⁾	29.4%	37.1%	42.2%	49.3%	38.2%
Trading and Institutional Client Services					
Segment revenue and other income	1,858,126	2,760,192	5,444,090	2,658,158	1,812,139
Segment expenses	(1,298,979)	(1,718,938)	(2,862,522)	(1,478,083)	(1,324,645)
Profit before income tax	559,147	1,041,254	2,581,568	1,180,075	487,494
Segment margin ⁽¹⁾	30.1%	37.7%	47.4%	44.4%	26.9%
Investment Management					
Segment revenue and other income	331,239	375,218	1,400,153	472,542	810,282
Segment expenses	(138,371)	(189,480)	(402,871)	(149,936)	(260,739)
Profit before income tax	192,868	185,738	997,282	322,606	549,543
Segment margin ⁽¹⁾	58.2%	49.5%	71.2%	68.3%	67.8%
Others					
Segment revenue and other income	157,097	289,790	484,547	195,207	258,143
Segment expenses	(46,874)	(191,785)	(312,431)	(135,985)	(107,896)
Profit before income tax	110,223	98,005	172,116	59,222	150,247
Segment margin ⁽¹⁾	70.2%	33.8%	35.5%	30.3%	58.2%

Note:

(1) Segment margin = Profit before income tax/segment revenue and other income.

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The following discusses, describes and compares each of our five segments' revenue and other income, segment expenses and profit before income tax for the periods indicated:

Investment Banking

In our investment banking segment, we provide stock and bond underwriting and sponsorship services and financial advisory services. In 2013, 2014, 2015 and for the six months ended June 30, 2015 and 2016, the revenue of investment banking segment accounted for 13.8%, 17.1%, 13.9%, 6.6% and 23.4% of total revenue, respectively, and the profit before income tax of investment banking segment accounted for 16.2%, 21.3%, 16.5%, 5.6% and 30.2% of our total profit before income tax, respectively.

The segment revenue and other income of the investment banking segment primarily include underwriting, sponsorship and financial advisory fees income from investment banking activities. We generally recognize fee and commission income in the investment banking segment upon completion of projects.

Segment expenses from our investment banking segment primarily include staff costs and other operating expenses, as well as fee and commission expenses and business tax and surcharges that we incur in connection with our underwriting and other investment banking activities.

The table below sets forth the information of the investment banking segment for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
	(unaudited)				
	(RMB in thousands, except percentage)				
Segment revenue and other income	1,011,701	1,959,165	3,397,595	773,189	2,023,015
Segment expenses	(619,697)	(989,282)	(1,507,617)	(453,166)	(892,214)
Profit before income tax	392,004	969,883	1,889,978	320,023	1,130,801
Segment margin	38.7%	49.5%	55.6%	41.4%	55.9%

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Segment revenue and other income increased by 161.6% from RMB773.2 million for the six months ended June 30, 2015 to RMB2,023.0 million for the six months ended June 30, 2016. The increase primarily reflected (i) the increase in the total number and amount of domestic equity and debt securities offerings underwritten by us, resulting in an increase in our fee and commission income and (ii) the increase in financial advisory fees income resulted from our increased NEEQ business.

Segment expenses increased by 96.9% from RMB453.2 million for the six months ended June 30, 2015 to RMB892.2 million for the six months ended June 30, 2016. The increase was primarily due to the growth of our domestic equity and debt underwriting business, as well as the growth of our NEEQ business, which led to an increase in the relevant segment expenses.

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Therefore, for the six months ended June 30, 2016, the profit before income tax of this segment increased by 253.4% from RMB320.0 million for the same period of 2015 to RMB1,130.8 million. Segment margin increased from 41.4% for the first half of 2015 to 55.9% for the first half of 2016.

Comparison between 2014 and 2015. Segment revenue and other income increased by 73.4% from RMB1,959.2 million in 2014 to RMB3,397.6 million in 2015. The increase primarily reflected (i) an increase in the total number and amount of domestic equity and debt securities offerings underwritten by us, leading to an increase in fee and commission income; and (ii) an increase in financial advisory fees income resulting from our increased NEEQ business.

Segment expenses increased by 52.4% from RMB989.3 million in 2014 to RMB1,507.6 million in 2015. The increase was primarily due to the growth of our domestic equity and debt underwriting business, as well as the growth of NEEQ business, which led to an increase in relevant segment expenses.

Therefore, for the year ended December 31, 2015, profit before income tax of this segment increased by 94.9% from RMB969.9 million in 2014 to RMB1,890.0 million in 2015. Segment margin increased from 49.5% in 2014 to 55.6% in 2015.

Comparison between 2013 and 2014. Segment revenue and other income increased by 93.7% from RMB1,011.7 million in 2013 to RMB1,959.2 million in 2014. The increase primarily reflected (i) an increase in the total number and amount of domestic equity and debt securities offerings underwritten by us, leading to an increase in our fee and commission income; and (ii) an increase in financial advisory fees income resulting from our increased NEEQ business.

Operating expenses increased by 59.6% from RMB619.7 million in 2013 to RMB989.3 million in 2014. The increase was primarily due to the growth of our domestic equity and debt underwriting business, as well as the growth of NEEQ business, which led to an increase in relevant segment expenses.

Therefore, for the year ended December 31, 2014, profit before income tax of this segment increased by 147.4% from RMB392.0 million in 2013 to RMB969.9 million in 2014. Segment margin increased from 38.7% in 2013 to 49.5% in 2014.

Wealth Management

In our wealth management segment, we provide brokerage and investment advisory services to our individual and corporate clients, as well as services in margin financing and securities lending, collateralized stock repurchase and contractual repurchase transactions. In 2013, 2014, 2015 and for the six months ended June 30, 2015 and 2016, the revenue from the wealth management segment accounted for 54.1%, 53.0%, 56.2%, 65.2% and 43.2% of total revenue, respectively, and the profit before income tax of wealth management segment accounted for 48.2%, 49.5%, 50.8%, 66.8% and 38.1% of our total profit before income tax, respectively.

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Segment revenue and other income from the wealth management segment primarily include fee and commission income earned from providing brokerage services to clients, as well as interest income from our margin financing and securities lending services and repurchase business, and from cash held on behalf of clients. In the ordinary course of our brokerage business, we hold cash on behalf of our clients, which we deposit in segregated trust accounts with qualified commercial banks. We are obligated to pay our brokerage customers interest on these brokerage deposits until they are withdrawn. The interest paid by the qualified commercial banks where we deposit these brokerage deposits exceeds the interest that we are required to pay to our customers. Interest income earned on brokerage deposits is subject to interest rate fluctuations.

Segment expenses from our wealth management segment consist mainly of leasing fees, staff costs, interest expenses associated with margin financing and securities lending business and repurchase business and interest expenses on cash held on behalf of clients, brokerage handling fee expenses, information technology-related expenses, and business tax and surcharges. Brokerage handling fee expenses incurred by us arise primarily in the course of providing securities transaction brokerage services to our clients and consist mostly of levies from various intermediaries such as stock exchanges.

The table below sets forth the information of the wealth management segment for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
	(unaudited)				
	(RMB in thousands, except percentage)				
Segment revenue and other income	3,964,101	6,067,195	13,786,081	7,671,703	3,727,922
Segment expenses	(2,797,831)	(3,818,726)	(7,965,550)	(3,886,519)	(2,302,019)
Profit before income tax	1,166,270	2,248,469	5,820,531	3,785,184	1,425,903
Segment margin	29.4%	37.1%	42.2%	49.3%	38.2%

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Segment revenue and other income decreased by 51.4% from RMB7,671.7 million for the six months ended June 30, 2015 to RMB3,727.9 million for the six months ended June 30, 2016. The decrease primarily reflected (i) a decrease in the domestic stock and fund trading volume of our clients, which led to the decrease in the relevant fee and commission income; and (ii) a decrease in the needs and size of domestic margin financing and securities lending business of our clients, which led to the decrease in the relevant interest income.

Segment expenses decreased by 40.8% from RMB3,886.5 million for the six months ended June 30, 2015 to RMB2,302.0 million for the six months ended June 30, 2016. The decrease was primarily due to (i) a decrease in the domestic stock and fund trading volume of our clients, which led to a decrease in the relevant fee and commission expenses; and (ii) a decrease in the needs and size of domestic margin financing and securities lending business of our clients, which led to a decrease in the relevant interest expenses.

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Therefore, profit before income tax of this segment decreased by 62.3% from RMB3,785.2 million for the six months ended June 30, 2015 to RMB1,425.9 million for the six months ended June 30, 2016. Segment margin decreased from 49.3% for the six months ended June 30, 2015 to 38.2% for the six months ended June 30, 2016.

Comparison between 2014 and 2015. Segment revenue and other income increased by 127.2% from RMB6,067.2 million in 2014 to RMB13,786.1 million in 2015. The increase primarily reflected (i) an increase in the domestic stock and fund trading volume of our clients, which led to an increase in the relevant fee and commission income; and (ii) an increase in the needs and size of domestic margin financing and securities lending business of our clients, which led to an increase in the relevant interest income.

Segment expenses increased by 108.6% from RMB3,818.7 million in 2014 to RMB7,965.6 million in 2015. The increase was primarily due to (i) an increase in the domestic stock and fund trading volume of our clients, which led to an increase in the relevant fee and commission expenses; and (ii) an increase in the needs and size of domestic margin financing and securities lending business of our clients, which led to an increase in the relevant interest expenses.

Therefore, profit before income tax of this segment increased by 158.9% from RMB2,248.5 million in 2014 to RMB5,820.5 million in 2015. Segment margin increased from 37.1% in 2014 to 42.2% in 2015.

Comparison between 2013 and 2014. Segment revenue and other income increased by 53.1% from RMB3,964.1 million in 2013 to RMB6,067.2 million in 2014. The increase primarily reflected (i) an increase in the domestic stock and fund trading volume of our clients, which led to an increase in the relevant fee and commission income; and (ii) an increase in the needs and size of domestic margin financing and securities lending business of our clients, which led to an increase in the relevant interest income.

Segment expenses increased by 36.5% from RMB2,797.8 million in 2013 to RMB3,818.7 million in 2014. The increase was primarily due to (i) an increase in the domestic stock and fund trading volume of our clients, which led to an increase in the relevant fee and commission expenses; and (ii) an increase in the needs and size of domestic margin financing and securities lending business of our clients, which led to an increase in the relevant interest expenses.

Therefore, profit before income tax for this segment increased by 92.8% from RMB1,166.3 million in 2013 to RMB2,248.5 million in 2014. Segment margin increased from 29.4% in 2013 to 37.1% in 2014.

Trading and Institutional Client Services

In our trading and institutional client services segment, we engage in market making and proprietary trading of equity and equity-linked products, bonds products and derivatives and provide trading advisory, financial product distribution, investment research and prime brokerage services to institutional clients. In 2013, 2014 and 2015 and the six months ended June 30, 2015 and 2016, the revenue of trading and institutional client services segment

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accounted for 25.4%, 24.1%, 22.2%, 22.6% and 21.0% of our total revenue respectively, and the profit before income tax of this segment accounted for 23.1%, 22.9%, 22.5%, 20.8% and 13.0% of our total profit before income tax, respectively.

Segment revenue and other income from trading and institutional client services is primarily comprised of the investment gains from our proprietary trading and market-making activities and the fee and commission we receive from providing investment research and prime brokerage services to institutional clients.

Segment expenses from the trading and institutional client services segment primarily include interest expenses, staff costs and other operating expenses and business tax and surcharges.

The table below sets forth the financial information of the trading and institutional client services segment for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
	(unaudited)				
	(RMB in thousands, except percentage)				
Segment revenue and other income	1,858,126	2,760,192	5,444,090	2,658,158	1,812,139
– Proprietary trading	1,299,552	2,062,536	3,486,937	1,783,279	976,155
Segment expenses	(1,298,979)	(1,718,938)	(2,862,522)	(1,478,083)	(1,324,645)
Profit before income tax	559,147	1,041,254	2,581,568	1,180,075	487,494
– Proprietary trading	517,493	933,757	1,519,032	703,093	341,256
Segment margin	30.1%	37.7%	47.4%	44.4%	26.9%
–Proprietary trading	40%	45%	44%	39%	35%

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Segment revenue and other income decreased by 31.8% from RMB2,658.2 million for the six months ended June 30, 2015 to RMB1,812.1 million for the six months ended June 30, 2016. The decrease was primarily attributable to the worse performance of the domestic stock and bonds markets in the first half of 2016 as compared with that of 2015, which led to a decrease in the investment gains from proprietary trading of stock and bonds and a decrease in the fee and commission income generated from the prime brokerage business.

Segment expenses decreased by 10.4% from RMB1,478.1 million for the six months ended June 30, 2015 to RMB1,324.6 million for the six months ended June 30, 2016. The decrease was primarily due to the decreased interest expenses for our repurchase business, as well as the decreased fee and commission expenses as a result of the decrease of the prime brokerage business.

Therefore, our profit before income tax decreased by 58.7% from RMB1,180.1 million for the six months ended June 30, 2015 to RMB487.5 million for the six months ended June 30, 2016. Segment margin decreased from 44.4% for the six months ended June 30, 2015 to 26.9% for the six months ended June 30, 2016.

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Comparison between 2014 and 2015. Segment revenue and other income increased by 97.2% from RMB2,760.2 million in 2014 to RMB5,444.1 million in 2015. The increase was primarily attributable to the increased investment gains from our proprietary trading of domestic stock and bonds and the increased fee and commission income generated from the prime brokerage business.

Segment expenses increased by 66.5% from RMB1,718.9 million in 2014 to RMB2,862.5 million in 2015. The increase was primarily due to the increased interest expenses for our repurchase business, as well as the increased fee and commission expenses as a result of the growth of the prime brokerage business.

Therefore, our profit before income tax increased by 147.9% from RMB1,041.3 million in 2014 to RMB2,581.6 million in 2015. Segment margin increased from 37.7% in 2014 to 47.4% in 2015.

Comparison between 2013 and 2014. Segment revenue and other income increased by 48.5% from RMB1,858.1 million in 2013 to RMB2,760.2 million in 2014. The increase was primarily attributable to the increased investment gains from our proprietary trading of domestic stock and bonds and the increased fee and commission income generated from the prime brokerage business.

Segment expenses increased by 32.3% from RMB1,299.0 million in 2013 to RMB1,718.9 million in 2014. The increase was primarily due to the increased interest expenses for our repurchase business, as well as the increased fee and commission expenses as a result of the growth of prime brokerage business.

Therefore, our profit before income tax increased by 86.2% from RMB559.1 million in 2013 to RMB1,041.3 million in 2014. Segment margin increased from 30.1% in 2013 to 37.7% in 2014.

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Investment Management

In our investment management segment, we manage asset management schemes, investment funds and private equity funds for our clients and generate investment gains and fee and commission income. We also engage in private equity investments and other investments to generate investment gains. In 2013, 2014 and 2015 and for the six months ended June 30, 2015 and 2016, the revenue of our investment management segment accounted for 4.5%, 3.3%, 5.7%, 4.0% and 9.4% of our total revenue, respectively, and the profit before income tax accounted for 8.0%, 4.1%, 8.7%, 5.7% and 14.7% of our total profit before income tax, respectively.

Segment revenue and other income from investment management segment primarily consists of management fees and advisory fees we earn from providing asset management, fund management and private equity investment management services to clients, as well as investment gains from our private equity investments.

Segment expenses from our investment management segment mainly consist of fund marketing expenses and staff costs.

The table below sets forth the information of the investment management segment for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
	(unaudited)				
	(RMB in thousands, except percentage)				
Segment revenue and other income	331,239	375,218	1,400,153	472,542	810,282
Segment expenses	(138,371)	(189,480)	(402,871)	(149,936)	(260,739)
Profit before income tax	192,868	185,738	997,282	322,606	549,543
Segment margin	58.2%	49.5%	71.2%	68.3%	67.8%

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Segment revenue and other income increased by 71.5% from RMB472.5 million for the six months ended June 30, 2015 to RMB810.3 million for the six months ended June 30, 2016. The increase primarily reflected (i) an increase in management fee income due to the increased domestic asset management size; (ii) an increase in management fee income due to the increased domestic fund management size; and (iii) an increase in investment gains arising from the development of private equity investment business.

Segment expenses increased by 73.9% from RMB149.9 million for the six months ended June 30, 2015 to RMB260.7 million for the six months ended June 30, 2016, primarily attributable to the increased expenses incurred from the growth of business scale and increase of revenue.

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Therefore, our profit before income tax increased by 70.3% from RMB322.6 million for the six months ended June 30, 2015 to RMB549.5 million for the six months ended June 30, 2016. Segment margin slightly decreased from 68.3% for the six months ended June 30, 2015 to 67.8% for the six months ended June 30, 2016.

Comparison between 2014 and 2015. Segment revenue and other income increased by 273.2% from RMB375.2 million in 2014 to RMB1,400.2 million in 2015. The increase primarily reflected (i) an increase in the management fee income and performance-based bonuses from our domestic asset management schemes; and (ii) an increase in the management fee income due to the increased domestic fund management size.

Segment expenses increased by 112.6% from RMB189.5 million in 2014 to RMB402.9 million in 2015, primarily attributable to the increased expenses incurred from the growth of business scale and increase of revenue.

Therefore, our profit before income tax increased by 437.0% from RMB185.7 million in 2014 to RMB997.3 million in 2015. Segment margin increased from 49.5% in 2014 to 71.2% in 2015.

Comparison between 2013 and 2014. Segment revenue and other income increased by 13.3% from RMB331.2 million in 2013 to RMB375.2 million in 2014. The increase primarily reflected an increase in the management fee income and performance-based bonuses from our domestic asset management schemes.

Segment expenses increased by 36.9% from RMB138.4 million in 2013 to RMB189.5 million in 2014, primarily attributable to the increased expenses incurred from the growth of business scale and increase of revenue.

Therefore, our profit before income tax decreased by 3.7% from RMB192.9 million in 2013 to RMB185.7 million in 2014. Segment margin decreased from 58.2% in 2013 to 49.5% in 2014.

Others

In 2013, 2014 and 2015 and for the six months ended June 30, 2015 and 2016, the revenue from others segment accounted for 2.1%, 2.5%, 2.0%, 1.7%, and 3.0% of our total revenue, respectively, and the profit before income tax accounted for 4.6%, 2.2%, 1.5%, 1.0% and 4.0% of our total profit before income tax, respectively.

Segment revenue and other income primarily include interest income from our bank deposit.

Segment expenses primarily include operating expenses generated from our headquarters.

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The table below sets forth the information of others segment for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
	(unaudited)				
	(RMB in thousands, except percentage)				
Segment revenue and other income	157,097	289,790	484,547	195,207	258,143
Segment expenses	(46,874)	(191,785)	(312,431)	(135,985)	(107,896)
Profit before income tax	110,223	98,005	172,116	59,222	150,247
Segment margin	70.2%	33.8%	35.5%	30.3%	58.2%

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Segment revenue and other income increased by 32.2% from RMB195.2 million for the six months ended June 30, 2015 to RMB258.1 million for the six months ended June 30, 2016, primarily reflecting an increase in interest income from our own bank deposits.

Segment expenses decreased by 20.7% from RMB136.0 million for the six months ended June 30, 2015 to RMB107.9 million for the six months ended June 30, 2016. The decrease primarily reflected a decrease in operating revenue, which led to the decreased operating expenses.

Therefore, our profit before income tax increased by 153.7% from RMB59.2 million for the six months ended June 30, 2015 to RMB150.2 million for the six months ended June 30, 2016 and the segment margin increased from 30.3% in the first half of 2015 to 58.2% in the first half of 2016.

Comparison between 2014 and 2015. Segment revenue and other income increased by 67.2% from RMB289.8 million in 2014 to RMB484.5 million in 2015, primarily reflecting an increase in interest income from our own bank deposits.

Segment expenses increased by 62.9% from RMB191.8 million in 2014 to RMB312.4 million in 2015. The increase primarily reflected an increase in operating revenue in 2015, which led to the increased operating expenses.

Therefore, our profit before income tax increased by 75.6% from RMB98.0 million in 2014 to RMB172.1 million in 2015 and the segment margin increased from 33.8% in 2014 to 35.5% in 2015.

Comparison between 2013 and 2014. Segment revenue and other income increased by 84.5% from RMB157.1 million in 2013 to RMB289.8 million in 2014, primarily reflecting an increase in interest income from our own bank deposits.

Segment expenses increased by 309.0% from RMB46.9 million in 2013 to RMB191.8 million in 2014. The increase primarily reflected an increase in operating revenue in 2014, which led to the increased operating expenses.

Therefore, our profit before income tax decreased by 11.1% from RMB110.2 million in 2013 to RMB98.0 million in 2014 and the segment margin decreased from 70.2% in 2013 to 33.8% in 2014.

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LIQUIDITY AND FUNDING RESOURCES

Overview

We have historically met our funding requirements primarily with cash inflows generated from our operating activities, borrowings, and issuance of perpetual bonds, corporate bonds, subordinated debentures and short-term financing instruments. We manage liquidity primarily by monitoring the maturities of our assets and liabilities in an effort to ensure that we have sufficient funds, through the use of low-risk instruments such as bank deposits and repurchase agreements, to meet payment obligations when they fall due. We seek to maintain stable sources of funding and liquidity, but will vary our positions in such low-risk instruments, primarily on the basis of the interest rates offered or charged on different instruments at different times.

As of June 30, 2016, we had cash and cash equivalents of RMB13,740.8 million.

When determining the amount of funding and other resources to be allocated to each business segment, we mainly take into account our prevailing income growth strategy and business focus, the funding requirements, expected return and risk profile for each business and applicable regulatory requirements.

We are of the opinion that, taking into account the net proceeds from the Global Offering and the financial resources available to us, including cash and bank balances, cash flows from operating activities, and proceeds from short-term and long-term financing instruments, 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.

Cash Flows

The following table sets forth selected and consolidated cash flow statement information for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2013	2014	2015	2015	2016
	(unaudited)				
	(RMB in thousands)				
Net cash (outflow)/inflow from operating activities	(4,028,700)	(4,636,120)	(11,417,914)	(8,914,133)	11,390,951
Net cash (outflow)/inflow from investing activities	(5,673,873)	2,815,766	(4,124,052)	(137,613)	(9,020,952)
Net cash inflow/(outflow) from financing activities	9,838,633	7,942,512	20,029,761	19,055,022	(4,616,243)
Net change in cash and cash equivalents	136,060	6,122,158	4,487,795	10,003,276	(2,246,244)
Cash and cash equivalents at beginning of the year/period	5,188,761	5,321,859	11,447,921	11,447,921	15,967,225
Effect of exchange rate changes on cash and cash equivalents	(2,962)	3,904	31,509	(6,412)	19,843
Cash and cash equivalents at end of the year/period	<u>5,321,859</u>	<u>11,447,921</u>	<u>15,967,225</u>	<u>21,444,785</u>	<u>13,740,824</u>

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Operating activities

Operating activities include our fee and commission based services, such as underwriting, financial advisory, brokerage and asset management services, margin financing and securities lending, purchases and sales of financial assets held for trading and financial assets designated as at fair value through profit or loss, repurchase and reverse repurchase transactions, and other operating activities.

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. We had a net cash inflow from operating activities of RMB11,391.0 million for the six months ended June 30, 2016 while a net cash outflow from operating activities of RMB8,914.1 million for the six months ended June 30, 2015. This is primarily due to (i) a RMB18,874.1 million decrease in cash outflow from margin accounts, mainly reflecting a decrease in the size of margin financing and securities lending business due to the falling A share market in the second half of 2015; and (ii) a RMB78,349.4 million decrease in the change of balance from cash held on behalf of clients, mainly attributable to the decrease in brokerage business volume as affected by stock market conditions. These changes were partly offset by the followings: (i) a RMB78,372.6 million decrease in the change of balance from accounts payable to brokerage clients, mainly attributable to the decrease in brokerage business volume as affected by stock market conditions; and (ii) a RMB1,923.1 million decrease in profit before income tax, mainly attributable to the decreased revenue for the same period.

Comparison between 2014 and 2015. Net cash outflow from operating activities was RMB11,417.9 million in 2015, a 146.3% increase from net cash outflow from operating activities of RMB4,636.1 million in 2014. The increase primarily reflected (i) a RMB18,256.0 million decrease in cash inflow from financial assets sold under repurchase agreements, mainly attributable to the decrease in the trading volume of beneficial rights over margin financing and securities lending business; (ii) a RMB5,676.8 million increase in cash outflow from financial assets held under resale agreements, mainly attributable to the increase in resale agreements with bonds as collaterals at the end of 2015 in order to increase the return of our own funds; (iii) a RMB4,207.1 million increase in the change of balance inflow from cash held on behalf of clients, primarily due to the growth of our brokerage business resulted from the favorable stock market in the first half of 2015; and (iv) a RMB949.6 million increase in cash outflow from financial assets held for trading, primarily reflecting our increased investment in equity and debt in 2015. These increases were partially offset by (i) a RMB4,724.1 million increase in the change of balance from accounts payable to brokerage clients, due to the growth of our brokerage business; (ii) a RMB6,918.1 million increase in profit before income tax, primarily because of the growth of our business; and (iii) a RMB13,070.8 million decrease in cash outflow from margin accounts, primarily reflecting a drop in our margin financing and securities lending business scale due to the descending A share market in the second half of 2015.

Comparison between 2013 and 2014. Net cash outflow from operating activities was RMB4,636.1 million in 2014, a 15.1% increase from net cash outflow from operating activities of RMB4,028.7 million in 2013. The increase primarily reflected (i) a RMB27,079.3 million increase in the change of balance from cash held on behalf of clients, primarily due to the growth of our brokerage business; (ii) a RMB5,577.4 million increase in cash outflow from financial assets held for trading, primarily reflecting our increased investment in equity and

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debt in 2014; and (iii) a RMB5,467.1 million increase in cash outflow from margin accounts, primarily reflecting our stable development of margin financing and securities lending business resulted from the favorable A share market condition. These increases were partially offset by: (i) a RMB27,379.3 million increase in the change of balance from accounts payable to brokerage clients, primarily due to a growth of our brokerage business in the second half of 2014; (ii) a RMB11,600.6 million increase in cash inflow from financial assets sold under repurchase agreements, primarily because we started the repurchase agreements business of gold and beneficial rights over margin financing and securities lending in 2014 and it has a large business volume; and (iii) a RMB2,122.8 million increase in profit before income tax, primarily because of the growth of our revenue in 2014.

Investing activities

Investing activities primarily include purchase or disposal of available-for-sale financial assets, receiving dividend income and interest income from available-for-sale financial assets, purchase and sale of property, plant and equipment and other assets and other investment activities.

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Net cash outflow from investing activities for the six months ended June 30, 2016 was RMB9,021.0 million, which was a significant increase from net cash outflow from investing activities of RMB137.6 million for the six months ended June 30, 2015. The increase was primarily due to the significant increase in net cash outflow from purchase of available-for-sale financial assets in the first half of 2016, which was partially offset by the cash inflow of disposal of available-for-sale financial assets.

Comparison between 2014 and 2015. Net cash outflow from investing activities in 2015 was RMB4,124.1 million, while net cash inflow from investing activities was RMB2,815.8 million in 2014. The change was primarily due to increased net cash outflow as a result of our increased investment in available-for-sale financial assets and held-to-maturity investments in 2015.

Comparison between 2013 and 2014. Net cash inflow from investing activities in 2014 was RMB2,815.8 million, while net cash outflow from investing activities in 2013 was RMB5,673.9 million. The change was primarily due to cash inflow from the disposal of our available-for-sale financial assets based on market conditions in 2014.

Financing activities

Financing activities primarily include issuance of corporate bonds, subordinated bonds, perpetual bonds, short-term financing instruments, borrowings and repayments, distribution of dividends and payment of interest on our debt instruments.

Comparison between the six months ended June 30, 2015 and the six months ended June 30, 2016. Net cash outflow from financing activities was RMB4,616.2 million for the six months ended June 30, 2016, while net cash inflow from financing activities of RMB19,055.0 million for the six months ended June 30, 2015. This was primarily due to (i) a RMB9,019.3 million

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decrease in cash inflow from issuance of bonds; (ii) a RMB6,961.9 million increase in cash outflow from the repayment of debts; (iii) a RMB5,000.0 million decrease in cash inflow from issuance of perpetual bonds; and (iv) a RMB1,701.3 million decrease in cash inflow from borrowings.

Comparison between 2014 and 2015. Net cash inflow from financing activities was RMB20,029.8 million in 2015, a 152.2% increase from net cash inflow from financing activities of RMB7,942.5 million in 2014. The increase was mainly due to (i) a RMB5,000.0 million increase in cash inflow from the issuance of perpetual bonds, (ii) a RMB15,783.6 million increase in cash inflow from bonds issuances and (iii) a RMB4,545.0 million increase in cash inflow from borrowings, which were partially offset by a RMB12,527.6 million increase in cash outflow from repayment of debts.

Comparison between 2013 and 2014. Net cash inflow from financing activities was RMB7,942.5 million in 2014, a 19.3% decrease from net cash inflow from financing activities of RMB9,838.6 million in 2013. The decrease was mainly due to (i) a RMB2,200.0 million increase in cash outflow from repayment of debts, (ii) a RMB1,710.0 million decrease in cash inflow from borrowings, which were partially offset by a RMB2,182.4 million increase in cash inflow from bonds issuance, and (iii) a RMB312.3 million increase in cash outflow from interest payment.

Assets and Liabilities

In order to ensure appropriate liquidity management and capital allocation, we dynamically monitor the size and composition of our balance sheet and seek to maintain a liquid balance sheet. The major portion of our balance sheet consists of current assets and liabilities, on account of the highly liquid nature of our business.

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 September 30,
	2013	2014	2015	2016	
				(unaudited)	
	(RMB in thousands)				
Current assets					
Margin accounts	14,624,934	31,941,318	35,931,133	27,890,994	27,783,871
Accounts receivable	47,329	164,470	153,325	295,320	279,359
Financial assets held for trading . .	8,381,687	18,318,258	28,485,993	30,357,929	32,683,744
Financial assets designated as at fair value through profit or loss .	352,862	525,504	1,503,783	307,996	505,719
Available-for-sale financial assets .	13,526,059	11,452,695	15,890,616	24,414,337	25,725,839
Held-to-maturity Investments . . .	–	–	13,997	–	287,520
Derivative financial assets	113,690	150,581	142,052	108,617	100,850
Financial assets held under resale agreements	3,005,205	2,260,294	6,896,446	7,965,197	5,935,150
Cash held on behalf of clients . . .	19,067,252	42,761,967	70,663,754	62,195,609	52,316,110
Cash and bank balances	5,321,859	11,447,921	16,154,266	14,019,001	16,083,636
Other current assets	892,260	1,027,595	1,715,140	1,791,739	1,899,225
Total current assets	65,333,137	120,050,603	177,550,505	169,346,739	163,601,023

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	As of December 31,			As of June 30,	As of September 30,
	2013	2014	2015	2016	
				(unaudited)	
	(RMB in thousands)				
Current liabilities					
Accounts payable to brokerage clients	19,652,787	43,486,999	72,045,265	63,992,009	54,041,244
Derivative financial liabilities	115,289	798,152	190,752	220,573	196,769
Financial liabilities held for trading	212,217	857,077	93,191	141,233	911,250
Financial assets sold under repurchase agreements	16,285,364	30,901,793	27,462,271	29,450,882	26,141,451
Placements from banks and other financial institutions	5,020,000	3,584,000	2,284,000	1,700,000	4,000,000
Tax payable	461,967	542,845	1,591,758	962,208	458,497
Short-term borrowings	2,500,000	500,000	1,122,779	1,234,570	1,183,709
Short-term financing instruments payable	3,200,000	5,567,416	11,322,686	4,876,680	3,650,339
Other current liabilities	2,632,745	11,182,441	19,786,250	26,918,414	30,088,663
Total current liabilities	50,080,369	97,420,723	135,898,952	129,496,569	120,671,922
Net current assets	15,252,768	22,629,880	41,651,553	39,850,170	42,929,101
Current ratio⁽¹⁾	1.30	1.23	1.31	1.31	1.36

Note:

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

Current assets consist primarily of (i) cash held on behalf of clients, which is cash received from clients relating to our brokerage business, (ii) margin accounts, which represents money we lend to clients relating to our margin financing and securities lending business, (iii) available-for-sale financial assets, which mainly include our investments in stocks, funds, bonds and other instruments, as well as our contribution to the designated account of the CSFCL, (iv) financial assets held for trading, which mainly include our investments in stocks, funds, bonds and other instruments, (v) cash and bank balances and (vi) financial assets held under resale agreements, which are payments made to counterparties relating to our repurchase business. Current liabilities primarily consist of (i) accounts payable to brokerage clients resulting from our brokerage business, (ii) financial assets sold under repurchase agreements resulting from the repurchase agreements we enter into, (iii) placements from banks and other financial institutions, (iv) short-term financing instruments payable and short-term borrowings. Please see “Significant Accounting Policies” of note 3 of the Accountant’s Report for details of the accounting policies in respect of financial assets designated as at fair value through profit or loss, available-for-sale financial assets and derivative financial assets.

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Current assets decreased by 4.6% from RMB177,550.5 million as of December 31, 2015 to RMB169,346.7 million as of June 30, 2016, primarily attributable to (i) a RMB8,468.1 million decrease in cash held on behalf of clients, mainly reflecting the decrease in our securities brokerage business as affected by market condition; (ii) a RMB8,040.1 million decrease in margin accounts, due to the weaker A share market performance in the first half of 2016, resulting in the decrease of margin financing and securities lending business; and (iii) a RMB2,135.3 million decrease in cash and bank balances, mainly due to the decreased balance of our bank deposits as a result of the increase in cash outflow from investing activities during this period. These decreases were partly offset by the following increases: (i) a RMB8,523.7 million increase in available-for-sale financial assets, mainly due to the increased debt instruments, and the increased third party asset management schemes invested with our own funds; (ii) a RMB1,871.9 million increase in financial assets held for trading, due to the significant increase in debt instrument investment; and (iii) a RMB1,068.8 million increase in financial assets held under resale agreements, mainly due to the increased return of our own funds as we use more bonds reverse repurchase transaction in 2016, which was partly offset by the decreases in the equity investment of financial assets held for trading, fund investments and other investments.

Current liabilities decreased by 4.7% from RMB135,899.0 million as of December 31, 2015 to RMB129,496.6 million as of June 30, 2016, primarily attributable to (i) a RMB8,053.3 million decrease in accounts payable to brokerage clients, mainly due to the decrease in our securities brokerage business as affected by market condition in the first half of 2016; (ii) a RMB6,446.0 million decrease in short-term financing instruments payable, mainly reflecting our less issuance of short-term financing instruments in the first half of 2016 than that in 2015; and (iii) a RMB584.0 million decrease in placements from banks and other financial institutions, mainly due to the RMB300.0 million decrease in placements from banks and the RMB284.0 million decrease in the borrowings from the CSFCL. These decreases were partly offset by (i) a RMB1,988.6 million increase in financial assets sold under repurchase agreements, mainly due to the increased demand for investment fund of proprietary business; (ii) a RMB7,132.2 million increase in other current liabilities, mainly reflecting the increased liabilities from consolidated structured entities and increased bonds in issue due within one year.

Current assets increased by 47.9% from RMB120,050.6 million as of December 31, 2014 to RMB177,550.5 million as of December 31, 2015, primarily because of (i) a RMB27,901.8 million increase in cash held on behalf of clients, primarily reflecting the rapid growth of our brokerage business; (ii) a RMB10,167.7 million increase in financial assets held for trading, resulting from our increased investment in debt securities and funds, which was partially offset by the decrease in our equity investment; (iii) a RMB4,706.3 million increase in cash and bank balances, primarily due to the increased balance of our bank deposits; (iv) a RMB4,636.2 million increase in financial assets held under resale agreements, primarily due to increased return of our own funds resulted from the increased use of bond reverse repurchase agreements; (v) a RMB4,437.9 million increase in available-for-sale financial assets, primarily reflecting our RMB4,244.0 million investment in a specific account of the CSFCL pursuant to the Master Agreement on Transactions of OTC Derivatives in PRC Securities and Futures Market and Transaction Confirmation of Income Swaps we entered into with CSFCL, and (vi) a RMB3,989.8 million increase in margin accounts, resulting from the growth of our margin financing and securities lending business.

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Current liabilities increased by 39.5% from RMB97,420.7 million as of December 31, 2014 to RMB135,899.0 million as of December 31, 2015, primarily reflecting (i) a RMB28,558.3 million increase in accounts payable to brokerage clients, primarily due to the rapid growth of our brokerage business in the first half of 2015, (ii) a RMB8,603.8 million increase in other current liabilities, primarily reflecting increased liabilities from consolidated structured entities and staff costs payable; (iii) a RMB5,755.3 million increase in short-term financing instruments payable, primarily reflecting our issuances of short-term financing instruments to satisfy our demands on capital in 2015. These increases were partially offset by (i) a RMB3,439.5 million decrease in financial assets sold under repurchase agreements, primarily due to the decreased fund demands for margin financing and securities lending business as affected by the falling market conditions and (ii) a RMB1,300.0 million decrease in placements from banks and other financial institutions, primarily as a result of decreased amount due to the CSFCL.

Current assets increased by 83.8% from RMB65,333.1 million as of December 31, 2013 to RMB120,050.6 million as of December 31, 2014, primarily because of (i) a RMB23,694.7 million increase in cash held on behalf of clients, primarily reflecting the rapid growth of our brokerage business; (ii) a RMB17,316.4 million increase in margin accounts, resulting from the rapid growth of our margin financing and securities lending business; (iii) a RMB9,936.6 million increase in financial assets held for trading, due to the increased investment in debt securities, equity, funds and derivatives; and (iv) a RMB6,126.1 million increase in cash and bank balances, primarily due to the increased balance of our bank deposits. These increases were partly offset by the decrease in available-for-sale financial assets. The available-for-sale financial assets decreased by RMB2,073.4 million at the end of 2014 as compared to that of 2013, primarily due to the decrease in investments in debt instruments.

Current liabilities increased by 94.5% from RMB50,080.4 million as of December 31, 2013 to RMB97,420.7 million as of December 31, 2014, primarily reflecting (i) a RMB23,834.2 million increase in accounts payable to brokerage clients, primarily due to the rapid growth of our brokerage business in 2014, (ii) a RMB14,616.4 million increase in financial assets sold under repurchase agreements as we participated in more repurchase transactions; (iii) a RMB8,549.7 million increase in other current liabilities, primarily reflecting increased liabilities from consolidated structured entities and staff costs payable; and (iv) a RMB2,367.4 million increase in short-term financing instruments payable, primarily reflecting our issuance of short-term financing instruments in 2014 to satisfy our demands on capital.

Adjusted assets and liabilities

Deposits from brokerage customers form a significant component of both our current assets, reflected as cash held on behalf of clients and our current liabilities, reflected as accounts payable to brokerage clients. Brokerage customer deposits fluctuate based on our customers' trading activity, financial market conditions and other factors extrinsic to our business; consequently, although we earn some interest income from these deposits, brokerage customer deposits tend not to be meaningful indicators of our financial condition. We have therefore adjusted our assets and liabilities in the following presentation and discussion to exclude the effect of brokerage customer deposits.

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The following table sets forth our adjusted assets and liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2013	2014	2015	2016	2016
	(RMB in thousands)				
Adjusted current assets ⁽¹⁾	45,680,350	76,563,604	105,505,240	105,354,730	109,559,779
Adjusted current liabilities ⁽²⁾	30,427,582	53,933,724	63,853,687	65,504,560	66,630,678
Adjusted current ratio ⁽³⁾	1.50	1.42	1.65	1.61	1.64
Financial leverage ratio ⁽⁴⁾	3.69	4.79	3.69	3.41	3.39

Notes:

- (1) Adjusted current assets equals total current assets less accounts payable to brokerage clients.
- (2) Adjusted current liabilities equal total current liabilities less accounts payable to brokerage clients.
- (3) Adjusted current ratio is calculated by dividing adjusted current assets by adjusted current liabilities.
- (4) Financial leverage ratio is calculated by dividing adjusted total assets by net assets attributable to equity holders of the Company, and adjusted total assets are total assets less accounts payable to brokerage clients.

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 thousands)			
Non-current assets				
Property, plant and equipment	404,007	421,771	514,422	509,330
Investment properties	68,236	64,342	65,511	63,636
Intangible assets	81,094	99,829	121,553	117,104
Investments in associate	20,000	20,000	50,000	50,000
Available-for-sale financial assets	244,403	835,458	1,457,190	1,772,048
Held-to-maturity investments	–	–	374,416	379,500
Financial assets held under resale agreements	275,048	–	–	–
Refundable deposits	1,151,270	1,340,145	2,144,517	2,225,278
Deferred tax assets	206,585	401,735	747,397	611,804
Other non-current assets	155,732	172,243	162,864	173,240
Total non-current assets	2,606,375	3,355,523	5,637,870	5,901,940

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	As of December 31			As of June 30,
	2013	2014	2015	2016
	(RMB in thousands)			
Non-current liabilities				
Financial assets sold under repurchase agreements	–	1,000,000	1,800,000	800,000
Bonds in issue	4,685,515	7,698,921	15,072,207	12,090,716
Deferred tax liabilities	15,109	257,661	218,610	142,639
Long-term borrowings	–	290,001	–	–
Other non-current liabilities	4,943	10,907	15,703	4,194
Total non-current liabilities	4,705,567	9,257,490	17,106,520	13,037,549

Our non-current assets consist primarily of property, plant and equipment, available-for-sale financial assets and refundable deposits. Our property, plant and equipment primarily consists of commercial real property and operating facilities used by us. Our available-for-sale financial assets mainly include our investments in equity securities and third party wealth management products. Our refundable deposits mainly consist of our deposits in the institutions for securities, future and commodities and others. Our non-current liabilities primarily consist of financial assets sold under repurchase agreements, which are amounts we are obligated to repay under the beneficial rights over margin financing and securities lending agreements, and bonds in issue, which mainly include corporate bonds and subordinated bonds.

Non-current assets slightly increased by 4.7% from RMB5,637.9 million as of December 31, 2015 to RMB5,901.9 million as of June 30, 2016, primarily due to (i) a RMB314.9 million increase in available-for-sale financial assets, mainly attributable to the increase in equity investments in 2016, which was mainly from our increased investments in non-listed companies; and (ii) a RMB80.8 million increase in refundable deposits, due to the increased margin for gold and futures transactions.

Non-current liabilities decreased by 23.8% from RMB17,106.5 million as of December 31, 2015 to RMB13,037.5 million as of June 30, 2016, primarily due to (i) a RMB2,981.5 million decrease in balance of bonds in issue, mainly due to the recategorization of bonds due beyond one year into bonds due within one year; and (ii) a RMB1,000.0 million decrease in balance of financial assets sold under repurchase agreements, reflecting the decrease of our repurchase transactions.

Non-current assets increased by 68.0% from RMB3,355.5 million as of December 31, 2014 to RMB5,637.9 million as of December 31, 2015, primarily due to (i) a RMB804.4 million increase in refundable deposits resulting from the increased deposits for the securities transaction we operate and increased deposits we placed with exchanges for our expanded commodities and futures brokerage business; (ii) a RMB621.7 million increase in available-for-sale financial assets, mainly attributable to the increased equity investments, and increased investments in third party asset management schemes with our own funds in 2015; and (iii) a RMB374.4 million increase in held-to-maturity investments, primarily due to our increased investments on offshore Renminbi and US dollar denominated bonds.

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Non-current liabilities increased by 84.8% from RMB9,257.5 million as of December 31, 2014 to RMB17,106.5 million as of December 31, 2015, primarily reflecting (i) a RMB7,373.3 million increase in balance of bonds in issue, reflecting our offering size of the newly issued corporate bonds and subordinated bonds in 2015, which is partially offset by the debt instruments due in 2015, and (ii) a RMB800.0 million increase in balance of financial assets sold under repurchase agreements, reflecting our increased repurchase transactions.

Non-current assets increased by 28.7% from RMB2,606.4 million as of December 31, 2013 to RMB3,355.5 million as of December 31, 2014, primarily reflecting (i) a RMB591.1 million increase in available-for-sale financial assets, mainly due to the increased equity investments and increased investments in third party asset management schemes with our own funds in 2014; and (ii) a RMB188.9 million increase in refundable deposits resulting from the increased deposits we placed with the exchanges for our expanded proprietary futures business and futures brokerage business, which was partly offset by the RMB275.0 million decrease in financial assets held under resale agreements.

Non-current liabilities increased by 96.7% from RMB4,705.6 million as of December 31, 2013 to RMB9,257.5 million as of December 31, 2014, primarily reflecting (i) a RMB3,013.4 million increase in bonds in issue, reflecting our offering size of the newly issued corporate bonds and subordinated bonds in 2014, which was partially offset by the debt instruments due in 2014, and (ii) a RMB1,000.0 million increase in financial assets sold under repurchase agreements, reflecting our increased repurchase transactions.

INDEBTEDNESS

None of our indebtedness agreement has material restrictive covenants. As of September 30, 2016, the latest date for determining our indebtedness, we had total current indebtedness of RMB22,604.9 million and non-current indebtedness of RMB13,597.4 million. During the Track Record Period and up to the Latest Practicable Date, no covenant had been breached. Except as disclosed below, we currently do not have any material external financing plans.

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The following table sets forth a breakdown of our indebtedness by type as of the dates indicated:

	As of December 31,			As of	As of
	2013	2014	2015	June 30,	September 30,
				2016	
				(unaudited)	
	(RMB in thousands)				
Current:					
Bank borrowings	2,500,000	500,000	1,412,780	1,524,571	1,233,709
Short-term financing instruments payable:					
Short-term commercial papers/short-term corporate bonds	3,200,000	5,500,000	5,500,000	2,995,842	2,997,390
Structured notes	–	67,416	5,822,686	1,880,838	652,949
	<u>3,200,000</u>	<u>5,567,416</u>	<u>11,322,686</u>	<u>4,876,680</u>	<u>3,650,339</u>
Placements from banks and other financial institutions					
Placements from banks	1,300,000	300,000	1,000,000	700,000	–
Refinanced funds	3,720,000	3,284,000	1,284,000	1,000,000	4,000,000
	<u>5,020,000</u>	<u>3,584,000</u>	<u>2,284,000</u>	<u>1,700,000</u>	<u>4,000,000</u>
Bonds in issue					
Corporate bonds	–	–	4,713,193	4,719,353	4,720,871
Subordinated bonds	–	5,000,000	3,000,000	9,000,000	9,000,000
	<u>–</u>	<u>5,000,000</u>	<u>7,713,193</u>	<u>13,719,353</u>	<u>13,720,871</u>
Subtotal	<u>10,720,000</u>	<u>14,651,416</u>	<u>22,732,659</u>	<u>21,820,604</u>	<u>22,604,919</u>
Non-current:					
Bonds in issue					
Corporate bonds	4,685,515	4,698,921	9,072,207	12,090,716	13,597,361
Subordinated bonds	–	3,000,000	6,000,000	–	–
	<u>4,685,515</u>	<u>7,698,921</u>	<u>15,072,207</u>	<u>12,090,716</u>	<u>13,597,361</u>
Bank borrowings	–	290,001	–	–	–
Subtotal	<u>4,685,515</u>	<u>7,988,922</u>	<u>15,072,207</u>	<u>12,090,716</u>	<u>13,597,361</u>
Total	<u>15,405,515</u>	<u>22,640,338</u>	<u>37,804,866</u>	<u>33,911,320</u>	<u>36,202,280</u>

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Bank Borrowings

We had short-term borrowings and long-term borrowings due within 1 year of RMB2,500.0 million, RMB500.0 million, RMB1,412.8 million, RMB1,524.6 million and RMB1,233.7 million as of December 31, 2013, 2014 and 2015 and June 30 and September 30, 2016, respectively, all of which were repayable on demand.

As of December 31, 2013, 2014 and 2015 and June 30 and September 30, 2016, the outstanding balance of our other long-term borrowings was nil, RMB290.0 million, nil, nil and nil.

As of December 31, 2013, 2014 and 2015 and June 30 and September 30, 2016, we had borrowings of RMB2,500.0 million, RMB290.0 million, RMB575.0 million, RMB575.0 million and RMB90.5 million, which were secured by bank deposits, securities pledged by margin financing clients and financial assets held for trading respectively.

We incurred bank borrowings primarily to fund our working capital requirements. The following table sets forth the range of interest rates of our borrowings as of dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2013	2014	2015	2016	
				(unaudited)	
Bank Borrowings					
Interest rates					
(per annum)	6.50%–7.50%	4.60%–7.14%	1.90%–4.60%	1.90%–4.60%	1.80%–4.60%

During the Track Record Period, we have not experienced any difficulties in refinancing our bank loans. As of September 30, 2016, we had unutilized banking facilities of RMB158.0 billion.

Short-term Financing Instruments Payable

Subject to the approvals from the PBOC, we can issue short-term unsecured debt securities in the PRC interbank bond markets. During the Track Record Period and up to September 30, 2016, we issued 29 tranches of short-term commercial papers in an accumulated aggregate principal amount of RMB54.1 billion on the PRC inter-bank market. All of our short-term commercial papers are unsecured and unguaranteed. As of September 30, 2016, we had no outstanding short-term commercial papers. We used the net proceeds from the issuance of short-term commercial papers primarily to fund our working capital. The following table sets forth the range of interest rates of short-term commercial papers outstanding as of the dates indicated:

	As of December 31,			As of June 30,	As of September 30,
	2013	2014	2015	2016	
				(unaudited)	
Interest rates					
(per annum)	3.58%–6.35%	4.09%–6.35%	2.80%–4.95%	2.63%–3.20%	–

In addition, we also issue short-term corporate bonds and structured notes.

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Placements from banks and other financial institutions

We are a member of the interbank lending market in China and able to obtain interbank lending to quickly replenish our short-term liquidity. We generally pay an interest rate on interbank lending based on the SHIBOR. Our interbank lending is unsecured and unguaranteed. As of September 30, 2016, the balance of our interbank lending was nil.

We obtain borrowings from the CSFCL, which can be used solely for our margin financing and securities lending businesses. As of December 31, 2013, 2014 and 2015 and June 30 and September 30, 2016, the balance of our placements from the CSFCL was RMB3,720.0 million, RMB3,284.0 million, RMB1,284.0 million, RMB1,000.0 million and RMB4,000.0 million, respectively.

Corporate Bonds

As of September 30, 2016, we had one tranche of outstanding unsecured and guaranteed offshore USD bonds with the carrying amount of US\$200 million, one tranche of outstanding unsecured and guaranteed domestic bonds with the carrying amount of RMB4.7 billion, four tranches of outstanding unsecured and unguaranteed domestic bonds with the carrying amount of RMB12.3 billion. We used the net proceeds from the issuance of corporate bonds primarily to fund our working capital. As of September 30, 2016, all of these bonds remained outstanding. The following table sets forth certain information on our corporate bonds:

Bond Type	Issuance date	Maturity	Interest rate	Principal amount
Domestic	August 2016	5 years	2.90%	RMB1,500 million
Domestic	May 2016	5 years	3.14%	RMB3,000 million
Offshore	September 2015	5 years	3.125%	US\$200 million
Domestic	August 2015	10 years	4.2%	RMB1,800 million
Domestic	June 2015	5 years	5.32%	RMB6,000 million
Domestic	November 2013	3 years	6.15%	RMB4,700 million

Subordinated Bonds

We also issue debt securities in China that are subordinated to our other senior indebtedness and only rank before our equity securities in case of liquidation. According to the Administrative Provisions on the Subordinated Bonds of Securities Firms, long-term subordinated bonds may be treated as net capital, therefore issuing subordinated bonds can help strengthen our net capital. As of September 30, 2016, we had three tranches of subordinated bonds with a total carrying amount of RMB9.0 billion. All of our subordinated bonds are unsecure and unguaranteed. The table below sets forth the interest rate range for the subordinated bonds outstanding as of the dates indicated:

	As of December 31,			As of June 30,	As of
	2013	2014	2015	2016	September 30,
Interest rates (% per annum) . . .	— ⁽¹⁾	5.50%–5.98%	5.45%–5.50%	5.45%–5.50%	5.45%–5.50%

Note:

(1) We did not have any outstanding subordinated bonds as of December 31, 2013.

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We intend to issue subordinated bonds on an as needed basis in accordance with our working capital requirements in consideration of market conditions. We plan to use the net proceeds from such issuances primarily to fund our working capital.

Contingent Liabilities

As of September 30, 2016, 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.

Apart from the foregoing, as of September 30, 2016, we did not have 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.

During the Track Record Period, we did not have any material default on our indebtedness, and as of the Latest Practicable Date, all of our outstanding long-term and short-term bonds and loans were not subject to any material restrictive covenants.

Contractual Obligations and Commitments

The following table sets forth our commitments as of the dates indicated:

	As of December 31,			As of	As of
	2013	2014	2015	June 30,	September 30,
				2016	
					(unaudited)
					(RMB in thousands)
Capital commitments:					
Contracted, but not provided for	2,160	6,113	8,208	16,794	12,718
Operating lease commitments:					
Within one year	143,671	160,562	219,449	246,438	239,668
After one year but not more than two years	133,129	162,336	214,895	243,995	244,078
After two years but not more than three years	111,835	144,486	153,227	190,180	189,046
After three years	219,710	213,684	206,558	292,772	275,375
Total	610,505	687,181	802,337	990,179	948,167

Our Directors have confirmed that, except as disclosed in this prospectus, there has not been any material change in our indebtedness or contingent liabilities since September 30, 2016.

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CAPITAL EXPENDITURE

Our capital expenditures primarily comprise expenditures for the purchase of property, equipment, intangible assets and other long-term assets. The following table sets forth our capital expenditures for the periods presented:

	For the year ended December 31,			For the nine months ended September 30,
	2013	2014	2015	2016
	(RMB in thousands)			
Purchase of property, equipment, intangible assets and other long-term assets	148,317	193,766	282,006	148,942

As of September 30, 2016, we estimated that our capital expenditures for 2016 will be approximately RMB441.9 million, which we will use primarily for the construction of IT infrastructure and the decoration and alteration of the leased houses. We expect to fund these capital expenditures with cash flow generated from our operations.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the related party transactions set out in note 51 to the Accountant's Report in Appendix I to this prospectus were conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2016, we did not have any outstanding, off-balance sheet guarantees or foreign currency forward contracts.

WORKING CAPITAL

We are of the opinion that, taking into account the net proceeds from the Global Offering and the financial resources available to us, including cash and bank balances, cash flows from operating activities, and proceeds from short-term and long-term financing instruments, 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.

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NET CAPITAL AND RISK INDICATOR OR REQUIREMENTS

The following table sets forth key risk control indicators and liquidity risk regulatory indicators of the Company 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⁾	Required level
	2013	2014	2015	2016		
Net capital (RMB in millions) ⁽²⁾	9,322.0	15,023.8	24,476.6	28,133.1		
Net capital/total risk capital reserves ⁽³⁾	475.7%	468.8%	585.2%	593.3%	>120%	>100%
Net capital/net assets	72.5%	91.9%	83.0%	88.4%	>48%	>40%
Net capital/ liabilities ⁽⁴⁾	26.9%	25.9%	36.2%	44.9%	>9.6%	>8%
Net assets/ liabilities ⁽⁴⁾	37.0%	28.1%	43.6%	50.7%	>24%	>20%
Proprietary equity securities and securities derivatives/Net capital ⁽⁵⁾	30.8%	58.2%	49.4%	59.2%	<80%	<100%
Proprietary fixed income securities/ Net capital	214.5%	126.9%	97.9%	99.6%	<400%	<500%

Notes:

- (1) Pursuant to the Administrative Measures for the Risk Control Indicators of Securities Firms, the CSRC set warning level for all risk control indicators. If the risk control indicator is required to be “not lower than” a certain level, the warning level is 120% of the stipulated requirement, and if the risk control indicator is required to be “not more than” a certain level, the warning level is 80% of the stipulated 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, derivative financial products, other assets and contingent liabilities, and further adding or subtracting other adjustments authorized or determined by the CSRC.
- (3) For an explanation of how total risk capital reserves are calculated, see “Regulatory Environment — PRC Laws and Regulations — Corporate Governance and Risk Control.”
- (4) For purposes of calculating the risk control index, liabilities mean the external liabilities and do not include accounts payable to brokerage clients.
- (5) We have entered into the *Master Agreement on Transactions of OTC Derivatives in PRC Securities and Futures Market and Transaction Confirmation of Income Swaps* with the CSFCL in July and September 2015, respectively, in accordance with which we allotted a total amount of RMB4,244.0 million as investment fund to the CSFCL. The investment will be under the unified operation of the CSFCL through a designated account with the investment risks and gains shared by us based on investment proportion. For the ratio of “proprietary equity securities and securities derivatives/net capital” at the end of the period, we treat such investment fund as stock and include it into the item of “proprietary equity securities” in this ratio at 100% of its ending balance.

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We have established a dynamic monitoring mechanism for net capital and other risk control indicators to comply with statutory net capital requirements and other regulatory standards, and maintain the net capital necessary to successfully engage in every business based on the Risk Control Indicator Management Measures of Securities Firms. We closely monitor all risk control indicators and liquidity risk regulatory indicators when conducting our business, particularly the securities sales and trading business as well as securities financing business. In relation to all the above indicators, we have established a warning, report and coping mechanism to control the non-compliance risk of the indicators. We also conduct sensitivity analysis on these risk control indicator and liquidity risk regulatory 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 indicator and liquidity risk regulatory indicators when facing extreme market or business environments. During the Track Record Period, we were in compliance with regulatory requirements using major risk control indicators and liquidity risk regulatory indicators with a focus on net capital.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

We have designed a risk management and control system to measure, monitor and manage financial risks arising in the ordinary course of business. Please see “Business — Risk Management” and note 53 of the Accountant’s 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, market risk, including interest rate risk, and liquidity risk. As we expand our business by offering new products and services, doing business with individuals and entities that are not within our traditional client and counterparty base, and entering new geographical markets, we are exposed to new regulatory and business challenges and risks, and the complexity of the risks we face has increased. The following discussion of our main financial risks and the estimated amounts of our risk exposure generated by our risk measurement models are forward-looking statements. These analyses and the results of our risk measurement models are not, however, predictions of future events, and our actual results may be significantly different from the analyses and results due to events in the global economy or the markets where we operate, as well as other factors described below.

Credit Risk

Credit risk refers to potential losses due to borrowers’ or counterparty’s failure to meet its contractual obligations to us. We face credit risk primarily in four areas: (i) the credit risk associated with our securities financing activities, resulting from defaults by margin financing and securities lending clients, collateralized stock repurchase clients and contractual repurchase clients; (ii) the default risk of our invested debt securities, namely the risk of asset impairment and changes in investment returns due to defaults by bond issuers or counterparties who refuse to pay principals and interests when they fall due; (iii) the risk associated with OTC derivative transactions where the clients default on providing margin deposits in full or make settlement payments; and (iv) the risk of loss arising from our obligations to settle on behalf of our clients in securities trading or derivative trading on the clients’ accounts which become under-margined on the settlement date due to our failure to require full margin deposits before the transactions or because the clients are unable to cover

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their transactions due to other reasons. Our credit risk is mitigated by a combination of our internal risk management measures as well as regulatory requirements, as discussed in note 53 of the Accountant's Report in Appendix I to this prospectus. Our maximum credit risk exposure without taking account of any collateral and other credit enhancements is set out below:

	As of December 31,			As of
	2013	2014	2015	June 30,
	(RMB in thousands)			
Available-for-sale financial assets	12,652,473	9,392,649	12,005,233	20,855,192
Held-to-maturity investments	–	–	388,413	379,500
Financial assets held under resale agreements	3,280,253	2,260,294	6,896,446	7,965,197
Refundable deposits	1,151,270	1,340,145	2,144,517	2,225,278
Margin accounts	14,624,934	31,941,318	35,931,133	27,890,994
Financial assets held for trading	7,140,123	14,318,061	26,457,381	29,562,334
Financial assets designated as at fair value through profit or loss	–	–	1,500,000	304,683
Derivative financial assets	113,690	150,581	142,052	108,617
Cash held on behalf of clients	19,067,252	42,761,967	70,663,754	62,195,609
Bank balances	5,321,612	11,447,629	16,154,083	14,018,871
Others	922,200	1,168,336	1,843,806	2,060,910
Total maximum credit risk exposure	<u>64,273,807</u>	<u>114,780,980</u>	<u>174,126,818</u>	<u>167,567,185</u>

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Interest Rate Risk

Interest rate risk represents the risk of losses to the fair value or future cash flows of the financial instrument due to adverse movements in market interest rates. Our interest rate risk primarily comes from the interest rate-sensitive financial instrument whose fair values are subject to changes due to adverse movements in market interest rates.

We primarily use interest rate sensitivity analysis to monitor our interest rate risk. Sensitivity analysis measures the impact of fair value changes of financial instruments held at the year end on our total income and shareholder's equity when reasonable and possible changes occur to interest rates, assuming all other variables remain the same. Sensitivity analysis assumes that market interest rates shift in a parallel manner and does not consider any risk management actions that the management may take to reduce our interest rate risk. The impact of such a shift on our profit for the year and equity based on our interest rate sensitivity analysis is as follows:

	For the year ended December 31,			For the six months ended June 30,
	2013	2014	2015	2016
	(RMB in thousands)			
Sensitivity of revenue				
+ 25 basis points	(35,273)	(57,436)	(107,085)	(154,810)
- 25 basis points	35,592	58,059	107,936	156,595
Sensitivity of equity				
+ 25 basis points	(80,658)	(89,122)	(63,203)	(129,776)
- 25 basis points	81,454	90,486	64,155	131,692

Liquidity Risk

Liquidity risk is the risk of loss when we are unable to fund our obligations to financial liability. We have established a dynamic monitoring mechanism, described in more details in note 53 of the Accountant's Report in Appendix I to this prospectus, to ensure that we have, for each period in which our financial obligations become due, sufficient assets to meet those obligations.

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The maturity profile of the financial liabilities as at the end of the reporting period, based on their contractual undiscounted amounts, is as follows:

	For the six months ended June 30, 2016					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
	(RMB in millions)					
Accounts payable to brokerage clients. . .	63,992.0	–	–	–	–	63,992.0
Financial liabilities held for trading . . .	–	141.3	–	–	–	141.3
Derivative financial liabilities in net settlement	110.3	4.7	5.7	100.0	–	220.6
Financial assets sold under repurchase agreements	–	22,470.7	7,313.8	837.5	–	30,622.0
Placements from banks and other financial institutions	–	1,708.2	–	–	–	1,708.2
Short-term borrowings	–	1,536.7	–	–	–	1,536.7
Short-term financing instruments payable	–	1,571.9	3,409.8	–	–	4,981.7
Bonds in issue	–	107.2	434.1	13,113.9	–	13,655.2
Others	2,356.1	5,724.1	16,336.9	4.2	0.03	24,421.3
Total	66,458.4	33,264.7	27,500.3	14,055.5	0.03	141,278.9

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For the year ended December 31, 2015

	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
(RMB in millions)						
Accounts payable to brokerage clients.	72,045.3	–	–	–	–	72,045.3
Financial liabilities held for trading	–	93.2	–	–	–	93.2
Derivative financial liabilities in net settlement	49.7	0.9	8.6	131.5	–	190.8
Financial assets sold under repurchase agreements	–	23,043.1	4,705.1	1,886.4	–	29,634.6
Placements from banks and other financial institutions	–	2,325.1	–	–	–	2,325.1
Short-term borrowings	–	848.8	592.3	–	–	1,441.2
Short-term financing instruments payable	–	9,509.3	2,010.1	–	–	11,519.4
Bonds in issue	–	20.2	742.1	16,528.9	–	17,291.2
Others	2,494.3	4,090.7	9,709.2	15.7	0.001	16,309.9
Total	74,589.2	39,931.4	17,767.6	18,562.5	0.001	150,850.7

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For the year ended December 31, 2014

	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undated	Total
(RMB in millions)							
Accounts payable to brokerage clients	43,487.0	–	–	–	–	–	43,487.0
Financial liabilities held for trading	–	91.4	779.9	–	–	–	871.4
Derivative financial liabilities in net settlement	657.9	1.5	9.2	129.5	–	–	798.2
Financial assets sold under repurchase agreements	–	19,847.0	11,531.6	1,129.9	–	–	32,508.5
Placements from banks and other financial institutions	–	1,621.8	2,058.6	–	–	–	3,680.5
Short-term borrowings	–	507.2	–	–	–	–	507.2
Short-term financing instruments payable	–	5,627.8	–	–	–	–	5,627.8
Bonds in issue	–	–	454.1	8,154.1	–	–	8,608.1
Long-term borrowings	–	3.3	9.7	303.0	–	–	316.1
Others	1,451.5	919.5	6,948.5	10.3	0.6	0.1	9,330.5
Total	45,596.4	28,619.6	21,791.6	9,726.8	0.6	0.1	105,735.2

Year ended December 31, 2013

	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undated	Total
(RMB in millions)							
Accounts payable to brokerage clients	19,652.8	–	–	–	–	–	19,652.8
Financial liabilities held for trading	–	212.2	–	–	–	–	212.2
Derivative financial liabilities in net settlement	–	0.06	23.8	91.4	–	–	115.3
Financial assets sold under repurchase agreements	–	16,210.6	88.6	–	–	–	16,299.2
Placements from banks and other financial institutions	–	5,037.5	–	–	–	–	5,037.5
Short-term borrowings	–	36.6	2,589.1	–	–	–	2,625.6
Short-term financing instruments payable	–	3,226.6	–	–	–	–	3,226.6
Bonds in issue	–	–	289.1	5,246.4	–	–	5,535.5
Others	1,013.3	391.2	105.8	2.7	2.2	0.01	1,515.2
Total	20,666.1	25,114.7	3,096.3	5,340.5	2.2	0.01	54,219.9

FINANCIAL INFORMATION

DIVIDENDS

Our board of directors is responsible for submitting proposals in respect of dividend payments to the shareholders' general meeting for approval. We currently do not have any specific dividend policy. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flow, financial condition, net capital, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board deems relevant. We may distribute dividends in the form of cash, shares or a combination of cash and shares. All of our shareholders have equal rights to dividends and other distributions proportionate to their shareholding. The Company's accumulated undistributed profits shall be shared by all the new and existing Shareholders of the Company in proportion to their shareholding after the Global Offering. According to PRC law and our Articles of Association, we shall pay dividends out of our after-tax profit only after we have made the following allocations:

- recovery of accumulated losses from previous years, if any;
- allocations to the statutory reserve fund equal to 10% of the Company's after-tax profit until the amount in the statutory reserve fund reaches 50% of our registered capital;
- allocations to a general risk reserve fund equal to 10% of the Company's after-tax profit; and
- allocations to a transaction risk reserve fund equal to 10% of the Company's after-tax profit.

Furthermore, under CSRC rules, as a securities firm, we are not allowed to distribute as cash dividends the gains from fair value changes of financial assets that are included in distributable profits. We may also distribute stock dividends and interim dividends based on our financial performance and working capital requirements.

After completion of the Global Offering, dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower. Any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years.

FINANCIAL INFORMATION

We declared and paid dividends in the amount of RMB390.0 million and RMB180.0 million to our shareholders in 2013 and 2014, respectively, representing a dividend of RMB0.06 and RMB0.03 per share, respectively. Our historical dividends may not be indicative of future dividends payments.

As of November 22, 2013, we issued three-year corporate bonds (for more details please see Note 43 of the Accountant's Report set out in Appendix I of this prospectus). Pursuant to the resolution of the 22nd meeting of the first session of the Board in 2013 and the resolution of the first extraordinary general meeting in 2013, before the maturity of the bonds, we shall make additional appropriations to the discretionary reserve fund by no less than 1% of the net profit for the year, and to the general risk reserve fund by no less than 1% of the net profit for the year. If significant risks are expected to occur, which may affect the payment of principal and interest of our bonds, we will further increase the accruing proportion of the discretionary reserve fund and general risk reserve fund.

In each of 2013, 2014 and 2015, we appropriate 1% of the net profit for the year to the discretionary reserve fund and the general risk reserve fund, respectively.

UNDISTRIBUTED PROFITS

As of June 30, 2016, we had RMB12,318.0 million in retained earnings of the Company, as determined under IFRS, available for distribution to our shareholders.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Listing and the Global Offering. We estimate that our listing expenses will be approximately HK\$233.69 million (assuming an Offer Price of HK\$6.81 per H share, being the mid-point of the indicative Offer Price range, and no exercise of the Over-allotment Option), of which approximately HK\$215.11 million is directly attributable to the issue of H Shares to the public and to be capitalized, and approximately HK\$18.58 million has been or is expected to be expensed in our consolidated income statements. None of the listing expenses were reflected in our consolidated income statements during the Track Record Period. Our Directors do not expect such expenses to materially impact our results of operations for 2016.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets attributable to shareholders of the Company which has been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules for the purpose of illustrating the effect of Global Offering as if it had taken place on June 30, 2016 and based on the consolidated net tangible assets attributable to shareholders of the Company as of June 30, 2016 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

FINANCIAL INFORMATION

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of June 30, 2016 or at any future date.

	Audited consolidated net tangible assets attributable to owners of our Company as of June 30, 2016 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company per Share	
		(RMB in thousand)		(RMB) ⁽³⁾⁽⁵⁾	(HK\$) ⁽⁴⁾⁽⁵⁾
Based on Offer					
Price of HK\$6.36 per Share	32,489,214	5,891,571	38,380,785	5.35	6.01
Based on Offer					
Price of HK\$7.26 per Share	32,489,214	6,731,559	39,220,773	5.47	6.15

Notes:

- (1) The audited consolidated net tangible assets attributable to owners of our Company as of June 30, 2016 is based on the consolidated net assets attributable to owners of our Company of approximately RMB32,606,318 as adjusted for intangible assets of approximately RMB117,104 as extracted from the Accountant's Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the issue of our Shares pursuant to the Global Offering at the offer price of lower limit and upper limit of HK\$6.36 and HK\$7.26 per Share, respectively, after deduction of the underwriting commissions and fees and other related fees assuming that the over-allotment option is not exercised. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1 to RMB0.88932, which was the currency exchange rate prevailing on November 21, 2016. No representation is made that Hong Kong dollar amounts have been, could have been or could be converted to RMB, or vice versa, at that rate or at any other rates or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share are calculated after the adjustments referred to in note (2) above and on the basis that 7,176,470,000 shares are issued and outstanding, assuming the Global Offering had been completed on June 30, 2016, and no over-allotment option will be exercised.
- (4) The translation between Renminbi and HK dollar has been made at the rate of HK\$1 to RMB0.88932. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to RMB, or vice versa, at that rate or at any other rates or at all.
- (5) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company to reflect any trading results or other transactions which the Group entered into subsequent to June 30, 2016.

FINANCIAL INFORMATION

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.

DIRECTORS' CONFIRMATION OF NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, after performing all the due diligence work which the Directors consider appropriate, there has been no material adverse change in our financial 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.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

For details of discussions on our future plans, please see “Business — Business Strategies” in this prospectus.

USE OF PROCEEDS

Assuming that the Offer Price is HK\$6.81 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$6.36 and HK\$7.26 per H Share) and the Over-allotment Option is not exercised, we estimate that we will receive net proceeds of approximately HK\$7,097.03 million from the Global Offering after deducting (i) the net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering, and (ii) the underwriting commissions in connection with the Global Offering and other estimated expenses in connection with the Global Offering.

In line with our business strategies, we aim to become a large best-in-class full-service investment bank with China roots and global vision. We intend to use our net proceeds from the Global Offering for the purposes and in the amounts set out below:

- Approximately 35% or HK\$2,483.96 million, in our wealth management business, will mainly for expansion of business outlets and improvement of internet platform to meet growing investment and financing demands of customer, which includes:
 - Actively expanding capital-based intermediary business such as collateralized stock repurchases, margin financing and securities lending, repurchase agreements, income swaps;
 - Adding new Type-C branches, improve internet business and optimize online trading and service system; and
 - Upgrading customer management system.
- Approximately 20% or HK\$1,419.41 million, in our trading and institutional client service business, mainly for enhancing our ability in investment and market-making, which includes:
 - Expanding scale of investment in FICC and stocks and derivatives and enhance market-making ability for various products;
 - Enhancing market-making ability for NEEQ; and
 - Improving the prime brokerage service platform and upgrade trading and risk management system.

FUTURE PLANS AND USE OF PROCEEDS

- Approximately 20% or HK\$1,419.41 million, in our investment management business for seeds funds of products, which includes:
 - Issuing more securities firm asset management products and invest in equity tranche;
 - Increasing capital in China Securities Funds and China Securities Capital; and
 - Establishing alternative investment business.
- Approximately 15% or HK\$1,064.55 million, in our overseas business, mainly for enhancing our ability for cross-border business and international competitiveness as well as increasing the contribution of overseas assets and income, which includes:
 - Increasing capital in China Securities International to gain more market shares in various business;
 - Expanding overseas investment and trading business and asset management business and timely establish platforms for cross-border investment, trading and asset management; and
 - Making strategic investment on a selective basis to reinforce overseas business.
- Approximately 10% or HK\$709.70 million, for working capital and other general corporate purposes.

If the Offer Price is fixed at HK\$7.26 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\$472.26 million. If the Offer Price is fixed at HK\$6.36 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\$472.26 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 HK\$1,072.04 million, after deducting (i) the net proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering, and (ii) the underwriting commissions and other estimated expenses in connection with the Global Offering and assuming an Offer Price of HK\$6.81 per H Share, being the mid-point 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.

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds of the Global Offering are not immediately required for the aforesaid purposes and to the extent permitted by the applicable laws and regulations, we intend to use the net proceeds of the Global Offering for short-term investment, such as liquid asset classes.

The Company and the Selling Shareholders will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders. In accordance with the relevant PRC laws and regulations, the estimated net proceeds from the sale of the Sale Shares being HK\$366.51 million (assuming that the Offer Price is HK\$6.81 per Share (being the mid-point of the Offer Price range stated in this prospectus) and the Over-allotment Option is not exercised), will be remitted to the NSSF.

REGULATORY ENVIRONMENT

PRC LAWS AND REGULATIONS

Overview

The Company is a securities firm with its principal business in the PRC. The Company shall comply with applicable PRC laws, administrative regulations, departmental regulations and other regulatory documents for its carrying out of businesses and to protect the interests of its customers and investors.

Set forth below depicts the summary of principal PRC laws and regulations that the Company shall comply with in relation to its businesses. However, due to the reforms in the securities and financial sectors in recent years, the laws and regulations on the securities and financial sectors have been undergoing constant changes, and some of those changes might in turn have significant and substantial impact on the Company's businesses.

Major Regulatory Authorities and Relevant Organizations

The operations of the Company in the PRC are mainly supervised and regulated by the following authorities, in addition to the authorities generally administering the companies in the PRC:

CSRC

CSRC is authorized by the State Council to be responsible for centralized and unified supervision and management of the securities and futures markets of the PRC and maintenance of the orderly and lawful operation of those markets.

Stock Exchange

Under the Securities Law and the *Measures for the Administration of Stock Exchanges* (證券交易所管理辦法) (effective on December 12, 2001), a stock exchange is a non-profit self-regulatory legal entity which provides venues and facilities for centralized trading of securities and organizes and supervises trading of securities. Shanghai Stock Exchange and Shenzhen Stock Exchange are two major stock exchanges in the PRC.

Futures Exchange

Under the *Regulations on the Administration of Futures Trading* (期貨交易管理條例) (“**Regulation of Futures Trading**”) (amended and effective on February 6, 2016), a futures exchange is a non-profit legal entity which provides venues and facilities for centralized trading of futures, organizes and supervises trading of futures, and exercises self-regulatory management according to its articles of association and trading rules.

REGULATORY ENVIRONMENT

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), SAC is a self-regulatory organization of the securities industry and a non-profit social organization with legal person status, subject to the guidance and supervision of the CSRC and the Ministry of Civil Affairs of the PRC. The SAC regulates the securities industry through its general assembly of members consisting of securities firms and other members. According to the Securities Law, a securities firm shall join the SAC.

China Futures Association (CFA)

Under the *Regulations of Futures Trading and the Regulations on the Registration and Management of Social Organizations* (社會團體登記管理條例), the CFA is a self-regulatory organization of the futures industry and a non-profit social organization with legal person status. The CFA is subject to the guidance and supervision of the CSRC and the Ministry of Civil Affairs of the PRC. Futures companies and the other institutions engaged in futures trading shall join the CFA.

PBOC

According to the *Laws of the People's Bank of China of the PRC* (中華人民共和國中國人民銀行法) (effective on February 1, 2004), the PBOC is the central bank of the PRC. The PBOC shall, under the leadership of the State Council, formulate and implement monetary policies, prevent and eliminate financial risks, and maintain financial stability.

The Asset Management Association of China (AMAC)

Under the *Law of the People's Republic of China on Securities Investment Funds* (中華人民共和國證券投資基金法) (effective on April 24, 2015) and the *Regulations on the Registration and Management of Social Organizations* (社會團體登記管理條例), the AMAC is a self-regulatory organization of the securities investment fund industry and a non-profit social organization with legal person status. Fund managers and fund custodians shall join the AMAC.

Other Regulatory Organizations

Other regulatory organizations relating to the Company's business and operating activities primarily include CSDC, China Securities Investor Protection Fund Corporation Limited (中國證券投資者保護基金有限責任公司), China Futures Margin Monitoring Center Co., Ltd. (中國期貨保證金監控中心有限責任公司), China Financial Futures Exchange (中國金融期貨交易所), CSFCL, NAFMII and NEEQ Company.

REGULATORY ENVIRONMENT

Industry Entry

Industry Entry Requirements for Securities Firms

(1) Establishment

The Securities Law and the *Regulations on Supervision and Administration of Securities Firms* (證券公司監督管理條例) (“**Supervision and Administration Regulation**”) (amended and effective on July 29, 2014) stipulate the authorized scope of business, industry entry standards, organizations, business rules and risk control of securities firms and other requirements.

The establishment of a securities firm must be approved by the CSRC, and the securities business permit must be obtained by the proposed securities firm subject to the relevant conditions, including, among others, conditions regarding a securities firm’s corporate organizational documents, profitability requirements for major shareholders, requirements in relation to statutory registered capital, the qualifications of its directors, supervisors and senior management and the enhancement of risk management and internal control systems.

According to the *Judging Criteria and Guidelines on Controlling Relationships of Securities Firms* (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 firms and shall not hold controlling interests in more than one securities firm.

The *Rules for Establishment of Foreign-invested Securities Firms* (外資參股證券公司設立規則) (effective on October 11, 2012) clearly set out the conditions and procedures for establishment of a foreign-invested securities firm. Unless with the consent of the PRC Government, a foreign-invested securities firm shall meet the following conditions:

- The aggregate (including direct holding and indirect control) shareholdings of foreign shareholders or their interests in a foreign-invested securities firm shall not exceed 49%;
- For foreign investors who lawfully hold 5% or more of the shares in a listed domestically-funded securities firm through securities trading on a security exchange or who jointly hold more than 5% of the shares of a listed domestically-funded securities firm with others by agreement and other arrangement, approval from the CSRC must be obtained, and the relevant conditions for foreign shareholders of foreign-invested securities firms must be satisfied; and
- The shareholdings held (including direct holding and indirect control) by a single foreign-investor in a listed domestically-funded securities firm shall not exceed 20%. The shareholdings held (including direct holding and indirect control) by all foreign investors in a listed domestically-funded securities firm shall not exceed 25%.

REGULATORY ENVIRONMENT

(2) *Business Scope*

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

- Securities brokerage;
- Securities investment consulting;
- Financial advisory business in relation to securities trading and securities investment activities;
- Securities underwriting and sponsorship;
- Proprietary securities trading;
- Securities assets management; and
- Other securities businesses.

The scope of business of a securities firm shall be approved by CSRC upon its establishment in accordance with statutory requirements and, unless otherwise approved by CSRC, no more than four types of businesses shall be approved. The securities firm shall obtain approval from the CSRC for any change of the business scope, and no more than two additional types of business can be applied for in the same application for such change. Subject to the approval by the CSRC, the securities firm may engage in businesses not clearly stated in the Securities Law, the *Regulations on Supervision and Administration of Securities Firms* (證券公司監督管理條例) and the rules and regulatory documents of the CSRC.

(3) *Material Changes*

According to the Securities Law and the Supervision and Administration Regulation, approval from the CSRC shall be obtained for the following material changes of a securities firm: establishment, acquisition or de-registration of a branch; change in the scope of business; increase in registered capital and material adjustment to the equity structure; decrease in registered capital; change of any shareholder holding more than 5% of the equity interests and *de facto* controller; change in important articles of the articles of association; any merger, division, cessation, dissolution and bankruptcy; acquisition or equity participation in overseas securities institutions.

According to the Supervision and Administration Regulation, any entity or individual holding or actually controlling more than 5% equity interests of a securities firm without approval shall be ordered by the securities regulatory authority of the State Council for rectification within a prescribed period. Before the rectification, no voting rights shall be attached to such equity interests.

REGULATORY ENVIRONMENT

In addition, according to *Guidelines No. 10 on Administrative Approval for Securities Firms — Increase and Change in Equity Interest of Securities Firms* (證券公司行政許可審核工作指引第10號 — 證券公司增資擴股和股權變更) (effective on August 27, 2015), if an enterprise directly or indirectly owned by a foreign investor invests in a securities firm, the indirect equity interest of the foreign investor in the securities firm as calculated based on equity penetration shall not be more than 5%.

The CSRC has gradually authorized its local branches to review and approve certain kinds of applications for material changes by securities firms. According to the *Decision on Authorization of Local Branches to Review and Approve Items Requiring Administrative Permission of Certain Securities Institutions* (關於授權派出機構審核部分證券機構行政許可事項的決定) (effective on March 1, 2011) and 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) (“**Sixth Decision of the State Council**”) (effective on September 23, 2012), the CSRC’s local branches are formally authorized to review and approve the following material changes of securities firms:

- Change of important articles of the articles of association;
- Establishment, acquisition or de-registration of a branch;
- Changes regarding the registered capital of a securities firm, including increase in capital of non-listed securities firms which involves review of qualification of shareholders or the *de facto* controller, increase in capital of non-listed securities firms which involves the change of *de facto* controller, controlling shareholder or the largest shareholder of a securities firm, and decrease in capital of a non-listed securities firm;
- Change of shareholders holding more than 5% of shareholdings and *de facto* controller of a non-listed securities firm; and
- Addition or reduction of the business of securities brokerage, securities investment consulting and financial advisory business in relation to securities trading and securities investment, proprietary securities trading, securities assets management and securities underwriting.

(4) *Establishment of Subsidiaries, Branch Offices and Securities Branches*

According to the *Provisional Regulatory Requirements on Establishment of Subsidiaries of Securities Firms* (證券公司設立子公司試行規定) (effective on October 11, 2012), subject to the approval of the CSRC, securities firms may establish wholly-owned subsidiaries and also invest jointly in the establishment of subsidiaries with other investors who meet the required conditions for shareholders of securities firms stipulated in the Securities Law. However, operation of similar businesses that involve conflicts of interests or competition is not permitted for a securities firm and its subsidiaries, or for subsidiaries that are under common control of the same securities firm. A subsidiary cannot directly or indirectly hold equity interests or shares of its controlling shareholder, or of its subsidiaries under the common control of the same securities firm, or otherwise invest in its controlling shareholder or

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subsidiaries under the common control of the same securities firm. A subsidiary referred to in such requirements shall mean a securities firm established in accordance with the Company Law and the Securities Law and controlled by a securities firm, and engage in one or more securities businesses approved by the CSRC.

In accordance with the *Regulatory Requirements on Branches of Securities Firms* (證券公司分支機構監管規定) (effective on March 15, 2013), branches of a securities firm shall refer to the branch offices and securities branches established by the securities firm in the PRC for business operation. Establishment, acquisition or de-registration of branches of securities firms are subject to approval from local branches of the CSRC.

Industry Entry Requirements for Direct Investment Companies

(1) Establishment

According to the *Rules for the Direct Investment Business of Securities Firms* (證券公司直接投資業務規範) (amended and effective on January 3, 2014) issued by the SAC, to conduct direct investment business a securities firm shall establish its direct investment business subsidiary (the “**Direct Investment Subsidiary**”) in accordance with the relevant regulations issued by regulatory authorities. The securities firm shall not conduct direct investment business in other forms.

(2) Business Scope

According to the *Rules for Direct Investment Business of Securities Firms* (證券公司直接投資業務規範), a Direct Investment Subsidiary may conduct the following businesses:

- Equity investment or debt investment in enterprises, or investment in other investment funds relating to equity investment and debt investment with its own funds or via establishment of direct investment funds;
- Providing financial advisory services on equity investment and debt investment to clients; and
- Other businesses as permitted by the CSRC.

A Direct Investment Subsidiary shall not conduct the securities business which shall be conducted by a securities firm according to laws.

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Industry Entry Requirements for Fund Management Companies

(1) Establishment

The *Administrative Measures for Securities Investment Fund Management Companies* (證券投資基金管理公司管理辦法) (effective on November 1, 2012) set forth the requirements for the establishment of a fund management company, which include, among others, the conditions on shareholders, corporate organizational documents, registered capital, senior management, business staff, operating premises and supervision, supervision and audit mechanism, risk control mechanism, other internal control mechanism.

According to the *Opinions on Putting Great Efforts to the Innovative Development of the Securities Investment Fund Industry* (關於大力推進證券投資基金行業創新發展的意見) (effective on June 12, 2014) issued by the CSRC, the CSRC will further improve the extent of openness of the fund industry towards domestic and foreign investors, promote various qualified financial institutions and other market entities to establish fund management companies, relax the restrictions on the shareholding of foreign shareholders when appropriate and support the development of joint venture fund management companies.

(2) Material changes

According to the *Administrative Measures on Securities Investment Fund Management Companies* (證券投資基金管理公司管理辦法), fund management companies shall obtain approval of the CSRC in the event of any of the following significant changes:

- Change of shareholders who hold more than 5% of the company's shares;
- Change of shareholders whose shareholding is less than 5% but who have significant influence on corporate governance;
- Change in shareholding percentage exceeding 5%;
- Amendments to important articles of the articles of association; and
- Other significant matters stipulated by the CSRC.

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(3) Establishment of subsidiaries and branches

In accordance with the *Administrative Measures on Securities Investment Fund Management Companies* (證券投資基金管理公司管理辦法) and the *Provisional Regulations on Administration of Subsidiaries of Securities Investment Fund Management Companies* (證券投資基金管理公司子公司管理暫行規定) (effective on July 31, 2015), a fund management company shall, subject to satisfaction of relevant requirements, apply to the CSRC for the establishment of subsidiaries or branches.

Industry Entry Requirements for Asset Management Business

(1) Qualification

According to the *Administrative Measures for the Client Asset Management Business of Securities Firms* (證券公司客戶資產管理業務管理辦法) (effective on June 26, 2013), the securities firms shall file applications with CSRC for the qualifications to conduct the client asset management business. Securities firms without such qualifications may not engage in the client asset management business.

(2) Business Scope

Subject to the *Administrative Measures for the Client Asset Management Business of Securities Firms* (證券公司客戶資產管理業務管理辦法), a securities firm 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.

Industry Entry Requirements for Futures Companies

(1) Establishment

Pursuant to the *Regulations of Futures Trading and the Measures for the Supervision and Administration of Futures Companies* (期貨公司監督管理辦法) (effective on October 29, 2014), the establishment of a futures company requires approval from the CSRC subject to certain requirements, which include, among others, conditions concerning minimum registered capital, qualified director, supervisor and senior management, corporate organizational documents are in compliance with the relevant regulations, the major shareholders and effective controlling persons maintain sustainable profitability and risk management and internal control systems are in place.

REGULATORY ENVIRONMENT

(2) Material Changes

Pursuant to the *Measures for the Supervision and Administration of Futures Companies* (期貨公司監督管理辦法), approval from the CSRC shall be obtained for change of shareholdings in a futures company in any of the following circumstances:

- Change of controlling shareholder or the largest shareholder;
- Shareholding of an individual shareholder or the aggregate shareholding of related shareholders to be increased to 100%; or
- Shareholding of an individual shareholder or the aggregate shareholding of associated shareholders to be increased to 5% or above and involving foreign investors.

Regulation on Operations

The principal business we currently engage in includes but not limited to, securities brokerage, securities investment consulting, financial advisory business relating to securities trading and securities investment activities, securities underwriting and sponsorship, proprietary securities trading, securities asset management, agency sale of securities investment funds, futures introducing brokerage business, margin financing and securities lending, agency sale of financial products, agency sale of concurrent-business insurance, stock options market making business, custodian services for securities investment fund, trading service of precious metals and stock index futures.

Securities Brokerage

Pursuant to the Securities Law, the Supervision and Administration Regulation 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 on May 1, 2010), a securities firm engaging in securities brokerage business shall comply 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;

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- It shall establish and manage the database for client accounts, client deposits, nominee trading, nominee clearing and settlement, securities depository, transaction risk monitoring, etc., and shall establish a central storage for such business data;
- If an employee or a practitioner of a securities firm violates laws, administrative regulations, provisions stipulated by regulatory agencies and other administrative departments, self-regulatory rules or regulations stipulated by securities firms for securities brokerage business, it shall hold such employee or practitioner accountable; and
- If it or its securities business department violates the above provision, CSRC and its local branches 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.

If a securities firm is engaged in securities brokerage business, it shall audit whether its clients' accounts contain sufficient capital and securities. If customer's capital account contains insufficient capital, it cannot accept purchase order. If the customer's securities account contains insufficient securities, it cannot accept sell order. For a securities firm that engages in the business of securities brokerage, the trading settlement funds of its clients shall be deposited in a designated commercial bank, and a separate account shall be opened and managed for each of the clients. The securities firm shall not accept discretionary orders of the clients to decide on securities trading, select the types of securities or decide on trading volume or trading price.

Securities Investment Consulting

According to the *Provisional Measures on Administration of Investment Consultations on Securities and Futures* (證券、期貨投資諮詢管理暫行辦法) (effective on April 1, 1998), a firm engaging in the securities investment consulting business shall have the necessary qualifications and obtain a business license from the CSRC. Practitioners of securities investment consulting must obtain the securities investment consulting qualifications and join a qualified securities investment consulting institution before providing securities investment consulting services. 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 consultancy. A firm engaging in securities and futures investment consultancy shall have more than 10 professionals with relevant qualifications. At least one member of its senior management member shall obtain the relevant qualifications;
- Its registered capital shall not be less than RMB1 million;

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- It shall have permanent 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 CSRC.

According to the *Provisional Regulations on the Securities Investment Advisory Business* (證券投資顧問業務暫行規定) (effective on January 1, 2011), securities investment advisory business is a basic form of securities investment consulting business. A securities firm 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 related parties, jeopardize the interest of clients by acting in favor of investment advisors and their stakeholders, or jeopardize the interests of other clients by acting in favor of specific clients.

Financial Advisory Business of the M&A and Reorganization of Listed Companies

According to the *Administrative Measures for Financial Advisory Business in the M&A and Reorganization of Listed Companies* (上市公司並購重組財務顧問業務管理辦法) (effective on August 4, 2008), securities firms approved by the CSRC to qualify for the financial advisory business of the M&A and reorganization of listed companies may engage in such business according to the relevant requirements. The CSRC reviews and decides on the application by financial advisor applicants for the qualification of the financial advisory business in the M&A and reorganization of listed companies. Securities firms which are engaged to act as independent financial advisors of listed companies shall maintain their independence and shall not have any interest in the listed companies.

Securities Underwriting and Sponsorship

Pursuant to the *Measures for the Administration of the Sponsorship of Securities Offering and Listing* (證券發行上市保薦業務管理辦法) (effective on June 14, 2009), securities firms shall satisfy the relevant conditions and apply for the sponsoring institution qualification from the CSRC as required, so as to engage in securities issuance, listing and sponsorship. Sponsoring institutions shall designate individuals who have obtained sponsor representative qualification to be responsible for sponsorship duties, so as to perform sponsorship duties. Issuers shall engage securities firms which have obtained sponsoring institution qualification to perform the sponsorship duties for initial public offering and listing of shares, issuance of new shares or convertible corporate bonds by listed companies, and other matters identified by the CSRC.

A securities firm applying for the sponsoring institution qualification shall meet the following conditions:

- Its registered capital shall be no less than RMB100 million and net capital shall be no less than RMB50 million;

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- It shall have sound corporate governance and internal control systems, and the risk control indicators shall comply with the relevant provisions;
- Its sponsorship business department shall have comprehensive business procedures, internal risk assessment and control system, and reasonable internal structure, with proper research and marketing capabilities and other back office supports;
- It shall have a fine sponsorship business team with reasonable professional structure, and the number of practitioners shall not be less than 35, of which no less than 20 personnel have been engaging in sponsor-related businesses in the past three years;
- It has not been subject to any administrative penalties due to material violation of laws and regulations in the past three years; and
- It shall meet other requirements as required by the CSRC.

The *Administrative Measures on Securities Issuance and Underwriting* (證券發行與承銷管理辦法) (effective on January 1, 2016) sets out detailed provisions for quotation and pricing, offering of securities, underwriting of securities and information disclosure by the issuers, securities firms and investors during their participation in the securities issuance. The above-mentioned measures are applicable to the issuance of shares or convertible corporate bonds in China by issuers, underwriting of securities in China by the securities firms and subscription of securities issued in China by investors. Pursuant to these measures, securities firms shall submit offering and underwriting plans to the CSRC before engaging in any securities underwriting activities.

In addition, the *Guidance of the CSRC on Further Promoting IPO Reform* (中國證監會關於進一步推進新股發行體制改革的意見) (effective on November 30, 2013) further provides that sponsor institutions and accounting firms shall undertake in public offering and listing documents that if false, or misleading statements were made, or a material omission occurs in the IPO offering documents issued, prepared and produced by issuers which result in losses to investors, then sponsor institutions and accounting firms must compensate the losses of investors in accordance with the laws.

According to the *Administrative Measures for Corporate Bonds Issuance and Trading* (公司債券發行與交易管理辦法) (effective on January 15, 2015), unless otherwise provided, the issuance of corporate bonds shall be underwritten by securities firms which are qualified to provide securities underwriting services. Issuers shall engage bond entrust managers for bond holders, which can be the underwriter for the issuance or other institutions recognized by the CSRC.

According to the *Regulations on Management of Enterprise Bonds* (企業債券管理條例) (amended and effective on January 8, 2011), issuance of enterprise bonds by enterprises shall be underwritten by securities institutions, which shall verify the truthfulness, accuracy and completeness of the prospectus and other documents of such enterprise. Non-securities trading institutions or individuals are not allowed to conduct the underwriting and transfer of enterprise bonds.

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According to 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)) (amended and effective on March 1, 2014), the NEEQ Company implements the chief agency broker system. Chief agency brokers are securities firms which conduct all or some of the following businesses: recommendation business, brokerage business, market-making business and other businesses stipulated by NEEQ Company. Securities firms that conduct relevant businesses shall apply for filing with NEEQ Company. According to the *Administrative Rules on the Market-making Business on NEEQ by Market Makers (trial implementation)* (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)) (effective on June 5, 2014), securities firms shall apply to the NEEQ Company before conducting market-making business in the NEEQ.

Proprietary Securities Trading

Pursuant to the Securities Law, the Supervision and Administration Regulation and the *Guidelines on Proprietary Securities Trading Business of Securities Firms* (證券公司證券自營業務指引) (effective on November 11, 2005), securities firms engaging in proprietary securities trading shall be limited to the trading of lawfully and publicly offered stocks, debentures, warrants, securities investment funds or other securities approved by the securities regulatory authority of the State Council. A securities firm that engages in proprietary securities trading business shall register its proprietary securities account under its name. Risk control indicators, such as the proportion of the total value of proprietary trading securities to the net capital of the company, the proportion of the value of a single security to the net capital of the company, and the proportion of the amount of a single security to the total amount of issued securities, shall comply with the requirements of the CSRC.

Pursuant to the *Regulations on Investment Scopes of Proprietary Trading Business of Securities Firms 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) (amended and effective on November 16, 2012) and its annex, *the List of Investment Products of Proprietary Trading Business of Securities Firms* (證券公司證券自營投資品種清單), a securities firm engaging in proprietary securities trading business is permitted to trade the following securities:

- securities which have been or could be legally listed, traded and transferred on a domestic stock exchange;
- securities which have been listed and transferred on the NEEQ;
- private placement bonds which have been or could 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 could be legally traded on the domestic interbank market; and
- securities issued with the approval of or after filing with the national financial regulatory department or its authorized bodies and traded over the counter at domestic financial institutions.

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A securities firm which is qualified to engage in proprietary securities trading business is allowed to conduct trading of financial derivative products, while a securities firm without such qualification is only allowed to conduct trading of financial derivative products for hedging purpose.

A sound and centralized investment decision-making and authorization mechanism with relatively concentrated and unified powers and duties shall be established by a securities firm. A three-tier system shall be established for the proprietary business, namely, board of directors, investment decision-making body, and proprietary trading business department. The proprietary trading business department of a securities firm shall be solely responsible for the management and operation of the proprietary trading business, and other non-proprietary trading business departments and branches shall not conduct a proprietary trading business in any form.

Securities Asset Management

According to the *Administrative Measures on Client Asset Management of Securities Firms* (證券公司客戶資產管理業務管理辦法), the *Implementation Rules for the Targeted Asset Management Business of Securities Firms* (證券公司定向資產管理業務實施細則) (effective on October 18, 2012), the *Implementation Rules of the Collective Asset Management Business of Securities Firms* (證券公司集合資產管理業務實施細則) (effective on June 26, 2013) and the *Notice in relation to Strengthening Supervision on Asset Management Business of Securities Firms* (關於加強證券公司資產管理業務監管的通知) (effective on March 14, 2013), securities firms engaging in the client asset management business shall meet the relevant conditions and shall apply to the CSRC for qualification for such business. Securities firms may provide targeted asset management businesses for individual clients, collective asset management businesses for multiple clients and special asset management businesses catering for specific objectives of the clients. Securities firms engaging in client asset management business shall have sufficient understanding of clients, classify clients into various categories, comply with risk matching principle, recommend suitable products and services to clients, and not mislead clients to purchase products or services inconsistent with their risk tolerance level. They shall not raise funds from units and individuals other than qualified investors, and shall not advertise or make recommendations to non-specific targets through public broadcasting media such as publications, radio, television and Internet or by way of seminars, briefings or analyst meetings, etc. Promotions of collective asset management schemes are prohibited if conducted by way of signing principal protected and minimum return guaranteed supplemental agreements or by improper acts such as false advertising, overstatement of expected return or commercial bribery.

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Providing Intermediary Business to Futures Companies by Securities Firms (“Futures Introducing Brokerage Business”)

According to the *Provisional Measures on Provision of Intermediary Business to Futures Companies by Securities Firms* (證券公司為期貨公司提供中間介紹業務試行辦法) (effective on April 20, 2007), securities firms providing futures introducing brokerage business to futures companies shall operate in a due and cautious manner through standardized departmental management of their futures intermediary business. Securities firms shall only accept the entrustment of their wholly-owned or controlling futures companies, or futures companies with which they are under common control by the same entity to provide the futures intermediary business. The securities firms shall not accept the entrustment of other futures companies to carry out futures intermediary business. Securities firms and futures companies shall be independent from each other and have separate accounts, staff and places of business. Securities firms shall not carry out futures trading, clearing or delivery for their clients, and they shall not receive or pay futures deposits for futures companies or clients, or deposit, withdraw or transfer futures deposits for clients via securities capital accounts. Securities firms shall not, directly or indirectly, raise funds or provide guarantees for futures trading clients.

Margin Financing and Securities Lending

Pursuant to the *Administrative Measures on Margin Financing and Securities Lending of the Securities Firms* (證券公司融資融券業務管理辦法) amended and implemented by the CSRC on July 1, 2015, a securities firm which intends to engage in margin financing and securities lending business must meet relevant conditions and obtain the qualification of margin financing and securities lending business with approval from the CSRC. Securities firms engaging in margin financing and securities lending business shall open accounts in their own names at securities registrars, including a special securities lending account, margin guarantee account, margin settlement account and margin capital settlement account. Such securities firms shall also open accounts at commercial banks, including a special margin financing account and margin capital guarantee account. Securities firms 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 firms to their clients are limited to those capital and securities in the special margin financing account and special securities lending account. Before providing margin financing and securities lending service to its clients, a securities firm shall collect information about its clients, by way of making credit investigation into its clients, knowing their identities, property status, income situations, securities investment experience, risk appetites and records of honesty and compliance. It shall also deal with client suitability management properly and keep records of such information in written or electronic form. A securities firm shall not open a credit account for anyone who meets any of the following conditions: failure to submit the required information; having less than half a year experience in securities trading; lacking the adequate risk bearing capability; less than RMB0.5 million of its average daily securities assets for the most recent 20 trading days; having records of major breaches of contracts; or being a shareholder or connected person of the company.

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Securities firms that apply for the qualification of engaging in margin financing and securities lending business shall meet certain conditions, which include, among others, the qualification to engage in the securities brokerage business, corporate governance system and internal control system are in place, not subject to investigation or rectification or orders by the CSRC for violation of laws or regulations, sound financial position, effective measures to secure clients' assets, compliance-feedback mechanism, client eligibility evaluation system, information security system, senior management and professionals.

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 and effective on 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 and effective on August 3, 2015) specify detailed requirements for the procedures regarding the launch by securities firms of margin financing and securities lending businesses at the Shanghai Stock Exchange and the Shenzhen Stock Exchange, as well as the underlying securities and other aspects of margin financing and securities lending.

According to the *Guidelines of the Internal Control of Margin Financing and Securities Lending of Securities Firms* (證券公司融資融券業務內部控制指引) (effective on October 26, 2011), securities firms engaging in margin financing and securities lending business shall keep clients' assets secured, establish management system for client base and strengthen risk control and business inspection.

Pursuant to the *Provisional Measures on the Supervision and Administration of the Refinancing Business* (轉融通業務監督管理試行辦法) (effective on October 26, 2011), refinancing business refers to the operating activities whereby a securities finance company lends the funds or securities which are owned or lawfully raised by it to securities firms for their securities margin financing and securities lending business. These measures regulate the refinancing business in various aspects, including securities finance companies, rules on the refinancing business, sources of capital and securities, disposal of interests and supervision and management.

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Corporate Governance and Risk Control

Corporate Governance and Risk Control of Securities Firms

(1) Corporate Governance

The corporate governance of securities firms is regulated by the Company Law, the Securities Law, the Supervision and Administration Regulation, the *Rules for Governance of Securities Firms* (證券公司治理準則) (effective on January 1, 2013), the *Guidance for the Internal Control of Securities Firms* (證券公司內部控制指引), and other PRC laws, regulations and regulatory documents. The securities firms 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.

Securities firms shall establish a sound corporate governance structure. The governance structure of a securities firm shall include a scientific decision-making process and rules of procedures, an efficient and strict business operation system, a sound and effective internal control and feedback system, and an effective incentive and binding mechanism. The board of directors and independent directors of a securities firm shall fully exercise their supervision responsibilities and prevent the risk of manipulation by substantial shareholders and control by insiders. The establishment of departments and post establishment of a securities firm shall have clear delineation of powers and duties with checks and balance, and appropriate segregation between frontline business operations and back office management support is required. A sound Chinese wall system shall be established among major business departments of a securities firm to ensure the relative independence of the brokerage, proprietary trading, entrusted investment management, investment banking, research and consultancy businesses.

For securities firms engaging in more than two businesses in securities brokerage, assets management, margin financing and securities lending and securities underwriting and sponsoring, a remuneration and nomination committee, an audit committee and a risk control committee shall be established by the board of directors, and the persons in charge of the remuneration and nomination committee and the audit committee shall be served by independent directors. The persons in charge of the remuneration and nomination committee and the audit committee shall be independent directors. A securities firm shall have a secretary for the board of directors to be responsible for the preparation of shareholders meetings and directors meetings, filing of documents and management of shareholders information. If a securities firm sets up a body to exercise the operation and management power, the name, composition, duties and responsibilities, and rules of decision-making of such body shall be defined in the articles of association of the securities firm, and the members of the body shall be the senior management of the securities firm.

The *Regulatory Measures on Qualifications of Directors, Supervisors and Senior Management of Securities Firms* (證券公司董事、監事和高級管理人員任職資格監管辦法) (effective on October 19, 2012) further specifies the regulations on the qualifications of directors, supervisors and senior management members. Directors, supervisors and senior management members of securities firms shall obtain the qualifications approved by the local branches of CSRC before taking office.

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(2) Risk Control

The Securities Law stipulates the requirements for the risk control system of securities firms, which mainly include: making provisions for trading risk from the annual profits (after tax) to cover the loss of securities trading, establishing and enhancing its internal control systems and adopting effective, segregation measures to prevent conflicts of interest between the company and its clients and among different clients.

Pursuant to the *Administrative Measures for Risk Control Indicators of Securities Firms* (《證券公司風險控制指標管理辦法》) (effective on December 1, 2008), a securities firm shall prepare financial statements of its net capital, reserve of risk capital and risk control indicators, etc. The measures specify the minimum level of net capital based on the different business activities of securities firms, and stipulate a warning ratio and a minimum regulatory ratio for risk control indicators that securities firms are required to comply with. The CSRC may make appropriate adjustments to the standards for risk control indicators and the ratio of risk capital reserve of different types of securities firms according to the governance structure, the internal control and risk control of such companies.

Pursuant to the *Norms for the Comprehensive Risk Management of Securities Firms* (證券公司全面風險管理規範) (effective on March 1, 2014), securities firms shall implement all-rounded risk management to avoid risks of business operation, such as liquidity risks, market risks, credit risk and operating risks, and shall establish and improve a well-rounded risk management system that is in line with their respective development strategies, including workable management rules, a sound organizational framework, a reliable information technology system, a quantitative risk indication system, a team of professionals, an effective risk response mechanism and an advanced risk management culture.

Pursuant to the *Guidelines for the Liquidity Risk Management of Securities Firms* (證券公司流動性風險管理指引) (effective on March 1, 2014), securities firms shall strengthen liquidity risk management and establish a sound liquidity risk management system for effective identification, measurement, monitoring and control of liquidity risks, to ensure its liquidity demand could be satisfied timely at reasonable costs, and shall comply with self-regulatory standards in respect of liquidity coverage ratio and net stable fund ratio.

(3) Classified Regulation

Pursuant to the *Regulations on Classification and Supervision of Securities Firms* (證券公司分類監管規定) (effective on May 14, 2010), the CSRC classifies the securities firms into five types and eleven categories such as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on the risk control capability, competitiveness and ongoing compliance of securities firms. According to the market development conditions and the principles of prudent regulation, and based on the opinions sought from industry participants, the CSRC has formulated and timely adjusted the appraisal benchmarks and standards for securities firms. The classification of securities firms is implemented by the CSRC and its delegated local branches, appraisals are conducted on an annual basis and the appraisal period starts on May 1 of the previous year and ends on April 30 of the current year. According to the principle of classified regulation, the CSRC sets up different standards on risk indicators, calculates

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proportions of risk capital reserve for different types of securities firms, and treats such companies differently in terms of regulation resource allocation and the frequency of on-site and off-site inspections.

“Regulatory point” regime is one of the systems adopted by the CSRC to assess the continuous compliance of securities firms. The benchmark score of a securities firm in normal operation is 100 points. The evaluation score of a securities firm 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 firm’s risk control capability, market competitiveness and continuous compliance. Certain incidents leading to the imposition of penalties will result in the CSRC deducting the corresponding amount of “regulatory points”, and the CSRC will add corresponding amount of “regulatory points” if certain conditions (such as the compliance with standards of major risk control indicators for the last two or three assessment periods successively, the net capital of the securities firm reaches five times of the prescribed standards) have been satisfied.

The CSRC will consider the final regulatory points of a securities firm as well as 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), 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, when determining the regulatory rating of a securities firm.

The evaluation for ratings of securities firms 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 ratings of the securities firms may be used as: (i) prudential requirements for securities firms to apply for new businesses, establishment of new business outlets, public offering of shares and listing; (ii) one of the bases for determining the experiment scope and promotion sequence of new businesses and products; and (iii) one of the bases for the China Securities Investor Protection Fund Corporation Limited to determine the specific proportion of the securities investor protection fund to be paid by securities firms at different ratings.

Corporate Governance and Risk Control of Direct Investment Company

(1) Corporate Governance

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

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Effective information segregation mechanisms shall be established between a securities firm and its direct investment companies affiliates and direct investment funds to enhance the segregation, supervision and management of sensitive information so as to prevent inappropriate flow and usage of sensitive information between the securities business and direct investment business, as well as prevent the risk of insider trading and tunneling.

(2) Risk Control

Pursuant to the *Rules for Direct Investment Business of Securities Firms* (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 the investment scope, investment strategy, forms of investment, investment restrictions, decision-making procedures, investment process, post-investment management and exit strategy, etc. A direct investment subsidiary and its affiliates shall establish a specific investment decision-making committee to set up investment decision-making procedures and risk tracking, analysis mechanisms to effectively prevent investment risks. A direct investment subsidiary and its affiliates shall enhance the management of the invested enterprises and keep track of, analyze, evaluate the operation condition of the invested enterprises, and deal with any potential investment risk in a timely manner. A direct investment subsidiary and its affiliates shall not provide guarantee to entities or individuals other than the direct investment subsidiary and its affiliates and direct investment funds, and shall not become capital contributors who bear joint and several liability for the debts of the enterprises they have invested in.

Corporate Governance and Risk Control of Futures Companies

(1) Corporate Governance

The *Supervisory and Administrative Measures for Futures Companies* (期貨公司監督管理辦法) provides that the CSRC shall implement the management qualification system for directors, supervisors, senior management and other futures practitioners. The business, personnel, assets, finance and place of business of a futures company shall be strictly separated from those of its controlling shareholders, and shall be independently operated and audited.

The *Administrative 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 on July 4, 2007) regulates the management qualification system with regard to the directors, supervisors and senior management of futures companies. The measures specify the qualifications for the above positions, application procedure, approval of qualifications, code of conduct, supervision and administration and other aspects. The *State Council's Decision on the Cancellation and Adjustment of a Series of Items Requiring Administrative Approval* (國務院關於取消和調整一批行政審批項目等事項的決定) has cancelled the approval requirement for qualifications of directors, supervisors and senior management officers of futures companies, and the CSRC Announcement [2015] No. 11 has already changed such administrative permission to post-event reporting management.

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(2) Risk Control

According to the requirements of the *Supervisory and Administrative Measures for Futures Companies* (期貨公司監督管理辦法), the *Administrative Regulations on Futures Trading* (期貨交易管理條例) and the *Administrative Measures on Risk Supervision Standards of Futures Companies* (期貨公司風險監管指標管理辦法) (effective on 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 CSRC as well as to ensure the safety of clients' transactions and assets. A futures company engaging in futures brokerage business and other futures business at the same time shall strictly implement systems for separation of business and capital, and shall be prohibited from mixed operations. The CSRC formulates regulations on the risk regulatory indicators such as the proportion of net capital to net assets, the proportion of net capital to the business scale of domestic futures brokerage and overseas futures brokerage, and the ratio of current assets to current liabilities of futures companies. The CSRC also sets out requirements on the operating conditions, risk management, internal controls, margin deposits and related party transactions of futures companies and their branches. Futures companies shall establish and strictly implement their business management rules and risk management systems and comply with the information disclosure system to ensure the safe deposit of clients' margins. 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 and Supervision of Futures Companies* (期貨公司分類監管規定) (effective on April 12, 2011), the CSRC classifies the futures companies into five types and eleven categories, such as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on prudent supervision requirements, and the risk control capability, competitiveness and ongoing compliance of the futures companies. According to the principle of classified regulation, the CSRC sets up different calculating ratios for contribution to the Futures Investors Protection Fund by different types of futures companies, and treats them differently in terms of regulation resource allocation and the frequency of on-site and off-site inspections.

Corporate Governance and Risk Control of Asset Management Companies

(1) Corporate Governance

According to the Supervision and Administration Regulation, for securities firms engaging in more than two businesses in securities brokerage, assets management, margin financing and securities lending and securities underwriting and sponsoring, a remuneration and nomination committee, an audit committee and a risk control committee shall be established by the board of directors, and the persons in charge of the remuneration and nomination committee and the audit committee shall be served by independent directors.

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(2) Risk Control

According to the *Administrative Measures on Client Asset Management of Securities Firms* (證券公司客戶資產管理業務管理辦法), the securities firms shall, upon carrying out the client asset management business, fully understand the clients, classify the clients, introduce proper products or service for the clients pursuant to the risk matching principle, and be prohibited to mislead the clients to purchase the products or service not matching with their risk bearing capacity. The securities firms 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 the client asset management business, the securities firms shall establish 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 the sensitive information and prevent any insider trading and conflicts of interests.

Other Regulations

Information Disclosure

The *Notice on the Relevant Issues Regarding the Information Disclosure of Securities Firms* (關於證券公司信息公示有關事項的通知) (effective on April 20, 2006) promulgated by CSRC requires a securities firm to disclose information such as basic information, operating branches, types of business licenses and products and senior management through the websites of the SAC and the securities firm, etc.

The *Rules on the Content and Format of Annual Reports of Securities Firms* (證券公司年度報告內容與格式準則) (effective on January 1, 2014) requires a securities firm to prepare its annual report as required by these rules and submit the annual report to the CSRC within 4 months after the end of each financial year. Other than this requirement, a securities firm that has publicly issued its securities shall also prepare and disclose its annual reports in accordance with the relevant information disclosure provisions for listed public companies. A securities firm that has not publicly issued securities shall prepare and public disclose the information as required by these rules as well as the body of its audit report and its audited financial statements (excluding the notes).

Provisions on Strengthening the Supervision and Administration of Listed Securities Firms (關於加強上市證券公司監管的規定) (effective on June 30, 2010) requires timely information disclosure of regular reports and *ad hoc* reports by listed securities firms within the prescribed period and provides that listed securities firms shall establish a sound information management system in accordance with the characteristics of the securities industry in the PRC, their practices and regulatory requirements regarding information disclosure by listed companies.

REGULATORY ENVIRONMENT

Anti-money Laundering

Securities firms 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 on January 1, 2007), the *Provisions on Anti-money Laundering of Financial Institutions* (金融機構反洗錢規定) (effective on January 1, 2007), the *Administrative Measures on Reporting of Large Amount Transactions and Suspicious Transactions of Financial Institutions* (金融機構大額交易和可疑交易報告管理辦法) (effective on March 1, 2007), the *Measures on Administration of Identification of Clients and Preservation of Client Identities Information and Trading Records of Financial Institutions* (金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法) (effective on August 1, 2007) and the *Guidelines for Risk Assessment of Money Laundering and Financing of Terrorism and for Client Classification Management in Financial Institutions* (金融機構洗錢和恐怖融資風險評估及客戶分類管理指引) (effective on January 5, 2013).

The *Measures on the Anti-money Laundering by Securities and Futures Industry* (證券期貨業反洗錢工作實施辦法) (effective on October 1, 2010) further stipulates 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. In addition, securities firms shall comply with the requirements of the *Anti-Money Laundering Guidelines for Securities Firms* (證券公司反洗錢工作指引) and implement anti-money laundering measures with due consideration given to respective business features and practical conditions.

The Financial Action Task Force on Money Laundering (FATF) is an inter-governmental body established in 1989 with the objective to set standards and promote 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 adopted the first mutual evaluation reports in June 2007 with a follow-up report published in March 2012.

Anti-terrorism

Pursuant to the *Administrative Measures on Freezing of Assets Involving Terrorist Attacks* (涉及恐怖活動資產凍結管理辦法) (effective on January 10, 2014), financial institutions and special non-financial institutions established in the PRC shall freeze the related assets in strict accordance with the list of terrorist organizations and personnel list as well as the decisions on freeze assets issued by the Ministry of Public Security.

The *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) appeals for enhancement of international cooperation between countries to formulate and adopt effective measures to prevent financing the terrorism as well as suppressing terrorism through prosecuting and punishing terrorist acts. PRC Government ratified this convention in 2006 with reservations.

REGULATORY ENVIRONMENT

Anti-corruption

The *Anti-Unfair Competition Law* (反不正當競爭法) (effective on December 1, 1993) requires that business dealers be prohibited from using properties or other means for bribing in order to sell or purchase commodities. Serious offenders shall be subject to criminal liabilities under the law. The *Interim Provisions on the Prohibition of Commercial Bribery Behavior* (關於禁止商業賄賂行為的暫行規定) (effective on November 15, 1996) has further stipulated the constitution and legal liabilities of commercial bribery.

The *United Nations Convention against Corruption* (聯合國反腐敗公約) aims to promote and enhance various measures for preventing and combating corruption in a more effective and powerful way, and to promote, facilitate and support international cooperation and technical assistance in preventing and combating corruption, including asset recovery, encouraging integrity, accountability and proper management of public affairs and properties. PRC Government ratified this convention in 2005 with reservations.

Regulatory Reforms and Innovations

In recent years, the PRC Government has deepened reforms, further simplified and deregulated administrative measures, and the State Council and the CSRC have promulgated a number of regulations to promote the reforms and innovations of the securities industry.

Pursuant to the *Opinions of the State Council on Further Promoting the Healthy Development of Capital Market* (國務院關於進一步促進資本市場健康發展的若干意見), a multi-tier stock market shall be developed by actively and steadily promoting the reform of share offer system into a registration system, speeding up the establishment of a multi-tier equity market and encouraging market-driven M&As and restructurings; a private equity market shall be cultivated by establishing a sound private equity offering system and developing private equity investment funds; and the capital market shall be further opened up by facilitating cross-border investment and financing of domestic and foreign entities, gradually improving the level of opening-up in the securities and futures industry and enhancing the cooperation in cross-border regulation.

The CSRC promulgated the *Opinions on Further Promoting the Innovative Development of Securities Institutions* (關於進一步推進證券經營機構創新發展的意見) in May 2014 which provides that modern investment banks shall be constructed by such as improving integrated financial serving capacities, perfecting basic functions, broadening financing channels, developing cross-border business and enhancing compliance and risk control level; business and product innovation shall be supported by, such as promoting the development of asset management business, supporting the launch of fixed-income, foreign currencies and commodities business, supporting financing business innovation, properly conducting derivatives business, developing OTC services, supporting self-development of private products; and regulatory transition shall be promoted by, such as changing regulatory mode, deepening examination and approval reforms, relaxing industry access and implementing business license administration.

REGULATORY ENVIRONMENT

In recent years, the State Council has promulgated a series of regulations on cancellation and adjustment of the administrative reviews and approvals for, among others, the securities industry, including but not limited to the cancellation of the approval requirement for qualifications of persons in charge of domestic branches of securities firms, the cancellation of review and approval requirements for borrowing or issuance, repayment or clearance of subordinated debts by securities institutions and cancellation of the review and approval requirements for new trading items listed on a stock exchange, etc.

In addition, the *Draft Amendment to the Securities Law* (證券法修訂草案), which was submitted to the 14th meeting of the Standing Committee of the Twelfth Session of the Standing Committee of the NPC for consideration in April 2015, substantially amends the securities issuance and trading system. As of the Latest Practicable Date, the Draft Amendment to the Securities Law is subject to further review by the Standing Committee of the NPC. On December 27, 2015, the Standing Committee of the NPC promulgated the *Decision on Authorizing the State Council to Adjust the Application of Relevant Provisions of the Securities Law of the People's Republic of China in the Reform of the Stock Issuance Registration System* (全國人民代表大會常務委員會關於授權國務院在實施股票發行註冊制改革中調整適用《中華人民共和國證券法》有關規定的決定), which provides that adjustment shall be made to the application of provisions related to approval system of stock public offering of the Securities Law to adopt registration system. As of the Latest Practicable Date, the State Council has not yet made a specific timetable regarding the implementation of the aforesaid registration system.

With the deepening of regulatory reforms and innovations in the securities industry, the regulatory authorities in the PRC adopted the philosophy of relaxing prior approval while enhancing in-process supervision and enforcement. They continue to improve the way that they regulate the securities markets in China. The regulatory reform leads to a surge of innovative products and services and brings with it increased market risk and volatility. As a result, the regulatory authorities have been requesting the securities firms to strengthen their overall risk management and have been promulgating new regulations and rules from time to time to maintain and stabilize market order.

HONG KONG LAWS AND REGULATIONS

Introduction

The SFO (including its subsidiary legislation) is the principal legislation regulating 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, intermediaries and their conduct of regulated activities. In particular, Part V of the SFO governs licensing and registration matters.

The SFO is administered by the SFC which is the statutory regulatory body that governs the securities and futures markets and non-bank leveraged foreign exchange market in Hong Kong.

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

Types of Regulated Activities

The SFO provides a single licensing regime under which a person needs only one license to carry on the different types of regulated activities as specified in Schedule 5 of the SFO. There are ten types of regulated activities, namely:

- 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; and
- Type 10: providing credit rating services.

As of the Latest Practicable Date, the following companies of our Group are licensed under the SFO to carry out the regulated activities as stated below:

<u>Group Company</u>	<u>Type(s) of Regulated Activities</u>
China Securities (International) Asset Management Company Limited	Type 4, Type 9
China Securities (International) Brokerage Company Limited	Type 1, Type 2, Type 4, Type 5
China Securities (International) Corporate Finance Company Limited	Type 1, Type 6

In addition to the licenses above granted to the members of our Group by the SFC, China Securities (International) Finance Company Limited also holds a money lender license issued by the licensing court under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), which allows it to provide loans to its clients in its ordinary course of business.

REGULATORY ENVIRONMENT

Overview of Licensing Requirements

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 for carrying on such regulated activity, unless one of the exceptions under the SFO applies. It is a serious offence for a person to conduct any regulated activity without the appropriate license.

Further, if a person (whether by itself or another person on his behalf, and whether in Hong Kong or from a place outside of Hong Kong) actively markets 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 is also subject to the licensing requirements under the SFO.

In addition to the licensing requirements on corporations, 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 be licensed separately under the SFO as a licensed representative accredited to his principal.

For each regulated activity conducted by a licensed corporation, it must appoint no less than two responsible officers, at least one of whom must be an executive director, to supervise the business of the regulated activity. A responsible officer is an individual approved by the SFC to supervise the regulated activity or activities of the licensed corporation to which he is accredited. In addition, every director of the licensed corporation who actively participates in or is responsible for directly supervising the licensed corporation's regulated activity or activities must apply to the SFC to become a responsible officer.

Fit and Proper Requirement

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. In simple terms, a fit and proper person means one who is financially sound, competent, honest, reputable and reliable.

Ongoing Obligations of Licensed Corporations

Licensed corporations, licensed representatives and responsible officers must remain fit and proper as defined under the SFO 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 the SFC.

REGULATORY ENVIRONMENT

Outlined below are some of the key ongoing obligations of a licensed corporation:

- 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) (as discussed in more detail below);
- 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);
- issuance 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 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);
- compliance 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, client due diligence, record keeping, identification and reporting of suspicious transactions and staff screening, education and training, in accordance with the requirements under the Guideline on Anti-Money Laundering and Counter-Terrorist Financing issued by the SFC (as discussed in more detail below); and

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- compliance with business conduct requirements under the Code of Conduct for Persons Licensed by or Registered with the SFC, the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC, the Fit and Proper Guidelines and other applicable codes and guidelines issued by the SFC.

Securities and Futures (Financial Resources) Rules (“Financial Resources Rules”)

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

<u>Minimum Amount of Paid-up Share Capital</u>	<u>Regulated Activities</u>	<u>Applicable to our Licensed Subsidiaries</u>
HKD5,000,000	Dealing in securities	China Securities (International) Corporate Finance Company Limited
HKD10,000,000	Dealing in securities and provides margin financing	China Securities (International) Brokerage Company Limited
HKD5,000,000	Dealing in futures contracts	China Securities (International) Brokerage Company Limited
HKD5,000,000	Advising on securities	China Securities (International) Asset Management Company Limited
HKD5,000,000	Advising on futures contracts	China Securities (International) Brokerage Company Limited
HKD10,000,000	Advising on corporate finance (where the corporation acts as a sponsor)	China Securities (International) Corporate Finance Company Limited Company Limited
HKD5,000,000	Asset management	China Securities (International) Asset Management Company Limited

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Other than minimum paid-up share capital requirements, the Financial Resources Rules also stipulate that a licensed corporation is required to maintain minimum liquid capital, which is the amount by which its liquid assets exceed its ranking liabilities. Pursuant to the Financial Resources Rules, the minimum amount of required liquid capital applicable to each of our licensed subsidiaries in Hong Kong shall be the higher of the amount of (a) or (b) below:

- (a) the amount of:

<u>Minimum Amount of Liquid Capital Required</u>	<u>Regulated Activities</u>
HKD3,000,000	Dealing in securities
HKD3,000,000	Dealing in futures contracts
HKD3,000,000	Advising on securities
HKD3,000,000	Advising on futures contracts
HKD3,000,000	Advising on corporate finance
HKD3,000,000	Asset management

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

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 Guideline on Anti-Money Laundering and Counter-Terrorist Financing, and the Prevention of Money Laundering and Terrorist Financing Guideline issued by the SFC for Associated Entities published by the SFC.

The Guideline on Anti-Money Laundering and Counter-Terrorist Financing provides practical guidance to assist licensed corporations and their senior management in designing and implementing their own anti-money laundering and counter-terrorist financing policies, procedures and controls in order to meet the relevant legal and regulatory requirements in Hong Kong. Under the Guideline, licensed corporations should, 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 associated money laundering and terrorist financing risks;

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- identify the client and verify the client's identity using reliable, independent source documents, data or information, and take steps from time to time to ensure that the client information is up-to-date and relevant;
- conduct ongoing monitoring of activities of the clients to ensure that they are consistent with the nature of business, the risk profile and source of funds, as well as identify transactions that are complex, large or unusual, or patterns of transactions that have no apparent economic or lawful purpose and which may indicate money laundering or terrorist financing;
- maintain a database of names and particulars of terrorist suspects and designated parties which consolidates the various lists that have been made known to it, as well as comprehensive ongoing screening of the client database; and
- conduct ongoing 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 receive, store and refer reports about suspicious financial or money laundering activity to the appropriate enforcement departments for investigation.

We set out below a brief summary of the principal pieces of legislation in Hong Kong that are concerned with money laundering and terrorist financing.

(1) Anti-money Laundering and Counter-terrorist Financing (Financial Institution) Ordinance (Chapter 615 of the Laws of Hong Kong) ("AMLO")

Among other things, the AMLO imposes requirements relating to client due diligence and record-keeping and provides regulatory authorities with the powers to supervise compliance with the requirements under the AMLO. A financial institution must take all reasonable measures to (i) ensure that proper safeguards exist to prevent contravention of specific provisions in the AMLO and (ii) mitigate money laundering and terrorist financing risks.

(2) Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong) ("DTROP")

Among other things, the DTROP contains provisions for the investigation of 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 offence under the DTROP for a person to deal with any property knowing or having reasonable grounds to believe it to represent the proceeds of drug trafficking. The DTROP requires a person to report to an authorized officer if he/she knows or suspects that any property (in whole or in part directly or indirectly) represents the proceeds of drug trafficking or is intended to be used or was used in connection with drug trafficking, and failure to make such disclosure constitutes an offence under the DTROP.

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(3) 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 Customs and Excise Department to investigate organized crime and triad activities, and it 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 offence to cover the proceeds of all indictable offences in addition to drug trafficking.

(4) 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 offence to: (i) provide or collect property (by any means, directly or indirectly) with the intention or knowledge that the property will be used to commit, in whole or in part, one or more terrorist acts; or (ii) make any property or financial (or related) services available, by any means, 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, or collect property or solicit financial (or related) services, by any means, directly or indirectly, for the benefit of a person knowing that, or being reckless as to whether, the person is a terrorist or terrorist associate. The UNATMO also requires a person to disclose his knowledge or suspicion of terrorist property to an authorized officer, and failure to make such disclosure constitutes an offence under the UNATMO.

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China Securities (International) Corporate Finance Company Limited
UBS AG Hong Kong Branch
ABCI Securities Company Limited
ICBC International Securities Limited
BOCI Asia Limited
BOCOM International Securities Limited
CCB International Capital Limited
Deutsche Bank AG, Hong Kong Branch
SPDB International Capital Limited
CMB International Capital Limited
China Galaxy International Securities (Hong Kong) Co., Limited
China Merchants Securities (HK) Co., Limited
China Everbright Securities (HK) Limited
Haitong International Securities Company Limited
GF Securities (Hong Kong) Brokerage Limited
SSIF Securities Limited
Guotai Junan Securities (Hong Kong) Limited
Zhongtai International Securities Limited
Guosen Securities (HK) Capital Company Limited
Dongxing Securities (Hong Kong) Company 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 fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between the Company (for itself and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of, among others, the Joint Bookrunners and the Underwriters) on or before December 4, 2016, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 96,075,000 Hong Kong Offer Shares and the International Offering of initially 1,034,218,500 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.

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UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering Hong Kong Offer Shares for subscription by the public in Hong Kong in accordance with the terms and conditions of this prospectus and the Application Forms relating thereto.

Subject to (i) the Listing Committee granting listing of, and permission to deal in, the H Shares to be offered as mentioned in this prospectus pursuant to the Global Offering (including any additional H Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement (including the Joint Representatives (for themselves and on behalf of, among others, the Joint Bookrunners and the Hong Kong Underwriters) and the Company (for itself and on behalf of the Selling Shareholders) 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 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 the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. If at any time prior to 8:00 a.m. on the day that trading in the H Shares commences on the Stock Exchange:

- (1) there develops, occurs, exists or comes into force:
 - (a) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, Singapore, the United States, the United Kingdom, the European Union (or any member thereof) or Japan (each a “**Relevant Jurisdiction**”); or
 - (b) any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock

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and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a change of the Hong Kong dollars or of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or

- (c) any event or series of events in the nature of force majeure (including, without limitation, acts of government, labor disputes, strikes, lock-outs, fire, explosion, earthquake, flooding, tsunami, civil commotion, riots, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption in transportation, destruction of power plant, outbreak of diseases or epidemics including, but not limited to, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9, Ebola virus, Middle East respiratory syndrome (MERS) and such related/mutated forms, economic sanction, in whatever form) in or directly or indirectly affecting any Relevant Jurisdiction; or
- (d) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
- (e) any moratorium, suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange; or
- (f) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Governmental Authority), New York (imposed at Federal or New York State level or other competent Governmental Authority), Russia, London, Singapore, the PRC, the European Union (or any member thereof), Japan or any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or
- (g) any (A) change or prospective change in exchange controls, currency exchange rates or foreign investment regulations, or (B) any change or prospective change in taxation in any Relevant Jurisdiction adversely affecting an investment in the H Shares; or
- (h) the issue or requirement to issue by the Company of a supplemental or amendment to this prospectus, Application Forms, preliminary offering circular or offering circular or other documents in connection with the offer and sale of the H Shares pursuant to the Companies Ordinance, Companies (Winding up and Miscellaneous Provisions) Ordinance or the Listing Rules or upon any requirement or request of the Stock Exchange or the SFC; or

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- (i) any non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Law; or
- (j) any litigation or claim being threatened or instigated against any member of the Group; or
- (k) any contravention by any member of the Group of the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance, the PRC Company Law or the Listing Rules or any other applicable Laws; or
- (l) a governmental authority or a regulatory body or organization in any Relevant Jurisdiction commencing any investigation or other action or proceedings, or announcing an intention to investigate or take other action or proceedings, against any member of the Group; or
- (m) any adverse change to the Board of Directors or the Supervisory Committee or the senior management as a whole; or
- (n) any petition being presented for the winding-up or liquidation of any member of the Group, or any member of the Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (o) a prohibition by a competent government authority on the Company for whatever reason from allotting, issuing or selling the H Shares (including for itself or on behalf of Selling Shareholders and the Over-allotment Option Shares) pursuant to the terms of the Global Offering; or
- (p) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any relevant jurisdiction on the Company or any member of the Group,

which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Representatives (for themselves and on behalf of the Joint Bookrunners and the Hong Kong Underwriters): (A) is or will be or is likely to be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or otherwise), or prospects of the Company or the Group as a whole; or (B) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make or will make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (C)

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makes or will make it or is likely to make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms, the Formal Notice, the preliminary offering circular or the offering circular; or (D) would have or will have or is likely to have the effect of making any material part the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (2) there has come to the notice of Joint Representatives, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
 - (a) that any statement contained in the Hong Kong public offering documents and/or any announcements, advertisements, or other documents issued or authorized by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incorrect in any material respect or misleading in any respect or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Hong Kong public offering documents and/or any announcements, advertisements or other documents so issued or authorized by the Company are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or
 - (b) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or
 - (c) either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Company in any material respect; or (ii) any of the representations, warranties and undertakings given by the Company in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect or misleading; or
 - (d) any event, act or omission which gives or is likely to give rise to any liability of the Company pursuant to the indemnities given by the Company under the Hong Kong Underwriting Agreement, which liability has a Material Adverse Effect (as defined in the Hong Kong Underwriting Agreement); or
 - (e) a significant portion of the investment commitments by cornerstone investors, after signing of agreements with such cornerstone investors, has been withdrawn, terminated or cancelled; or

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- (f) any expert (other than the Joint Sponsors) has withdrawn its consent to being named in any of the Hong Kong public offering documents or to the issue of any of the Hong Kong public offering documents; or
- (g) any material adverse change or prospective material adverse change or development involving a prospective material adverse change in the assets, business, management, shareholder's equity, profits, losses, properties, results of operations, in the position or condition (financial or otherwise) or prospects of the Company and its subsidiaries, as a whole; or
- (h) admission is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the admission is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or
- (i) the Company has withdrawn this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering,

then the Joint Representatives (for themselves and on behalf of the Joint Bookrunners and the Hong Kong Underwriters) may, in their sole and absolute discretion and upon giving notice in writing to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings pursuant to the Hong Kong Listing Rules and the Hong Kong Underwriting Agreement

(A) Undertakings by our Company

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, we have undertaken to the Hong Kong Stock Exchange that no further shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the date on which the securities of the Company first commence dealing on the Hong Kong Stock Exchange (whether or not such issue of shares or securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering (including pursuant to the Over-allotment Option) or any of the circumstances provided under Rule 10.08 of the Hong Kong Listing Rules.

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 and the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the expiry of six months from the Listing Date (the “**First Six-Month Period**”), we will not without the prior written consent of the Joint Sponsors and the Joint Representatives (for themselves and

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on behalf of the Joint Bookrunners and the Hong Kong Underwriters) and unless in compliance with requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, claim, defect, right, interest or preference granted to any third party, or any other encumbrance or security interest of any kind (the “**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other equity securities of the Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represents the right to receive, or any warrants or other rights to purchase any share capital or other equity securities of the Company, as applicable), or deposit any share capital or other equity securities of the Company, as applicable, with a depositary in connection with the issue of depositary receipts;
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of Shares or any other equity securities of the Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any other equity securities of the Company, as applicable);
- (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 do or announce any intention to do 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 share capital or such other equity securities of the Company, in cash or otherwise (whether or not the issue of the share capital or such other equity securities 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).

In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires, we enter into any of the transactions specified in paragraph (a), (b) or (c) above or offer to or agree to or announce, any intention to effect any such transaction, we have undertaken to take all reasonable steps to ensure that such an issue or

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disposal will not, and no other act of the Company will, create a disorderly or false market for any H Shares or other equity securities of the Company.

(B) Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Hong Kong Listing Rules, each of the Controlling Shareholders has undertaken to the Hong Kong Stock Exchange and to the Company that it shall not, except pursuant to the Global Offering (including pursuant to the Over-allotment Option):

- (a) 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 or securities of the Company (the “**Relevant Securities**”) in respect of which it is shown in the Prospectus to be the beneficial owners in the period commencing on the day by reference to which disclosure of our shareholding in the Company is made in the prospectus and ending on the date which is six months from the date on which dealings in the H shares of the Company first commence on the Stock Exchange (except for the shares of the Company to be transferred to the NSSF as required by relevant PRC laws, regulations and rules or to be sold for the benefit of NSSF pursuant to its instruction); or
- (b) dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Relevant Securities in respect of which it is shown in the prospectus to be the beneficial owners in the period of six months commencing on the day on which the period referred to in the above paragraph (i) expires, if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder of the Company.

Pursuant to Note 3 to Rule 10.07(2) of the Hong Kong Listing Rules, each of the Controlling Shareholders has undertaken to the Hong Kong Stock Exchange and to the Company that it will, within the period commencing on the date by reference to which disclosure of its shareholding in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date:

- (i) when it pledges or charges any Relevant Securities beneficially owned by it in favour 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 the Company of such pledge or charge together with the number of the Relevant Securities so pledged or charged; and
- (ii) when it receives any indication, either verbal or written, from any such pledgee or chargee of the Relevant Securities that such Relevant Securities will be disposed of, immediately inform the Company of any such indication.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Hong Kong Listing Rules as soon as possible after being so informed.

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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 interests in our Company or any rights or options (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities of our Company.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

The International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we (for ourselves and on behalf of the Selling Shareholders) 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 or sold 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 (for ourselves and on behalf of the Selling Shareholders) 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 issue and allot and the Selling Shareholders to sell up to an aggregate of 169,543,500 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.

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Commissions and Expenses

The Hong Kong Underwriters will receive a commission of 1.5% of the aggregate Offer Price of the Hong Kong Offer Shares, out of which they will pay any sub-underwriting commissions. The Underwriters may receive an additional incentive fee of up to 1.0% of the Offer Price of the Hong Kong Offer Shares.

For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay the underwriting commission attributable to such reallocated Hong Kong Offer Shares to the Joint Representatives and the relevant International Underwriters (but not the Hong Kong Underwriters). The underwriting commission was determined between the Company (for itself and on behalf of the Selling Shareholders) and the Underwriters after arm's length negotiations with reference to current market conditions.

The aggregate commissions and fees, together with Hong Kong Stock Exchange listing fees, SFC transaction levy and Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering, which are estimated to amount in aggregate to approximately HK\$233.69 million (assuming (i) an Offer Price of HK\$6.81 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus), (ii) the full payment of the discretionary incentive fee and (iii) the Over-allotment Option is not exercised at all), are payable and borne by our Company.

Joint Sponsors' Fee

An amount of US\$500,000 or the equivalent amount in HK dollar or Renminbi is payable by our Company as sponsor fees to each of the Joint Sponsors, totaling an amount of US\$1,500,000 or the equivalent amount in HK dollar or Renminbi.

Other Services Provided by the Underwriters

The Joint Representatives, Joint Global Coordinators and the Underwriters may in their ordinary course of business provide financing to investors subscribing for the shares offered by this prospectus. Such Joint Representatives, Joint Global Coordinators and Underwriters may enter into hedges and/or dispose of such Offer Shares in relation to the financing which may have a negative impact on the trading price of the H Shares.

Indemnity

We have agreed to indemnify, among others, the Joint Sponsors, Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners and the Hong Kong Underwriters for certain losses which they may suffer, including but not limited to, losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement as the case may be.

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INDEPENDENCE OF THE JOINT SPONSORS

China Securities (International) Corporate Finance Company Limited, being one of the Joint Sponsors, is one of our subsidiaries. It is not an independent sponsor according to the independence criteria applicable to sponsors set out in Rule 3.07 of the Listing Rules.

Apart from China Securities (International) Corporate Finance Company Limited, the other Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong 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, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the H Shares, those activities could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the H Shares, and entering into over-the-counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

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.

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It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of initially 96,075,000 H Shares in Hong Kong as described below in the section entitled “Hong Kong Public Offering” below; and
- (ii) the International Offering of an aggregate of initially 1,034,218,500 H Shares to be offered to (i) persons in the United States and to U.S. persons who are both QIBs and QPs in reliance on Rule 144A or any other exemption from registration under the U.S. Securities Act, and (ii) non-U.S. persons outside the United States in offshore transactions in reliance on Regulation S. At any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications in the Hong Kong Public Offering, the Joint Representatives, as representatives of the International Underwriters, have an option to require our Company to issue and allot and the Selling Shareholders to sell up to an aggregate of 169,543,500 additional Offer Shares, representing approximately 15.0% of the initial number of Offer Shares to be offered in the Global Offering, at the Offer Price to, among other things, cover over-allocations in the International Offering, if any.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 15.75% of the enlarged issued share capital of the Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 17.71% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the section headed “Structure of the Global Offering — The International Offering — Over-allotment Option” below.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation and Clawback” below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

Our Company is initially offering 96,075,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 8.5% of the total number of Offer Shares initially available under the Global Offering.

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The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Offer Shares will represent approximately 1.3% of the Company's registered share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" below.

Allocation

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications to be received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of the Hong Kong Offer Shares initially available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly.

For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 48,037,500 Hong Kong Offer Shares are liable to be rejected.

Reallocation and Clawback

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation under the Listing Rules. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which

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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, a waiver from strict compliance with Paragraph 4.2 of Practice Note 18 of the Listing Rules such that, provided the initial allocation of Shares under the Hong Kong Public Offering shall not be less than 8.5% of the Global Offering, in the event of over-applications, the Joint Representatives shall apply a clawback mechanism following the closing of the application lists on the following basis:

- 96,075,000 Offer Shares available in the Hong Kong Public Offering, representing approximately 8.5% 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 10 times or more but less than 40 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 initially available under the Hong Kong Public Offering will be 146,939,000 Offer Shares, representing approximately 13% 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 40 times or more but less than 70 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 192,150,000 Offer Shares, representing approximately 17% 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 70 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 395,603,000 Offer Shares, representing approximately 35% 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 allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Representatives have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

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Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it and any person(s) for whose benefit he/she/it is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or he/she/it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the H Shares on the Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$7.26 per Hong Kong Offer Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Hong Kong Offer Share. If the Offer Price, as finally determined in the manner described in the section headed "Structure of the Global Offering — Pricing of the Global Offering" below, is less than the maximum price of HK\$7.26 per Hong Kong Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section entitled "How to Apply for Hong Kong Offer Shares."

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

Subject to reallocation as described above, the International Offering will consist of an initial offering of 1,034,218,500 International Offer Shares representing approximately 91.5% of the Offer Shares under the Global Offering and approximately 14.4% of our Company's enlarged share capital immediately after the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of the International Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such International Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of the International Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the section headed "Structure of the Global Offering — Pricing of the Global Offering" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector

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and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell the Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Joint Representatives (for themselves and on behalf of, among others, the Joint Bookrunners and the Underwriters) may require any investor who has been offered the International Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that he/she/it is excluded from any application of the Hong Kong Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of International Offer Shares to be transferred pursuant to the International Offering may change as a result of the clawback arrangement described in “— the Hong Kong Public Offering — Reallocation and Clawback”, exercise of the Over-allotment Option in whole or in part and/or reallocation of all or any unsubscribed Hong Kong Offer Shares to the International Offering.

Over-allotment Option

In connection with the Global Offering, we and the Selling Shareholders are expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Representatives on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Joint Representatives have the right, exercisable at any time from the Listing Date until 30 days after the last day for the lodging of applications in the Hong Kong Public Offering, to require our Company to issue and allot and the Selling Shareholders to sell up to an aggregate of 169,543,500 additional Offer Shares at the same Offer Price per share as the International Offering, representing approximately 15.0% of the initial number of Offer Shares to be offered in the Global Offering, at Offer Share to, among other things, over-allocation in the International Offering. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 2.3% of the Company’s enlarged share capital immediately following the completion of the Global Offering and the full exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a relevant press announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

STRUCTURE OF THE GLOBAL OFFERING

In connection with the Global Offering, the Stabilizing Manager or any person acting for them, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among others, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases to be made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of the H Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering.

The number of the H Shares that may be over-allocated will not exceed the number of the H Shares that may be sold under the Over-allotment Option, namely, 169,543,500 H Shares, which is approximately 15.0% of the number of Offer Shares initially available under the Global Offering.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocation for the purpose of preventing or minimising any reduction in the market price;
- (b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimising any deduction in the market price;
- (c) subscribing, or agreeing to subscribe, for the H Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, the H Shares for the sole purpose of preventing or minimising any reduction in the market price;
- (e) selling the H Shares to liquidate a long position held as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

STRUCTURE OF THE GLOBAL OFFERING

Stabilizing actions by the Stabilizing Manager, or any person acting for it, shall be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilizing period, which begins on the Listing Date and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on Sunday, January 1, 2017. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the H Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by applicants. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

The Selling Shareholders

The Selling Shareholders, being BSCOMC and Central Huijin, are initially offering a total of 28,494,794 and 25,328,706 Sale Shares, respectively, as part of the Global Offering. The Selling Shareholders may sell up to an additional 4,274,206 and 3,799,294 Sale Shares, respectively, if the Over-allotment Option is exercised in full.

Pursuant to a letter issued by the NSSF (She Bao Ji Jin Fa [2016] No. 152) on November 22, 2016, amongst others, the NSSF instructed us to remit the proceeds (after deducting the SFC transaction levy and Hong Kong Stock Exchange trading fee) from the sale of the Sale Shares currently registered under the name of the Selling Shareholders respectively in the Global Offering to an account designated by the NSSF in accordance with the relevant PRC laws and regulations.

STRUCTURE OF THE GLOBAL OFFERING

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from potential investors' indications of interest in acquiring the International Offer Shares in the International Offering. Potential professional and institutional investors will be required to specify the number of the International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Friday, December 2, 2016, and in any event on or before Sunday, December 4, 2016, by agreement between the Joint Representatives (for themselves and on behalf of, among others, the Joint Bookrunners and the Underwriters) and the Company (for itself and on behalf of the Selling Shareholders) and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$7.26 per Offer Share and is expected to be not less than HK\$6.36 per Offer Share unless to be otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

Potential investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Joint Representatives, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price stated below in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.csc108.com) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised offer price range will be final and conclusive and the offer price, if agreed upon by the Joint Representatives (for themselves and on behalf of among others, the Joint Bookrunners and the Underwriters) and the Company (for itself and on behalf of the Selling Shareholders), will be fixed within such revised offer price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of

STRUCTURE OF THE GLOBAL OFFERING

such reduction. In the absence of any such notice so published, the Offer Price agreed upon with the Company (for itself and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of among others, the Joint Bookrunners and the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Representatives may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of the initial Hong Kong Offer Shares shall not be less than 8.5% of the total number of Offer Shares in the Global Offering. The International Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Representatives.

The net proceeds of the Global Offering accruing to our Company (after deduction of underwriting commissions and other expenses in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$6,624.77 million, assuming an Offer Price per Offer Share of HK\$6.36, or approximately HK\$7,569.29 million, assuming an Offer Price per Offer Share of HK\$7.26 (or if the Over-allotment Option is exercised in full, approximately HK\$7,625.96 million, assuming an Offer Price per Offer Share of HK\$6.36, or approximately HK\$8,712.17 million, assuming an Offer Price per Offer Share of HK\$7.26).

The Offer Price under the Global Offering is expected to be announced on Thursday, December 8, 2016. The indications of interest in the Global Offering, the results of applications and the basis of allotment of the Hong Kong Offer Shares available for subscription under the Hong Kong Public Offering, are expected to be announced on Thursday, December 8, 2016 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.csc108.com).

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

The Company (for itself and on behalf of the Selling Shareholders) expects to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section headed “Underwriting” of this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

ADMISSION OF THE H SHARES INTO CCASS AS ELIGIBLE SECURITIES

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, December 9, 2016, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Friday, December 9, 2016. Our H Shares will be traded in board lots of 500 H Shares each and the stock code of our H Shares will be 6066.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements.

If, for any reason, the Offer Price is not agreed between the Company (for itself and on behalf of the Selling Shareholders) and the Joint Representatives (for themselves and on behalf of, among others, the Joint Bookrunners and the Underwriters) on or before Sunday, December 4, 2016, the Global Offering will not proceed and will lapse.

STRUCTURE OF THE GLOBAL OFFERING

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Global Offering will be published by our Company in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section entitled “How to Apply for Hong Kong Offer Shares” of this prospectus. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the Offer Shares are expected to be issued on Thursday, December 8, 2016 but will only become valid certificates of title at 8:00 a.m. on Friday, December 9, 2016 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section entitled “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for Termination” has not been exercised.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for the Hong Kong Offer Shares, then you may not apply for or indicate an interest for the International Offer Shares.

To apply for the Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Representatives, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid email 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/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 conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Unless permitted by the Hong Kong Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Hong Kong Listing Rules) of any of the above;
- a connected person (as defined in the Hong Kong Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, November 29, 2016 till 12:00 noon on Friday, December 2, 2016 from:

any of the following offices of the Hong Kong Underwriters:

China Securities (International) Corporate Finance Company Limited

18/F, Two Exchange Square
8 Connaught Place
Central, Hong Kong

UBS AG Hong Kong Branch

52/F, Two International Financial Centre
8 Finance Street
Central, Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

ABCI Securities Company Limited

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

ICBC International Securities Limited

37/F, ICBC Tower
3 Garden Road
Hong Kong

BOCI Asia Limited

26/F, Bank of China Tower
1 Garden Road
Central, Hong Kong

BOCOM International Securities Limited

9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
Hong Kong

Deutsche Bank AG, Hong Kong Branch

52/F, International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

SPDB International Capital Limited

Room 1005B-06A
10/F, Bank of America Tower
12 Harcourt Road
Central, Hong Kong

CMB International Capital Limited

Units 1803-04, 18/F, Bank of America Tower
12 Harcourt Road
Central, Hong Kong

China Galaxy International Securities (Hong Kong) Co., Limited

Units 3501-7 & 3513-14
35/F, Cosco Tower
183 Queen's Road Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

China Merchants Securities (HK) Co., Limited

48/F, One Exchange Square
Central, Hong Kong

China Everbright Securities (HK) Limited

24/F, Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

GF Securities (Hong Kong) Brokerage Limited

29–30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

SSIF Securities Limited

Unit A, 29/F, Tower 1, Admiralty Center
18 Harcourt Road
Admiralty, Hong Kong

Guotai Junan Securities (Hong Kong) Limited

27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Zhongtai International Securities Limited

7th Floor, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Guosen Securities (HK) Capital Company Limited

42/F, Two International Finance Centre
8 Finance Street
Central, Hong Kong

Dongxing Securities (Hong Kong) Company Limited

6805–6806A, International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

any of the following branches of the receiving banks:

Bank of China (Hong Kong) Limited

District	Branch	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Sheung Wan Branch	Shop 1–4, G/F, Tung Hip Commercial Building, 244–248 Des Voeux Road Central
Kowloon	Mong Kok Branch	589 Nathan Road, Mong Kok
	Telford Gardens Branch	Shop P2 Telford Gardens, Kowloon Bay
New Territories	Metro City Branch	Shop 209, Level 2, Metro City Phase 1, Tseung Kwan O
	Tuen Mun San Hui Branch	G13–G14 Eldo Court, Heung Sze Wui Road, Tuen Mun
	Shatin Branch	Shop 20, Level 1, Lucky Plaza, 1–15 Wang Pok Street, Sha Tin

Bank of Communications Co., Ltd. Hong Kong Branch

District	Branch	Address
Hong Kong Island	Wanchai Sub-Branch	Shop B on G/F., Johnston Court, 32–34 Johnston Road
	Kennedy Town Sub-Branch	G/F., 113–119 Belcher's Street, Kennedy Town
Kowloon	Shamshuipo Sub-Branch	Shop G1–G3, G11–G13, G19–G21, G/F., Golden Centre, 94 Yen Chow Street, Sham Shui Po
New Territories	Fanling Sub-Branch	Shop No. 84A–84B, G/F., Flora Plaza, Fanling

HOW TO APPLY FOR HONG KONG OFFER SHARES

Industrial and Commercial Bank of China (Asia) Limited

District	Branch	Address
Hong Kong Island	Causeway Bay Branch	Shop A on G/F, 1/F, Hennessy Apartments, 488 & 490 Hennessy Road, Hong Kong
Kowloon	Tsimshatsui East Branch	Shop B, G/F, Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon
	Kwun Tong Branch	Shop 5 & 6, 1/F, Crocodile Center, 79 Hoi Yuen Road, Kwun Tong, Kowloon

China CITIC Bank International Limited

District	Branch	Address
Hong Kong Island	Des Voeux Road Central Branch	G/F, The Chinese Bank Building, 61–65 Des Voeux Road Central, Hong Kong
Kowloon	Jordan Branch	Shop 1 of G/F and 1/F, Austin Plaza, 83 Austin Road, Jordan, Kowloon
New Territories	Tsuen Wan Branch	Shop C on G/F & 1/F, Shui Sang Building, 13–19 Chung On Street, Tsuen Wan, New Territories

Wing Lung Bank Limited

District	Branch	Address
Hong Kong Island	North Point Branch	361 King's Road
Kowloon	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, November 29, 2016 till 12:00 noon on Friday, December 2, 2016 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 — CSC FINANCIAL 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, November 29, 2016 — 9:00 a.m. to 5:00 p.m.
- Wednesday, November 30, 2016 — 9:00 a.m. to 5:00 p.m.
- Thursday, December 1, 2016 — 9:00 a.m. to 5:00 p.m.
- Friday, December 2, 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, December 2, 2016, the last application day or such later time as described in "How to Apply for Hong Kong Offer — 10. Effect of Bad Weather on the Opening of the Applications 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 the Company and/or the Joint Representatives (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) **agree** to comply with the Companies Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) **confirm** that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) **confirm** that you are aware of the restrictions on the Global Offering in this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (vi) **agree** that none of the Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) **undertake** and **confirm** that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering nor participated in the International Offering;
- (viii) **agree** to disclose to the Company, our H Share Registrar, receiving banks, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, 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 the Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners 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; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) **warrant** that the information you have provided is true and accurate;
- (xiv) **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) **authorize** the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (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 the 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 Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the 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, November 29, 2016 until 11:30 a.m. on Friday, December 2, 2016 and the latest time for completing full payment of application monies will be 12:00 noon on Friday, December 2,

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2016 or such later time described in “How to Apply for Hong Kong Offer Shares — 10. Effects of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the 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** service is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “CSC Financial Co., Ltd.” **White Form eIPO** application submitted via the www.eipo.com.hk to support the funding of “Source of Dongjiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

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If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the 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 International Offer Shares under the International Offering;

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- 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 the Company, the Directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, 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 the Company, our H Share Registrar, receiving banks, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and/or its respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the

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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 the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the 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 Ordinance, the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- agree with the Company, for itself and for the benefit of each of the Shareholder of the Company (and 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 of the Shareholder of the Company, with each CCASS Participant giving **electronic application instructions**):
 - (a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of 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 the H Shares 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

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to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for 500 Hong Kong Offer Shares. Instructions for more than 500 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, November 29, 2016 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Wednesday, November 30, 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Thursday, December 1, 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾

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- Friday, December 2, 2016 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, November 29, 2016 until 12:00 noon on Friday, December 2, 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, December 2, 2016, the last application day or such later time as described in “How to apply for Hong Kong Offer Shares — 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, the 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 the Company, the H Share Registrar, the receiving bankers, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, 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.

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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. The Company, the Directors, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, December 2, 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 **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.

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“**Unlisted company**” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of 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 the Hong Kong Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for the Hong Kong Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Global Offering — Pricing of the Global Offering” in this prospectus.

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, December 2, 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.

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If the application lists do not open and close on Friday, December 2, 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” in this prospectus, an announcement will be made by the Company in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, December 8, 2016 in South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the Company’s website at www.csc108.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.csc108.com and the Hong Kong Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Thursday, December 8, 2016;
- from the designated results of allocations website at www.iporeresults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, December 8, 2016 to 12:00 midnight on Wednesday, December 14, 2016;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, December 8, 2016 to Sunday, December 11, 2016;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, December 8, 2016 to Saturday, December 10, 2016 at all the receiving banks’ designated branches and sub-branches.

If the 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” in this prospectus.

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.

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12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the 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 the Company or its agents exercise their discretion to reject your application:

The 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 Hong Kong 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 the Company of that longer period within three weeks of the closing date of the application lists.

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(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Representatives believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

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\$7.26 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — The Hong Kong Public Offering — Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Thursday, December 8, 2016.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

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No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Thursday, December 8, 2016. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, December 9, 2016 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade the H Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, December 8, 2016 or such other date as notified by us in the newspapers.

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If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Thursday, December 8, 2016, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Thursday, December 8, 2016, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, December 8, 2016, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

The 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 the section headed "How to apply for Hong Kong Offer Shares — 11. Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, December 8, 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.

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(iii) If you apply through the White Form eIPO service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, December 8, 2016, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, December 8, 2016 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant’s stock account or your CCASS Investor Participant stock account on Thursday, December 8, 2016, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the 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 “Publication of Results” above on Thursday, December 8, 2016. You should check the announcement published by the

HOW TO APPLY FOR HONG KONG OFFER SHARES

Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, December 8, 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, December 8, 2016. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, December 8, 2016.

15. ADMISSION OF THE H SHARES INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

29 November 2016

The Directors
CSC Financial Co., Ltd.

China Securities (International) Corporate Finance Company Limited
UBS Securities Hong Kong Limited
ABCI Capital Limited

Dear Sirs,

We report on the financial information of CSC Financial Co., Ltd. (the "**Company**") and its subsidiaries (together, the "**Group**"), which comprises the consolidated statements of financial position as at 31 December 2013, 2014 and 2015 and 30 June 2016, the statements of financial position of the Company as at 31 December 2013, 2014 and 2015 and 30 June 2016, the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 29 November 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 Company was established on 2 November 2005 as a limited liability company with the approval of the China Securities Regulatory Commission ("**CSRC**"). Pursuant to a conversion according to the approval of the CSRC, the Company was converted into a joint stock company with limited liability on 28 September 2011.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Section II Note 20 to this report. All of these companies are private companies.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

The statutory financial statements of the Group prepared in accordance with Accounting Standards for Business Enterprises of the People's Republic of China ("PRC") ("CAS") and relevant rules issued by the China Ministry of Finance for each of the years ended 31 December 2013 and 2014 were audited by Ernst & Young Hua Ming LLP, and for the year ended 31 December 2015 were audited by PricewaterhouseCoopers Zhong Tian LLP, both firms are certified public accountants registered in the PRC. The statutory audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Section II Note 20 to this report.

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "Underlying Financial Statements"). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with IFRSs. We have audited the Underlying Financial Statements in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB") pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the financial position of the Company and of the consolidated financial position of the Group as at 31 December 2013, 2014 and 2015 and 30 June 2016 and of the Group's consolidated financial performance and cash flows for the Relevant Periods.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the six months ended 30 June 2015 and a summary of significant accounting policies and other explanatory information (the “**Stub Period Comparative Financial Information**”).

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Section II Note 3.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the IAASB. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with 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.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report is not prepared, in all material respects, in accordance with the accounting policies set out in Section II Note 3.

I FINANCIAL INFORMATION OF THE GROUP

The following financial information of the Group was prepared by the directors of the Company as at 31 December 2013, 2014 and 2015 and 30 June 2016, and for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016 (the “Financial Information”):

CONSOLIDATED INCOME STATEMENTS

(In RMB thousands, unless otherwise stated)

	Note	Year ended 31 December			Six months ended 30 June	
		2013	2014	2015	2015	2016
					Unaudited	
Revenue						
Fee and commission income	7	4,387,784	6,540,855	14,900,872	7,125,322	5,127,416
Interest income	8	1,621,447	2,930,148	5,572,959	2,689,513	2,265,424
Net investment gains	9	1,246,983	1,902,825	3,979,922	1,943,725	1,164,747
		7,256,214	11,373,828	24,453,753	11,758,560	8,557,587
Other income	10	66,050	77,732	58,713	12,239	73,914
Total revenue		7,322,264	11,451,560	24,512,466	11,770,799	8,631,501
Fee and commission expenses	11	(552,469)	(860,852)	(2,237,463)	(1,144,844)	(628,722)
Interest expenses	11	(1,077,473)	(1,960,456)	(3,218,608)	(1,584,699)	(1,450,487)
Staff costs	11	(1,723,534)	(2,523,197)	(4,743,028)	(2,134,348)	(1,912,027)
Business tax and surcharges		(360,653)	(526,923)	(1,144,428)	(545,613)	(298,713)
Other operating expenses and costs	11	(1,011,788)	(1,195,597)	(1,552,589)	(676,922)	(611,351)
Impairment losses/(reversal)	14	(175,835)	158,814	(154,875)	(17,263)	13,787
Total expenses		(4,901,752)	(6,908,211)	(13,050,991)	(6,103,689)	(4,887,513)
Profit before income tax		2,420,512	4,543,349	11,461,475	5,667,110	3,743,988
Income tax expense	15	(642,638)	(1,145,156)	(2,809,622)	(1,406,374)	(938,878)
Profit for the year/period		1,777,874	3,398,193	8,651,853	4,260,736	2,805,110
Attributable to:						
Equity holders of the Company		1,786,963	3,407,125	8,638,825	4,256,577	2,777,219
Non-controlling interests		(9,089)	(8,932)	13,028	4,159	27,891
		1,777,874	3,398,193	8,651,853	4,260,736	2,805,110
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB yuan per share)						
– Basic and diluted	17	0.29	0.56	1.37	0.70	0.46

I FINANCIAL INFORMATION OF THE GROUP (Continued)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In RMB thousands, unless otherwise stated)

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
Profit for the year/period	1,777,874	3,398,193	8,651,853	Unaudited 4,260,736	2,805,110
Other comprehensive income					
Items that may be reclassified to profit or loss in subsequent periods					
Available-for-sale financial assets:					
Changes in fair value	(240,192)	329,214	257,455	205,272	(289,133)
Income tax effect on changes in fair value	60,696	(81,162)	(64,507)	(51,778)	71,714
(Losses)/Gains reclassified to the consolidated income statements	(58,384)	100,495	(146,444)	(14,757)	(75,056)
	(237,880)	348,547	46,504	138,737	(292,475)
Foreign currency translation differences	(3,178)	2,247	45,883	(1,775)	17,049
Other comprehensive (losses)/income for the year/period, net of tax . . .	(241,058)	350,794	92,387	136,962	(275,426)
Total comprehensive income for the year/period	<u>1,536,816</u>	<u>3,748,987</u>	<u>8,744,240</u>	<u>4,397,698</u>	<u>2,529,684</u>
Attributable to:					
Equity holders of the Company	1,545,905	3,757,894	8,731,200	4,393,528	2,501,779
Non-controlling interests	(9,089)	(8,907)	13,040	4,170	27,905
	<u>1,536,816</u>	<u>3,748,987</u>	<u>8,744,240</u>	<u>4,397,698</u>	<u>2,529,684</u>

I FINANCIAL INFORMATION OF THE GROUP (Continued)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In RMB thousands, unless otherwise stated)

	Note	As at 31 December			As at 30 June
		2013	2014	2015	2016
Non-current assets					
Property, plant and equipment . . .	18	404,007	421,771	514,422	509,330
Investment properties		68,236	64,342	65,511	63,636
Intangible assets	19	81,094	99,829	121,553	117,104
Investment in associate		20,000	20,000	50,000	50,000
Available-for-sale financial assets	21	244,403	835,458	1,457,190	1,772,048
Held-to-maturity investments . . .	22	–	–	374,416	379,500
Financial assets held under resale agreements	23	275,048	–	–	–
Refundable deposits	24	1,151,270	1,340,145	2,144,517	2,225,278
Deferred tax assets	25	206,585	401,735	747,397	611,804
Other non-current assets	26	155,732	172,243	162,864	173,240
Total non-current assets		2,606,375	3,355,523	5,637,870	5,901,940
Current assets					
Margin accounts	27	14,624,934	31,941,318	35,931,133	27,890,994
Accounts receivable	28	47,329	164,470	153,325	295,320
Financial assets held for trading .	29	8,381,687	18,318,258	28,485,993	30,357,929
Financial assets designated as at fair value through profit or loss	30	352,862	525,504	1,503,783	307,996
Available-for-sale financial assets	21	13,526,059	11,452,695	15,890,616	24,414,337
Held-to-maturity investments . . .	22	–	–	13,997	–
Derivative financial assets	31	113,690	150,581	142,052	108,617
Financial assets held under resale agreements	23	3,005,205	2,260,294	6,896,446	7,965,197
Cash held on behalf of clients . .	32	19,067,252	42,761,967	70,663,754	62,195,609
Cash and bank balances	33	5,321,859	11,447,921	16,154,266	14,019,001
Other current assets	34	892,260	1,027,595	1,715,140	1,791,739
Total current assets		65,333,137	120,050,603	177,550,505	169,346,739
Total assets		67,939,512	123,406,126	183,188,375	175,248,679

I FINANCIAL INFORMATION OF THE GROUP (Continued)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

	Note	As at 31 December			As at 30 June
		2013	2014	2015	2016
Current liabilities					
Accounts payable to brokerage clients	35	19,652,787	43,486,999	72,045,265	63,992,009
Derivative financial liabilities	31	115,289	798,152	190,752	220,573
Financial liabilities held for trading	36	212,217	857,077	93,191	141,233
Financial assets sold under repurchase agreements	37	16,285,364	30,901,793	27,462,271	29,450,882
Placements from banks and other financial institutions	38	5,020,000	3,584,000	2,284,000	1,700,000
Taxes payable	39	461,967	542,845	1,591,758	962,208
Short-term borrowings	40	2,500,000	500,000	1,122,779	1,234,570
Short-term financing instruments payable	41	3,200,000	5,567,416	11,322,686	4,876,680
Other current liabilities	42	2,632,745	11,182,441	19,786,250	26,918,414
Total current liabilities		50,080,369	97,420,723	135,898,952	129,496,569
Net current assets		15,252,768	22,629,880	41,651,553	39,850,170
Total assets less current liabilities		17,859,143	25,985,403	47,289,423	45,752,110
Non-current liabilities					
Financial assets sold under repurchase agreements	37	–	1,000,000	1,800,000	800,000
Bonds in issue	43	4,685,515	7,698,921	15,072,207	12,090,716
Deferred tax liabilities	25	15,109	257,661	218,610	142,639
Long-term borrowings	40	–	290,001	–	–
Other non-current liabilities		4,943	10,907	15,703	4,194
Total non-current liabilities		4,705,567	9,257,490	17,106,520	13,037,549
Net assets		13,153,576	16,727,913	30,182,903	32,714,561
Equity					
Share capital	44	6,100,000	6,100,000	6,100,000	6,100,000
Other equity instruments	45	–	–	5,000,000	5,000,000
Reserves	46	4,425,980	5,840,922	8,601,818	8,327,444
Retained earnings		2,565,091	4,728,043	10,404,347	13,178,874
Equity attributable to equity holders of the Company		13,091,071	16,668,965	30,106,165	32,606,318
Non-controlling interests		62,505	58,948	76,738	108,243
Total equity		13,153,576	16,727,913	30,182,903	32,714,561

I FINANCIAL INFORMATION OF THE GROUP (Continued)

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

(In RMB thousands, unless otherwise stated)

	Note	As at 31 December			As at 30 June
		2013	2014	2015	2016
Non-current assets					
Property, plant and equipment	18	385,406	406,429	500,919	498,882
Investment properties		68,236	64,342	65,511	63,636
Intangible assets	19	68,464	82,802	103,310	101,014
Investments in subsidiaries	20	1,034,824	1,291,084	1,830,153	1,910,153
Investment in associate		20,000	20,000	50,000	50,000
Available-for-sale financial assets	21	119,162	701,339	2,138,588	2,510,128
Financial assets held under resale					
agreements	23	275,048	–	–	–
Refundable deposits	24	619,964	673,283	1,014,824	515,294
Deferred tax assets	25	202,067	396,697	741,442	605,642
Other non-current assets	26	143,429	156,760	145,585	156,026
Total non-current assets		2,936,600	3,792,736	6,590,332	6,410,775
Current assets					
Margin accounts	27	14,624,934	31,840,141	35,288,258	26,709,620
Accounts receivable	28	18,344	80,187	60,852	124,863
Financial assets held for trading	29	7,856,223	13,464,383	16,544,954	15,488,769
Financial assets designated as at					
fair value through profit or					
loss	30	352,862	525,504	1,503,783	209,563
Available-for-sale financial assets	21	13,267,279	11,273,824	15,502,659	23,727,587
Derivative financial assets	31	113,690	150,581	142,052	108,523
Financial assets held under resale					
agreements	23	3,005,205	2,155,929	6,692,405	7,879,355
Cash held on behalf of clients	32	18,069,785	40,080,354	67,126,626	58,462,277
Cash and bank balances	33	4,580,737	10,415,067	14,113,892	12,627,330
Other current assets	34	858,274	817,749	976,553	1,233,636
Total current assets		62,747,333	110,803,719	157,952,034	146,571,523
Total assets		65,683,933	114,596,455	164,542,366	152,982,298

I FINANCIAL INFORMATION OF THE GROUP (Continued)

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY (Continued)

	Note	As at 31 December			As at 30 June
		2013	2014	2015	2016
Current liabilities					
Accounts payable to brokerage clients	35	18,124,072	40,150,652	67,407,321	58,582,640
Derivative financial liabilities	31	115,289	798,152	190,752	220,573
Financial liabilities held for trading	36	212,217	857,077	93,191	141,233
Financial assets sold under repurchase agreements	37	16,554,682	29,424,912	23,195,913	24,953,733
Placements from banks and other financial institutions	38	5,020,000	3,584,000	2,284,000	1,700,000
Taxes payable	39	453,206	529,124	1,554,174	884,785
Short-term borrowings	40	2,500,000	500,000	–	–
Short-term financing instruments payable	41	3,200,000	5,567,416	11,322,686	4,876,680
Other current liabilities	42	1,961,523	7,884,019	13,203,368	18,082,914
Total current liabilities		48,140,989	89,295,352	119,251,405	109,442,558
Net current assets		14,606,344	21,508,367	38,700,629	37,128,965
Total assets less current liabilities		17,542,944	25,301,103	45,290,961	43,539,740
Non-current liabilities					
Financial assets sold under repurchase agreements	37	–	1,000,000	1,800,000	800,000
Bonds in issue	43	4,685,515	7,698,921	13,790,936	10,780,525
Deferred tax liabilities	25	73	247,738	206,850	127,538
Other non-current liabilities		3,547	4,003	5,069	4,018
Total non-current liabilities		4,689,135	8,950,662	15,802,855	11,712,081
Net assets		12,853,809	16,350,441	29,488,106	31,827,659
Equity					
Share capital	44	6,100,000	6,100,000	6,100,000	6,100,000
Other equity instruments	45	–	–	5,000,000	5,000,000
Reserves	46	4,348,309	5,795,104	8,626,068	8,409,673
Retained earnings		2,405,500	4,455,337	9,762,038	12,317,986
Total equity		12,853,809	16,350,441	29,488,106	31,827,659

I FINANCIAL INFORMATION OF THE GROUP (Continued)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In RMB thousands, unless otherwise stated)

	Note	Attributable to equity holders of the Company										
		Share capital	Capital reserve	Surplus reserves	General reserve	Reserves			Retained earnings	Subtotal	Non-controlling interests	Total
						Investment revaluation reserve	Foreign currency translation reserve					
At 1 January 2013		6,100,000	1,435,956	263,865	2,300,439	98,435	(567)	1,737,038	11,935,166	-	11,935,166	
Profit for the year		-	-	-	-	-	-	1,786,963	1,786,963	(9,089)	1,777,874	
Other comprehensive losses for the year		-	-	-	-	(237,880)	(3,178)	-	(241,058)	-	(241,058)	
Total comprehensive (losses)/income for the year		-	-	-	-	(237,880)	(3,178)	1,786,963	1,545,905	(9,089)	1,536,816	
Capital injected by shareholders		-	-	-	-	-	-	-	-	71,594	71,594	
Appropriation to surplus reserve	46	-	-	198,953	-	-	-	(198,953)	-	-	-	
Appropriation to general reserve	46	-	-	-	369,957	-	-	(369,957)	-	-	-	
Distribution to equity holders	16	-	-	-	-	-	-	(390,000)	(390,000)	-	(390,000)	
At 31 December 2013		6,100,000	1,435,956	462,818	2,670,396	(139,445)	(3,745)	2,565,091	13,091,071	62,505	13,153,576	
At 1 January 2014		6,100,000	1,435,956	462,818	2,670,396	(139,445)	(3,745)	2,565,091	13,091,071	62,505	13,153,576	
Profit for the year		-	-	-	-	-	-	3,407,125	3,407,125	(8,932)	3,398,193	
Other comprehensive income for the year		-	-	-	-	348,522	2,247	-	350,769	25	350,794	
Total comprehensive income/(losses) for the year		-	-	-	-	348,522	2,247	3,407,125	3,757,894	(8,907)	3,748,987	
Capital injected by shareholders		-	-	-	-	-	-	-	-	5,350	5,350	
Appropriation to surplus reserve	46	-	-	369,005	-	-	-	(369,005)	-	-	-	
Appropriation to general reserve	46	-	-	-	695,168	-	-	(695,168)	-	-	-	
Distribution to equity holders	16	-	-	-	-	-	-	(180,000)	(180,000)	-	(180,000)	
At 31 December 2014		6,100,000	1,435,956	831,823	3,365,564	209,077	(1,498)	4,728,043	16,668,965	58,948	16,727,913	

I FINANCIAL INFORMATION OF THE GROUP (Continued)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Note	Attributable to equity holders of the Company											
		Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency		Retained earnings	Subtotal	Non-controlling interests	Total
								translation reserve	Reserves				
At 1 January 2015		6,100,000	-	1,435,956	831,823	3,365,564	209,077	(1,498)	4,728,043	16,668,965	58,948	16,727,913	
Profit for the year		-	-	-	-	-	-	-	8,638,825	8,638,825	13,028	8,651,853	
Other comprehensive income for the year		-	-	-	-	-	46,492	45,883	-	92,375	12	92,387	
Total comprehensive income for the year		-	-	-	-	-	46,492	45,883	8,638,825	8,731,200	13,040	8,744,240	
Issuance of perpetual subordinated bonds	45	-	5,000,000	-	-	-	-	-	-	5,000,000	-	5,000,000	
Capital injected by shareholders		-	-	-	-	-	-	-	-	-	4,750	4,750	
Appropriation to surplus reserve	46	-	-	-	920,271	-	-	-	(920,271)	-	-	-	
Appropriation to general reserve	46	-	-	-	-	1,748,250	-	-	(1,748,250)	-	-	-	
Distribution to other equity instrument holders	16	-	-	-	-	-	-	-	(294,000)	(294,000)	-	(294,000)	
At 31 December 2015		6,100,000	5,000,000	1,435,956	1,752,094	5,113,814	255,569	44,385	10,404,347	30,106,165	76,738	30,182,903	
At 1 January 2015		6,100,000	-	1,435,956	831,823	3,365,564	209,077	(1,498)	4,728,043	16,668,965	58,948	16,727,913	
Profit for the period		-	-	-	-	-	-	-	4,256,577	4,256,577	4,159	4,260,736	
Other comprehensive income/(losses) for the period		-	-	-	-	-	138,726	(1,775)	-	136,951	11	136,962	
Total comprehensive income/(losses) for the period		-	-	-	-	-	138,726	(1,775)	4,256,577	4,393,528	4,170	4,397,698	
Issuance of perpetual subordinated bonds	45	-	5,000,000	-	-	-	-	-	-	5,000,000	-	5,000,000	
Appropriation to general reserve	46	-	-	-	-	6,018	-	-	(6,018)	-	-	-	
At 30 June 2015 (unaudited)		6,100,000	5,000,000	1,435,956	831,823	3,371,582	347,803	(3,273)	8,978,602	26,062,493	63,118	26,125,611	
At 1 January 2016		6,100,000	5,000,000	1,435,956	1,752,094	5,113,814	255,569	44,385	10,404,347	30,106,165	76,738	30,182,903	
Profit for the period		-	-	-	-	-	-	-	2,777,219	2,777,219	27,891	2,805,110	
Other comprehensive (losses)/income for the period		-	-	-	-	-	(292,489)	17,049	-	(275,440)	14	(275,426)	
Total comprehensive (losses)/income for the period		-	-	-	-	-	(292,489)	17,049	2,777,219	2,501,779	27,905	2,529,684	
Capital injected by shareholders		-	-	-	-	-	-	-	-	-	3,600	3,600	
Appropriation to general reserve	46	-	-	-	-	1,066	-	-	(1,066)	-	-	-	
Others		-	-	-	-	-	-	-	(1,626)	(1,626)	-	(1,626)	
At 30 June 2016		6,100,000	5,000,000	1,435,956	1,752,094	5,114,880	(36,920)	61,434	13,178,874	32,606,318	108,243	32,714,561	

I FINANCIAL INFORMATION OF THE GROUP (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In RMB thousands, unless otherwise stated)

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Cash flows from operating activities					
Profit before income tax	2,420,512	4,543,349	11,461,475	5,667,110	3,743,988
Adjustments for:					
Interest expenses from bonds in issue, short-term financing instruments payable and borrowings	282,274	769,456	1,417,663	569,231	781,591
Dividend income and interest income from available-for-sale financial assets	(874,105)	(799,266)	(800,889)	(350,735)	(420,852)
Net gains from disposal of available-for-sale financial assets	(26,835)	(127,003)	(835,995)	(237,157)	(126,703)
Interest income from held-to-maturity financial assets	–	–	(12,737)	–	(12,990)
Net gains attributable to other interest holders of consolidated structured entities	–	70,591	387,087	93,105	150,265
Net gains from disposal of long-term equity investment	–	–	(11,818)	–	–
Gains on disposal of property, plant, equipment and other assets	(6,400)	(137)	(680)	(295)	(66)
Revaluation losses/(gains) on financial instruments at fair value through profit or loss	113,166	(321,684)	(179,304)	(15,056)	114,483
Net foreign exchange (gains)/losses	(215)	(1,659)	14,375	4,638	1,032
Depreciation and amortisation	123,721	144,687	169,502	80,923	99,135
Impairment losses/(reversal)	175,835	(158,814)	154,875	17,263	(13,787)
	<u>2,207,953</u>	<u>4,119,520</u>	<u>11,763,554</u>	<u>5,829,027</u>	<u>4,316,096</u>

I FINANCIAL INFORMATION OF THE GROUP (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Net changes in operating assets					
Margin accounts	(11,710,165)	(17,177,233)	(4,106,441)	(10,820,079)	8,054,064
Financial assets held for trading .	(3,729,139)	(9,306,513)	(10,256,092)	(6,296,954)	(1,941,181)
Cash held on behalf of clients . .	3,384,620	(23,694,715)	(27,901,787)	(69,881,228)	8,468,145
Financial assets held under resale agreements	981,211	1,038,523	(4,638,234)	(1,859,851)	(1,068,888)
Other operating assets	(649,080)	(518,168)	(2,839,452)	(752,987)	845,700
	<u>(11,722,553)</u>	<u>(49,658,106)</u>	<u>(49,742,006)</u>	<u>(89,611,099)</u>	<u>14,357,840</u>
Net changes in operating liabilities					
Accounts payable to brokerage clients	(3,545,102)	23,834,212	28,558,266	70,319,386	(8,053,256)
Financial assets sold under repurchase agreements	4,015,784	15,616,429	(2,639,522)	2,102,563	988,611
Placements from banks and other financial institutions	3,920,000	(1,436,000)	(1,300,000)	(300,000)	(584,000)
Other operating liabilities	1,770,128	3,950,732	4,448,034	4,089,261	2,054,030
	<u>6,160,810</u>	<u>41,965,373</u>	<u>29,066,778</u>	<u>76,211,210</u>	<u>(5,594,615)</u>
Net cash (outflow)/inflow from operating activities before tax . . .	<u>(3,353,790)</u>	<u>(3,573,213)</u>	<u>(8,911,674)</u>	<u>(7,570,862)</u>	<u>13,079,321</u>
Income tax paid	(674,910)	(1,062,907)	(2,506,240)	(1,343,271)	(1,688,370)
Net cash (outflow)/inflow from operating activities	<u>(4,028,700)</u>	<u>(4,636,120)</u>	<u>(11,417,914)</u>	<u>(8,914,133)</u>	<u>11,390,951</u>

I FINANCIAL INFORMATION OF THE GROUP (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Cash flows from investing activities					
Net cash flow from purchase or disposal of available-for-sale financial assets	(6,124,182)	2,055,192	(4,174,857)	(435,547)	(9,121,920)
Dividend income and interest income received from available-for-sale financial assets	678,237	944,342	900,056	376,997	218,521
Cash paid for purchase of property, plant and equipment and other assets	(148,317)	(193,766)	(282,006)	(56,946)	(96,758)
Net cash flow from purchase or disposal of held-to-maturity investments	–	–	(388,413)	–	8,913
Net cash flow from other investing activities	(79,611)	9,998	(178,832)	(22,117)	(29,708)
Net cash (outflow)/inflow from investing activities	(5,673,873)	2,815,766	(4,124,052)	(137,613)	(9,020,952)
Cash flows from financing activities					
Cash inflow from issuing perpetual bonds	–	–	5,000,000	5,000,000	–
Cash inflow from capital injected by non-controlling interests	71,594	5,350	4,750	–	3,600
Cash inflow from borrowing activities	2,500,000	790,001	5,334,951	2,209,999	508,690
Cash inflow from issuing bonds	22,585,000	24,767,416	40,551,059	21,197,955	12,178,614
Dividends paid	(390,000)	(180,000)	–	–	(294,000)
Payments of debts	(14,700,000)	(16,900,000)	(29,427,643)	(9,055,454)	(16,017,361)
Payments of interest on debts	(227,961)	(540,255)	(1,246,315)	(297,478)	(904,650)
Net cash flow from other financing activities	–	–	(187,041)	–	(91,136)
Net cash inflow/(outflow) from financing activities	9,838,633	7,942,512	20,029,761	19,055,022	(4,616,243)
Net change in cash and cash equivalents	136,060	6,122,158	4,487,795	10,003,276	(2,246,244)
Cash and cash equivalents at the beginning of the year/period	5,188,761	5,321,859	11,447,921	11,447,921	15,967,225
Effect of exchange rate changes on cash and cash equivalents	(2,962)	3,904	31,509	(6,412)	19,843
Cash and cash equivalents at the end of the year/period (Note 47)	5,321,859	11,447,921	15,967,225	21,444,785	13,740,824

II NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

CSC Financial Co., Ltd. (the “**Company**”) (formerly known as China Securities Finance Co., Ltd.) is the successor entity of China Securities Finance Limited Liability Company which was approved for establishment by the China Securities Regulatory Commission (the “**CSRC**”) on 2 November 2005. The original registered capital of the Company was RMB2,700,000,000. The registered address of the Company is Flat 4, No. 66 Anli Road, Chaoyang District, Beijing, the People’s Republic of China (the “**PRC**”).

The Company received the approval of CRSC on 30 June 2011 to convert into a joint stock company, with registered capital changed to RMB6,100,000,000. The Company completed the industrial and commercial registration for these changes on 28 September 2011, and obtained its new business license with the Unified Social Credit Code of 91110000781703453H on 31 December 2015.

With respect to the principal activities of the Company and its subsidiaries (collectively, the “**Group**”), those of the Company include: securities brokerage; financial advisory relating to securities trading and securities investment activities; securities underwriting and sponsoring; proprietary trading of securities; securities asset management; agency sale of securities investment funds; introducing brokerage for futures companies; margin financing and securities lending services; agency sale of financial products; market-making of stock options; custodian services for securities investment funds; and sale of precious metal products, and those of the subsidiaries include: commodity futures brokerage; financial futures brokerage and asset management; equity investment and corporate management services; investment management; raising and management of investment funds.

2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board (“**IASB**”). In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared under the historical cost convention, except for derivative financial instruments, financial assets and liabilities held for trading, financial assets and liabilities designated as at fair value through profit or loss and available-for-sale financial assets (unless the fair value cannot be reliably measured) that have been measured at fair value, as further explained in the respective accounting policies below. The Financial Information is presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)2 BASIS OF PREPARATION (*Continued*)

2.1 Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group

Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group are as follows:

		Effective for annual periods beginning on or after
(1)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture
		The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
(2)	Amendments to IAS 12	Income Taxes
(3)	Amendments to IAS 7	Statement of Cash Flows
(4)	Amendments to IFRS 2	Share-based Payment
(5)	IFRS 9	Financial Instruments
(6)	IFRS 15	Revenue from Contracts with Customers
(7)	IFRS 16	Leases

(1) *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture*

These amendments address an inconsistency between the requirements in IFRS 10 — Consolidated Financial Statements and those in IAS 28 — Investment in Associates and Joint Ventures in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

(2) *Amendments to IAS 12 — Income Taxes*

The IASB has issued amendments to IAS 12 — Income taxes. These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. The Group anticipates that the adoption of this amendment will not have a significant impact on the Group's consolidated financial statements.

(3) *Amendments to IAS 7 — Statement of Cash Flows*

The IASB has issued an amendment to IAS 7 — Statement of cash flows introducing, an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The Group anticipates that the adoption of this amendment will not have a significant impact on the Group's consolidated financial statements.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**2 BASIS OF PREPARATION** (*Continued*)**2.1 Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group** (*Continued*)**(4) Amendments to IFRS 2 — Share-based Payment**

The IASB issued an amendment to IFRS 2 — Share-based Payment, addressing three classification and measurement issues. The amendment addresses the accounting for cash-settled share-based payments and equity-settled awards that include a “net settlement” feature in respect of withholding taxes.

The amendment clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority. The Group anticipates that the adoption of this amendment will not have a significant impact on the Group’s consolidated financial statements.

(5) IFRS 9 — Financial Instruments

The complete version of IFRS 9 — Financial Instruments was issued in July 2014. It replaces the guidance in IAS 39 — Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (“OCI”) and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI in which case the accumulated fair value changes in OCI will not be recycled to the profit or loss in the future. For financial liabilities there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through 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. The measurement of the loss allowance generally depends on whether there has been a significant increase in credit risk since initial recognition of the instrument. IFRS 9 requires an entity to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information, including that which is forward-looking.

The directors of the Company anticipate that the adoption of IFRS 9 in the future may have an impact on the Group’s consolidated financial statements, 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.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)***2 BASIS OF PREPARATION** *(Continued)***2.1 Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group** *(Continued)***(5) IFRS 9 — Financial Instruments** *(Continued)*

The Company is analyzing its business models and changes to its existing credit exposures to assess the potential impact on its financial statements resulting from the adoption of IFRS 9. Given the nature of the Company's operations, it is expected to have an impact on the classification of financial instruments as well as the calculation, amount and timing of its allowances for impairment losses for financial assets. Implementation of IFRS 9 will also have an impact on the management process, budgeting and performance review, as well as the IT systems. The Company will start to collect and prepare the information related to the expected credit loss model, updating financial instruments impairment policies and procedures as well as launching relevant staff training in the year of 2017.

It is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detail review has been completed.

(6) IFRS 15 — Revenue from Contracts with Customers

IFRS 15 — Revenue from Contracts with Customers establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control.

IFRS 15 provides specific guidance on capitalisation of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Group anticipates that the adoption of this amendment will not have a significant impact on the Group's consolidated financial statements.

(7) IFRS 16 — Leases

IFRS 16 — Leases addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value, in the statement of financial position. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability in the consolidated income statement, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the consolidated statement of cash flows.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)***2 BASIS OF PREPARATION** *(Continued)***2.1 Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group** *(Continued)***(7) IFRS 16 — Leases** *(Continued)*

For the lessor, 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.

As at 30 June 2016, the amounts of operating leasing commitment was RMB973.39 million as disclosed in Note 50 (2). However, the Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The accounting policies and accounting period of the Company and its subsidiaries are consistent.

Subsidiaries are all entities (including structured entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group assesses whether it has power over an investee, the Group's voting rights or potential voting rights and other contractual arrangements are considered.

Income or expenses resulted from acquisition or disposal of subsidiaries, from the date on which the Company obtains control to the date on which the Company ceases its control over subsidiaries, are in the scope of consolidation. Intra-group assets and liabilities, equity, income, expenses, and cash flow which are relevant to all intra-group transactions occurred should be offset in consolidation.

A portion of equity over subsidiaries and profit or loss which does not belong to the Company's share should be treated as non-controlling interests. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Company and are presented separately in the consolidated income statement and within equity in the consolidated statements of financial position separately from the equity attributable to owners of the Company.

3 SIGNIFICANT ACCOUNTING POLICIES**(1) Accounting period**

The accounting year starts on 1 January and ends on 31 December.

(2) Functional and presentation currency

The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)***3 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(3) Cash and cash equivalents**

Cash comprises cash on hand and demand deposits which are not restricted as to use.

Cash equivalents comprise short term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

(4) Foreign currency transactions and foreign currency translation

The Group adopts the sub-account system to record foreign currency transactions. Foreign currency transactions are initially recorded on the original currency respectively at the dates of the transactions.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the prevailing functional currency exchange rates at the end of the reporting period. All differences are recorded in the consolidated income statements.

For financial statements prepared in US dollars, foreign currencies other than US dollars are translated into US dollars using the central parity rate published by the People's Bank of China or other authorities as at the end of the reporting period. For financial statements prepared in RMB, foreign currencies are translated into RMB using the central parity rate published by the People's Bank of China or other authorities as at the end of the reporting period. The exchange differences resulting from foreign currency financial statement translation of subsidiaries are recognised in other comprehensive income.

(5) Financial instruments

Financial instruments are contracts which become one enterprise's financial assets, at the same time become another enterprises' financial liabilities or equity instruments.

(a) Initial recognition and derecognition of financial instruments

The Group recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognised and derecognised using trade date accounting. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. Trade date is the date that the Group commits to purchase or sell the financial asset.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised, which means to derecognise a financial asset from the account and statement of financial position of the enterprise when:

- (i) The rights to receive cash flows from the assets have expired; or
- (ii) The Group has transferred its rights to receive cash flows from the asset; or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and (a) the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)***3 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(5) Financial instruments** *(Continued)***(a) Initial recognition and derecognition of financial instruments** *(Continued)*

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

When the Group has made substantial modifications to a part of the contract terms of an existing financial liability, the relevant portion of the existing financial liability is derecognised, while the financial liability under modified terms is recognised as a new financial liability.

On derecognition of a financial liability in its entirety or partially, the difference between the carrying amount and the consideration paid (including non-cash assets transferred or new financial liabilities assumed) shall be recognised in profit or loss.

If the Group repurchases a part of a financial liability, the Group shall allocate the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between the carrying amount allocated to the part derecognised and the consideration paid (including any non-cash assets transferred or liabilities assumed) for the part derecognised shall be recognised in profit or loss.

(b) Classification and measurement of financial instruments

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are measured at fair value when they are recognised initially. The transaction cost attributable to the acquisition of the financial assets is recognised as profit or loss for the financial assets at fair value through profit or loss, and is recognised into the initial cost of the other financial assets.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and other financial liabilities. The transaction cost attributable to the acquisition of the financial liabilities is recognised as profit or loss for the financial liabilities at fair value through profit or loss, and is recognised into the initial cost of the other financial liabilities.

Subsequent measurement of financial instruments depends on their classification as follows:

(i) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include financial assets and financial liabilities held for trading, and financial assets and financial liabilities designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is acquired for the purpose of sale or repurchase in the near term. Derivatives are also classified as held for trading except for the derivative that is a financial guarantee contract or a designated effective hedging instrument.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)***3 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(5) Financial instruments** *(Continued)***(b) Classification and measurement of financial instruments** *(Continued)***(i) Financial assets and financial liabilities at fair value through profit or loss** *(Continued)*

Such financial instruments are subsequently measured at fair value. Gains or losses arising from the difference between fair value and previous carrying amount are recognised in profit or loss as net investment gains or losses. Realised gains or losses upon disposal of held-for-trading financial assets are recognised as net investment gains or losses. Dividends and interest accrued during the holding period from financial assets measured at fair value through profit or loss are recognised as net investment gains.

Financial assets or financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if one of the following criteria is satisfied:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on different bases.
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel.
- Hybrid instruments containing one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear with little or no analysis that the embedded derivative(s) would not be separately recorded.
- Hybrid instruments containing embedded derivatives which need to be separated but cannot be separately measured on acquisition date or subsequent balance sheet date.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets, with fixed or determinable payments and a fixed maturity, which the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method. If there are no significant differences between the contractual interest rates or coupon rates and effective interest rates, held-to-maturity investments are measured at amortised cost using the contractual interest rates or coupon rates.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method. If there are no significant differences between the contractual interest rates and effective interest rates, loans and receivables are measured at amortised cost using the contractual interest rates. When loans and receivables are collected, differences between the amount received and the carrying amount are recognised as profit or loss in the consolidated income statements.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)***3 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(5) Financial instruments** *(Continued)***(b) Classification and measurement of financial instruments** *(Continued)**(iv) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are subsequently measured at fair value. When the fair value cannot be reliably measured, equity investment classified as available-for-sale financial assets are carried at cost. When available-for-sale financial assets are disposed of, the difference between the consideration received plus cumulative gains or losses previously recorded in equity arising from changes of fair value and the carrying amount are recognised as net investment gains or losses.

(v) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities that are not classified or designated as financial liabilities at fair value through profit or loss. Other liabilities are subsequently measured at amortised cost using the effective interest rate method.

(vi) Reclassification of financial assets

When the Group changes the intention, the held-to-maturity investments are reclassified as available-for-sale financial assets. If the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, it shall reclassify any remaining held-to-maturity investments as available-for-sale financial assets, and shall not classify any financial assets as held-to-maturity during the current and the two subsequent financial years.

(c) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of market approach, income approach and cost approach. When using valuation techniques, the Group prefers observable inputs. Unobservable market inputs would not be used unless relevant observable inputs are not available or not practicable to access.

The Group uses the following hierarchy for determining and disclosing the fair values of financial assets and financial liabilities based on the inputs used when determining the fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**3 SIGNIFICANT ACCOUNTING POLICIES** (*Continued*)**(5) Financial instruments** (*Continued*)**(c) Fair value of financial instruments** (*Continued*)

Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The level of fair value measurement depends on the lowest level of input that is significant to the entire fair value measurement.

(d) Impairment of financial assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset is impaired and impairment allowance shall be made. The objective evidence of impairment is a result of one or more events that occurred after the initial recognition of financial assets and has an impact on the estimated future cash flows of the financial assets that can be reliably measured.

(i) Financial assets carried at amortised cost

The amount of any impairment loss identified 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 yet been incurred). The loss is recognised in the profit or loss. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition), and the value of collateral should be considered.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognised in the profit or loss. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account and recognised in the profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**3 SIGNIFICANT ACCOUNTING POLICIES** (*Continued*)**(5) Financial instruments** (*Continued*)**(d) Impairment of financial assets** (*Continued*)**(ii) Available-for-sale financial assets**

If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss recognised in other comprehensive income is reclassified from equity to the profit or loss and is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is “significant” or “prolonged” requires judgement. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. A significant or prolonged decline in the fair value of an equity instrument is an indicator of impairment in such investments where a decline in the fair value of equity instrument below its initial cost by 50% or more; or fair value below cost for one year or longer, the decline trend is expected as prolonged and substantive change will not occur, upon which impairment loss is recognised. Impairment losses of available-for-sale equity instruments are not reversed through profit or loss. Increases of their fair value after the impairment are recognised directly in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the previously recognised impairment loss is reversed through the profit or loss.

(iii) Financial assets carried at cost

If there is objective evidence that a financial asset is impaired, the difference between the carrying amount of a financial asset and the present value of the future cash flows discounted at the prevailing market rate of return for a similar financial asset, is recognised as an impairment loss through profit or loss. The impairment losses are not reversed once recognised.

(e) Derivative financial instruments

Derivatives financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

The changes on fair value of derivative financial instruments are directly recognised in gains or losses. In the case of disposal of derivative financial instruments, the difference between the fair value and the initial recognised value is recognised as net investment gains or losses.

(f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**3 SIGNIFICANT ACCOUNTING POLICIES** (*Continued*)**(6) Impairment of accounts receivable****(a) Individually significant accounts receivable that are individually assessed for impairment**

The impairment for significant accounts receivable are assessed individually. Impairment loss is recognised in profit or loss when there is objective evidence that an account receivable is impaired.

(b) Accounts receivable that are collectively assessed for impairment

The Group categorises accounts receivable into different portfolios with aging as similar credit risk characteristic and applies aging analysis to collectively assess the impairment for accounts receivable and other receivables.

(7) Margin financing and securities lending services

Margin financing and securities lending services refers to the lending of funds by the Group to clients for purchase of securities, or lending of securities by the Group to clients for securities selling, for which the clients provide the Group with collateral.

The Group recognises margin accounts at initial recognition, and recognises interest income accordingly. Securities lent are not derecognised, but still accounted for as the original financial assets, and interest income is recognised accordingly.

Securities trading on behalf of margin financing and securities lending clients are accounted for as securities brokerage services.

(8) Fiduciary wealth management

The Group's fiduciary wealth management business includes targeted asset management, collective asset management and specified asset management. The Group keeps separate accounting records for each of these investment schemes, and periodically reconciles the accounting and valuation results of each scheme with the custodians.

(9) Associates

Associates are all entities 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 Group's investments in associate are stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statements and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in associate.

(10) Investment properties

Investment properties comprise real estate properties for the purpose of earning rental income and/or for capital appreciation, including buildings that have been leased.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)*

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(10) Investment properties *(Continued)*

The Group's investment properties are accounted for using the cost model. The initial recognition and subsequent measurement of buildings and properties that are leased out are accounted for using the same measurement and depreciation methods as those for property, plant and equipment.

(11) Property, plant and equipment

(a) Recognition criteria for property, plant and equipment

Property, plant and equipment refer to tangible assets held and controlled by the Group that the Group expects to use for more than one year for using in the supply of services or for administrative purpose. An asset is recognised as property, plant and equipment only if the following criteria are both satisfied:

- (i) It is highly probable that future economic benefits associated with the property, plant and equipment will flow to the Group;
- (ii) The cost of the asset can be measured reliably.

(b) Property, plant and equipment initially measured at cost

The cost of an item of purchased property, plant and equipment comprises purchase price, tax and any costs directly attributable to bringing the asset to the condition necessary for its intended use and it includes transportation costs, installation and assembly costs, and professional service fees.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance expenditures are recognised in the profit or loss as incurred. Depreciation of property, plant and equipment is calculated on the straight-line basis monthly.

The estimated useful life, the depreciation rate and the estimated residual value of each item of property, plant and equipment are as follows:

Types of property plant and equipment	Estimated useful life	Monthly depreciation rate	Estimated residual value
Properties and buildings	35 years	2.262‰	5%
Electronic devices	2 to 5 years	1.667‰–4.167%	0%
Transportation vehicles	5 years	1.617%	3%
Communication equipment	5 years	1.617%	3%
Office equipment	3 years	2.778%	0%
Security equipment	5 years	1.617%	3%
Others	5 years	1.617%	3%

The years that the property, plant and equipment were already in use were excluded when determining the estimated useful lives of these types of the property, plant and equipment. The estimated useful life, the estimated residual value and the depreciation method of each type of the property, plant and equipment are reviewed, and adjusted if appropriate, at each financial year end. Gains and losses on disposal of property, plant and equipment, the costs of disposal and taxes in connection with such disposal are considered in the determination of the estimated residual value.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**3 SIGNIFICANT ACCOUNTING POLICIES** (*Continued*)**(11) Property, plant and equipment** (*Continued*)*(c) Construction in progress*

Costs of construction in progress are determined based on the actual expenditures incurred which include all necessary expenditures incurred during the construction period, borrowing costs eligible for capitalisation and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property, plant and equipment when such assets are ready for their intended use.

(12) Intangible assets

Intangible assets are recognised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably, and is measured initially at cost. Intangible assets acquired from business combination and their fair value can be measured reliably are recognised as intangible assets individually and measured at their fair value.

Useful lives of intangible assets are determined as the period that the assets are expected to generate economic benefits for the Group, and when there is no foreseeable limit on the period of time over which the asset is expected to generate economic benefits for the Group, the intangible assets are regarded as having indefinite useful life.

Intangible assets with finite useful lives shall be amortised on a straight-line basis over the useful period. The useful lives and amortisation method of the intangible assets with finite useful lives shall be reviewed by the Group at least at each financial year end, and adjusted as appropriate. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life, or there is an active market for the asset, where residual value can be determined by reference to that market; and it is probable that such a market will exist at the end of the asset's useful life.

Trading seat rights at Shanghai and Shenzhen Stock Exchanges are amortised over 10 years (industrial rules issued in subsequent years will be adopted thereon). Trading seat rights for own use are recognised into expenses in the current period, and cost of leased seats are recorded in "other operating expenses and cost". Outsourcing software is amortised over 5 years. Self-developed software, patents, non-patents, trade mark right, client relationship and other intangible assets are amortised over their useful lives.

Intangible assets with indefinite useful lives need to be assessed for impairment no matter if there is any impairment evidence. These assets need not to be amortised, and their useful lives shall be reviewed during every accounting period. If there is any evidence to support that the useful lives are definite, these intangible assets shall apply the policies of intangible assets with definite useful lives.

(13) Revenue

Revenue from the securities brokerage services is recognised on the date of the securities transaction.

Revenue from underwriting services is recognised when the outcome of the underwriting services provided can be reliably estimated and reasonably recognised. The revenue is usually recognised upon completion of the offering.

Revenue from asset management services is recognised when management services are provided in accordance with the asset management contract.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**3 SIGNIFICANT ACCOUNTING POLICIES** (*Continued*)**(13) Revenue** (*Continued*)

Interest income from the Group's interest-earning financial assets and interest expense on the Group's financial liabilities are recognised in the consolidate income statements by using the effective interest method. Contractual interest rates will be applied if there are no significant differences between the effective interest rates and the contractual interest rates.

Revenues from other businesses are recognised on the basis of when the contractual obligations are fulfilled and when the service fees and commissions are actually received.

(14) Income tax

Income tax comprises current tax and deferred income tax. Current tax is the amount of current income tax payable calculated based on current taxable income. Taxable income is calculated based on the adjustment to the current year pre-tax accounting profit according to the applicable tax laws.

For current income tax liabilities or current income tax assets generated from the current and prior periods, the expected income tax payable or the income tax deduction is calculated according to the applicable tax laws.

The Group measures deferred income tax using the liability method on temporary differences arising between the carrying amount of an asset or liability at the end of the reporting period and its tax base.

All taxable temporary differences are recognised as deferred income tax liabilities, except:

- (i) The deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- (i) The deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)***3 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(14) Income tax** *(Continued)*

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilised. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

(15) Employee compensation

Employee compensation refers to all forms of consideration and other related expenditure given or incurred by the Group in exchange for services rendered by employees or compensate for the termination of labour contract. The compensation payable is recognised as liability in the accounting period of services provided by employee. The employee compensation comprises of short-term compensation, post-employment welfare, termination benefits, and other long-term employee welfares.

Short-term compensation comprises of staff salaries, bonus, allowances, and subsidies, as well as social insurance expenses including employee welfare, medical insurance charge, work-related injury insurance charge, and maternity insurance and also covers housing funds, labour union expenses, personnel education expenses, short-term paid leave, short-term profit-sharing plan, non-monetary welfare and other short-term compensations.

Post-employment welfare plans refer to the agreement reached or regulations and measures developed by the Group in consideration of post-employment welfare. The defined contribution plans refer to post-employment welfare plans in which the Group pays contribution to an independent fund and the Group has no further payment obligation.

(16) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the Group receives grants of monetary assets, the grants are recorded at the amount received or receivable. Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets. When fair value cannot be reliably measured, they are recognised at nominal amount.

Government grants for purchasing, building or forming long-term assets in other methods regulated in government documents are recognised as government grants related to assets. Judgements should be made based on the necessary basic conditions for obtaining the government grants when government documents are unclearly stated. Government grants with purchasing, building or forming long-term assets in other methods as basic condition, are recognised, as government grants related to assets, whereas the rest as government grants related to income.

Government grants related to income which are to compensate relevant expenditures or losses in future periods are recognised as deferred income and released to profit or loss during the period when the expense incurs. Government grants that are to compensate the incurred expenses or losses are recognised into profit or loss directly. Government grants related to assets are recognised as deferred income, and released to profit or loss over the expected useful life of the relevant assets by equal annual instalments. Government grants measured at nominal amount are recorded into profit or loss directly.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**3 SIGNIFICANT ACCOUNTING POLICIES** (*Continued*)**(17) Long-term pre-paid expense**

The improvement expenses on property, plant and equipment under operating leases are amortised on a straight-line basis over the shorter of the contractual lease terms and 5 years, while long-term pre-paid expenses are amortised on a straight-line basis over their respective benefit periods but no longer than 10 years.

(18) Impairment

The Group assesses impairment of assets other than deferred tax assets and financial assets as follows:

The Group assesses at each financial reporting date whether there is any indication that assets are impaired. When any such indication exists, the Group estimates the recoverable amount and assesses impairment allowance. For goodwill acquired from business combination and intangible assets with indefinite useful life, no matter there is objective evidence of impairment or not, impairment should be assessed at each annual financial reporting date. Impairment for intangible assets not readily for use is also assessed annually.

The recoverable amount is the higher of an asset's fair value less costs of disposal and the present value of the estimated future cash flow expected to be derived from the asset. The Group estimates the recoverable amount on the basis of individual asset. When it is difficult to estimate the recoverable amount individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The recognition of a group of assets shall base on whether the main cash flow generated by the group of assets is independent from those generated by other assets or groups of assets.

When recoverable amounts of assets or groups of assets are lower than their carrying amounts, the Group decreases the carrying amount to recoverable amount. The decreased amounts are recognised in profit or loss and corresponding allowances are made.

For impairment test of goodwill, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units when being unable to be allocated to each of the cash-generating units. Cash-generating units or groups of cash-generating units refer to those that can benefit from the synergies of the combination and are not larger than the reportable segment determined by the Group.

When performing impairment test for the (groups of) cash-generating unit to which goodwill is allocated, if there is indication of impairment, the Group firstly tests the (groups of) cash-generating unit excluding goodwill, calculates the recoverable amount and recognises relevant impairment losses. The Group then tests the (groups of) cash-generating units including goodwill, and compares the carrying amount and recoverable amount. If the carrying amount exceeds the recoverable amount, the amount of impairment loss is firstly deducted from the carrying amount of goodwill allocated to the (groups of) cash-generating unit, and then from the carrying amount of each of other assets (other than goodwill) within the (groups of) cash-generating unit, on pro rata basis.

(19) Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- or,

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**3 SIGNIFICANT ACCOUNTING POLICIES** (*Continued*)**(19) Related parties** (*Continued*)

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(20) Provisions and contingencies

The obligation pertinent to contingencies shall be recognised as provisions when the following conditions are satisfied concurrently:

- the obligation is a present obligation of the Group;
- the obligation is probable to cause a future outflow of resources from the Group as a result of performance of the obligation;
- the amount of the obligation can be reliably measured.

The amount of a provision is initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, the Group takes into full consideration of the risks, uncertainty, time value of money and other factors pertinent to the contingencies. The Group reviews the book value of the provisions at the end of the reporting period. If there is substantial evidence that the amount of provisions cannot reflect the current best estimate, the Group will adjust the amount in accordance with the current best estimate.

A contingent liability is a possible obligation that rises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or, a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**3 SIGNIFICANT ACCOUNTING POLICIES** (*Continued*)**(21) Profit distribution**

After-tax profit for the year is firstly applied to make up for the losses of previous years. Secondly, the Company sets aside 10% of after-tax profit for a statutory reserve, 10% of after-tax profit for a general risk reserve, and according to the requirements of the CSRC, sets aside 10% of after-tax profit for a transaction risk reserve. In addition, with the approval from the Annual General Meeting, the Company may appropriate certain proportions of net profit for a discretionary reserve after setting aside the funds for the various statutory reserve funds. The remaining after-tax profit is distributed according to the resolution approved at the Annual General Meeting. If the aggregate balance of the statutory reserve funds has reached 50% of the Company's registered capital, appropriation for the statutory reserve is no longer mandatory.

General risk reserve and transaction risk reserve sets aside by the Company are used to make up for any losses arising from securities transaction. The Company's reserve funds are used to make up for any losses of the Company, expand the Company's business or as additional capital of the Company. However, capital reserve cannot be used to make up for the Company's losses. When the statutory reserve funds are converted to capital, the balance of the statutory reserve funds cannot be less than 25% of the Company's registered capital.

Dividends proposed by the directors are not deducted from equity, until they have been approved by the shareholders in a shareholders meeting. When these dividends have been approved by the shareholders, they are recognised as a liability.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that could require an adjustment to the carrying amounts of the assets or liabilities.

(1) Impairment losses on available-for-sale financial assets

In determining whether there is any objective evidence that impairment losses have occurred on available-for-sale financial assets, the Group assesses periodically whether there has been a significant or prolonged decline in the fair value of the investments below its cost, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry environment, price volatility as well as operating and financing cash flows. This requires a significant level of management judgement which would affect the amount of impairment losses.

(2) Impairment losses on margin financing and securities lending

Based on the clients' credit standing, collateral securities, guaranteed ratio, solvency ability and willingness and other factors, the Group determines whether there is any indication of impairment on margin financing and securities lending. Such financial assets with indications of impairment are subject to individual impairment assessment and special allowance for bad debts. The remaining of such financial assets are subject to collective assessment.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES** (*Continued*)**(3) Fair value of financial instruments**

If the market for a financial instrument is not active, the Group estimates fair value by using a valuation technique. Valuation techniques include using recent prices in arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, or discounted cash flow analyses and option pricing models. To the extent practicable, valuation technique makes the maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

(4) Income tax

Determining provisions for income tax requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and provides for taxes accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation of the tax treatments of certain transactions and also significant assessment of the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

(5) Consolidation of structured entities

Management makes significant judgment on whether to control and consolidate structured entities. The decision outcome impacts accounting method and the financial and operational results of the Group.

When assessing control, the Group considers: 1) the level of control of the investor over the investee; 2) variable returns gained through participation of relevant activities of the investee; and 3) the amount of return that is gained from using its power over the investee. When there are changes over one or more of the three control elements as described above, the Group will reassess whether control is still valid.

When assessing whether there is control over the structured entities, the Group also considers whether the decisions it makes are as a principal or as an agent. Aspects of considerations normally include the decision making scope over the structured entities, substantive rights of third parties, reward of the Group, and the risk of undertaking variable returns from owning other benefits of the structured entities.

5 TAXATION

According to relevant PRC tax policies, the most significant categories of taxes to which the Group is currently subjected are as follows:

(1) Income tax

From 1 January 2008, the "Enterprise Income Tax Law of the PRC" and the "Regulations on the Implementation of Enterprise Income Tax Law of the PRC" became effective for the Company and the subsidiaries excluding China Futures Co., Ltd. and China (International) Finance Holding Co., Ltd. Income tax computation and payment are governed by the "Announcement of the State Administration of Taxation on Printing and Distributing Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by Enterprises with Multi-Location Operations" (Public Notice of the State Administration of Taxation [2012] No. 57). The income tax rate applicable to the Company is 25%.

In accordance with Explanation on Implementation of Tax Preferential Treatments concerning Western China Development Strategy issued by local taxation bureau in Yuzhong District, Chongqing City, the applicable income tax rates for China Futures Co., Ltd. is 15%.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**5 TAXATION** (*Continued*)**(1) Income tax** (*Continued*)

The income tax rate for China (International) Finance Holding Co., Ltd. (a Hong Kong Company) is 16.5%.

(2) Value added tax

Pursuant to the “Circular regarding the Comprehensive Implementation of the Pilot Programs for Transformation from Business Taxes to Value-added Taxes (the “**VAT Pilot Programs**”)” (Cai Shui [2016] No. 36), the “Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs (Cai Shui [2016] No. 46) and the “Supplementary Circular regarding VAT Policies Applicable to Transactions between Financial Institutions” (Cai Shui [2016] No. 70) issued by the Ministry of Finance (the “**MOF**”) and the State Administration of Taxation (the “**SAT**”) of the PRC, effective from 1 May 2016, the Group is subject to value-added taxes on its income from principal businesses at 6%, instead of business tax at 5% prior to 1 May 2016.

After the implementation of the VAT Pilot Programs, the Group's related income is presented at net value of its respective VAT in the consolidated income statements.

(3) Business tax

The Group's computation and payment of business taxes are governed by “Interim Regulations of the PRC on Business Tax” (State Council Order [2008] No. 540), “the Implementation Rules for the Interim Regulations of the PRC on Business Tax” (Ministry of Finance Order [2011] No. 65), “the Announcement of the State Administration of Taxation on Issues concerning the Business Tax on the Transfer of Financial Commodities” (Guo Shui [2013] No. 63), and other relevant policies. The business tax is calculated and paid at the tax rate of 5% of taxable business income.

According to the “Circular of the Ministry of Finance and the State Administration of Taxation on Business Taxation in Capital Markets” (Cai Shui [2004] No. 203), securities companies are allowed to deduct following expenses charged on behalf of other parties from their taxable business income.

- i. Securities trading regulatory fees collected on behalf of the securities exchanges;
- ii. Fees received on behalf of the stock exchanges in its agency trading of securities;
- iii. Activation fees of stockholder accounts (include A Shares and B Shares), account opening fees of special transferred stocks, and transfer fees, as well as settlement fees of B Shares, and custody fees collected on behalf of the China Securities Depository and Clearing Co., Ltd.

According to the “Circular of the Ministry of Finance and the State Administration of Taxation on Issues Concerning the Business Tax of the Securities Investor Protection Fund” (Cai Shui [2006] No. 172), securities companies are allowed to deduct their investor protection fund contributions from their taxable business income.

(4) Urban maintenance and construction taxes and educational surcharges are charged at 7% and 3% of turnover taxes payable, respectively. In addition, according to the provisions of “Administrative Measures for Collection and Usage of Local Educational Surcharges in Beijing” (Jin Zheng Fa [2011] No. 72), since 1 January 2012, the local educational surcharges of the Company's head office and securities trading department located in Beijing are levied at 2% of the total amount of value-added tax, consumption tax and business tax.

(5) Vehicle and vessel taxes, property taxes and stamp duties are levied in accordance with the provisions of the relevant tax laws and regulations.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)

6 OPERATING SEGMENT INFORMATION

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 engaged in the following activities.

Investment banking segment: provides investment banking services, including financial advisory, sponsoring, underwriting of equity and debt securities, among others.

Wealth management segment: serves as an agent for business and personal clients in the trading of equity stocks, funds, bonds and futures; and provides margin financing and securities lending services to these clients, among other things.

Trading and institutional client services segment: engages in trading of financial products; serves as an agent for institutional clients (financial institutions) in the trading of equity stocks, funds and bonds, and provides them with margin financing and securities lending; provides services in relation to sales of financial products to institutional clients, and provides specialised research and advisory services to assist their investment decision-making.

Investment management segment: develops asset management products, fund management products services, and private placement offerings, and provides related services through subsidiaries and consolidated structured entities.

Other segment: primarily the treasury function from the head office.

Management monitors the performance and results of these operating segments for considerations of resource allocation and operating decision-making.

Income taxes are managed as a whole and are not allocated to operating segments.

	For the year ended 31 December 2013					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	1,011,701	2,693,926	393,989	288,168	–	4,387,784
Interest income	–	1,257,962	254,812	5,413	103,260	1,621,447
Net investment gains	–	–	1,209,325	37,658	–	1,246,983
Other income	–	12,213	–	–	53,837	66,050
Total revenue	1,011,701	3,964,101	1,858,126	331,239	157,097	7,322,264
Segment expenses	(619,697)	(2,797,831)	(1,298,979)	(138,371)	(46,874)	(4,901,752)
Including: Interest expenses	(409)	(337,800)	(737,431)	(1,833)	–	(1,077,473)
Impairment losses	–	(136,351)	(39,635)	–	151	(175,835)
Profit before income tax	392,004	1,166,270	559,147	192,868	110,223	2,420,512
Income tax expenses						(642,638)
Net profit for the period						1,777,874
Total assets	608,005	33,059,702	29,599,760	1,292,218	3,379,827	67,939,512
Total liabilities	813,102	25,785,871	26,489,081	913,658	784,224	54,785,936
Other segment information:						
Depreciation and amortisation	22,095	50,544	27,991	6,984	16,107	123,721
Capital expenditure	18,194	65,761	25,727	19,987	18,648	148,317

II NOTES TO THE FINANCIAL INFORMATION (Continued)

6 OPERATING SEGMENT INFORMATION (Continued)

	For the year ended 31 December 2014					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	1,959,165	3,722,969	524,257	334,464	–	6,540,855
Interest income	–	2,318,335	365,923	5,617	240,273	2,930,148
Net investment gains	–	–	1,870,012	32,813	–	1,902,825
Other income	–	25,891	–	2,324	49,517	77,732
Total revenue	1,959,165	6,067,195	2,760,192	375,218	289,790	11,451,560
Segment expenses	(989,282)	(3,818,726)	(1,718,938)	(189,480)	(191,785)	(6,908,211)
Including: Interest expenses	(1,240)	(825,109)	(1,128,507)	(5,600)	–	(1,960,456)
Impairment losses	–	137,075	21,763	–	(24)	158,814
Profit before income tax	969,883	2,248,469	1,041,254	185,738	98,005	4,543,349
Income tax expense						(1,145,156)
Net profit for the year						3,398,193
Total assets	164,510	74,354,914	34,895,305	5,332,367	8,659,030	123,406,126
Total liabilities	698,910	55,744,630	44,945,433	3,978,477	1,310,763	106,678,213
Other segment information:						
Depreciation and amortisation	28,437	56,851	24,803	10,976	23,620	144,687
Capital expenditure	34,864	84,743	32,061	9,134	32,964	193,766

II NOTES TO THE FINANCIAL INFORMATION (Continued)

6 OPERATING SEGMENT INFORMATION (Continued)

	For the year ended 31 December 2015					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	3,397,595	9,181,015	1,531,354	790,908	–	14,900,872
Interest income	–	4,578,103	537,768	10,481	446,607	5,572,959
Net investment gains	–	–	3,374,968	593,136	11,818	3,979,922
Other income	–	26,963	–	5,628	26,122	58,713
Total revenue	3,397,595	13,786,081	5,444,090	1,400,153	484,547	24,512,466
Segment expenses	(1,507,617)	(7,965,550)	(2,862,522)	(402,871)	(312,431)	(13,050,991)
Including: Interest expenses	(8,183)	(1,810,950)	(1,339,530)	(59,945)	–	(3,218,608)
Impairment losses	–	(114,943)	(27,893)	–	(12,039)	(154,875)
Profit before income tax	1,889,978	5,820,531	2,581,568	997,282	172,116	11,461,475
Income tax expense						(2,809,622)
Net profit for the year						8,651,853
Total assets	510,241	107,478,581	55,308,541	11,812,500	8,078,512	183,188,375
Total liabilities	1,537,332	98,024,312	40,311,185	9,688,253	3,444,390	153,005,472
Other segment information:						
Depreciation and amortisation	36,735	59,720	35,649	13,578	23,820	169,502
Capital expenditure	46,107	133,333	53,484	19,445	29,637	282,006

II NOTES TO THE FINANCIAL INFORMATION (Continued)

6 OPERATING SEGMENT INFORMATION (Continued)

	For the six months ended 30 June 2015 (unaudited)					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	773,189	5,375,714	722,289	254,130	–	7,125,322
Interest income	–	2,293,443	207,270	3,277	185,523	2,689,513
Net investment gains	–	–	1,728,599	215,126	–	1,943,725
Other income	–	2,546	–	9	9,684	12,239
Total revenue	773,189	7,671,703	2,658,158	472,542	195,207	11,770,799
Segment expenses	(453,166)	(3,886,519)	(1,478,083)	(149,936)	(135,985)	(6,103,689)
Including: Interest expenses	(1,590)	(725,605)	(824,858)	(32,646)	–	(1,584,699)
Impairment losses	–	(16,963)	(300)	–	–	(17,263)
Profit before income tax	320,023	3,785,184	1,180,075	322,606	59,222	5,667,110
Income tax expense						(1,406,374)
Net profit for the period						4,260,736
Other segment information:						
Depreciation and amortisation	3,725	58,187	10,145	1,048	7,818	80,923
Capital expenditure	4,474	32,688	9,452	1,371	8,961	56,946

II NOTES TO THE FINANCIAL INFORMATION (Continued)

6 OPERATING SEGMENT INFORMATION (Continued)

	For the six months ended 30 June 2016					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	2,023,015	1,914,240	665,269	524,892	–	5,127,416
Interest income	–	1,752,510	262,517	4,996	245,401	2,265,424
Net investment gains	–	–	884,353	280,394	–	1,164,747
Other income	–	61,172	–	–	12,742	73,914
Total revenue	2,023,015	3,727,922	1,812,139	810,282	258,143	8,631,501
Segment expenses	(892,214)	(2,302,019)	(1,324,645)	(260,739)	(107,896)	(4,887,513)
Including: Interest expenses	(15,739)	(559,642)	(811,679)	(63,427)	–	(1,450,487)
Impairment losses	–	13,725	199	–	(137)	13,787
Profit before income tax	1,130,801	1,425,903	487,494	549,543	150,247	3,743,988
Income tax expense						(938,878)
Net profit for the period						2,805,110
Total assets	421,343	82,949,554	64,166,051	15,346,318	12,365,413	175,248,679
Total liabilities	2,230,464	70,081,046	55,204,866	12,206,025	2,811,717	142,534,118
Other segment information:						
Depreciation and amortisation	30,955	27,795	16,860	6,913	16,612	99,135
Capital expenditure	27,420	32,812	17,026	6,181	13,319	96,758

7 FEE AND COMMISSION INCOME

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Brokerage services	3,062,504	4,200,086	10,686,326	6,086,528	2,535,541
Investment banking	1,011,701	1,959,165	3,397,595	773,189	2,023,015
Asset and fund management	204,162	334,148	776,313	244,236	524,891
Others	109,417	47,456	40,638	21,369	43,969
Total	4,387,784	6,540,855	14,900,872	7,125,322	5,127,416

II NOTES TO THE FINANCIAL INFORMATION (Continued)

8 INTEREST INCOME

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Margin financing and securities lending	860,578	1,902,894	3,238,062	1,738,116	1,205,452
Financial assets held under resale agreements	90,227	162,635	109,398	43,382	79,245
Bank deposits	670,642	862,677	2,217,215	906,809	967,355
Others	–	1,942	8,284	1,206	13,372
Total	<u>1,621,447</u>	<u>2,930,148</u>	<u>5,572,959</u>	<u>2,689,513</u>	<u>2,265,424</u>

9 NET INVESTMENT GAINS

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Net gains from disposal of available-for-sale financial assets	26,835	127,003	835,995	237,157	126,703
Dividend and interest income from available-for-sale financial assets	874,105	799,266	800,889	350,735	420,852
Net gains from financial assets held for trading	192,369	1,784,148	2,852,096	1,793,812	517,716
Net gains/(losses) from financial liabilities held for trading	1,472	(5,222)	(35,626)	(21,611)	479
Net (losses)/gains from financial assets designated as at fair value through profit or loss	(25,987)	184,391	52,789	141,530	1,461
Net gains/(losses) from derivatives	178,189	(916,170)	(163,689)	(464,793)	234,811
Interest income from held-to-maturity investments	–	–	12,737	–	12,990
Net gains from disposal of long-term equity investment	–	–	11,818	–	–
Net gains attributable to other interest holders of consolidated structured entities	–	(70,591)	(387,087)	(93,105)	(150,265)
Total	<u>1,246,983</u>	<u>1,902,825</u>	<u>3,979,922</u>	<u>1,943,725</u>	<u>1,164,747</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

10 OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Government grants	33,856	33,238	41,167	4,112	62,382
Rental income	16,793	16,655	17,183	6,948	6,132
Gains on disposal of property, plant and equipment	6,400	424	684	300	66
Net gains/(losses) on foreign exchange	215	1,659	(14,375)	(4,638)	(1,032)
Others	8,786	25,756	14,054	5,517	6,366
Total	66,050	77,732	58,713	12,239	73,914

11 EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Fee and commission expenses					
Brokerage expenses	399,312	624,091	1,882,637	1,027,743	374,896
Investment banking expenses	141,198	223,962	327,753	105,461	236,900
Others	11,959	12,799	27,073	11,640	16,926
Total	552,469	860,852	2,237,463	1,144,844	628,722
Interest expenses					
Accounts payable to brokerage clients	87,211	96,734	311,105	126,169	122,613
Financial assets sold under repurchase agreements	488,143	788,824	1,051,761	650,257	344,535
Placements from banks and other financial institutions	219,578	284,729	281,335	145,229	93,009
Borrowings	38,867	30,529	32,201	15,235	21,946
Bonds in issue and short-term financing instruments payable . .	243,407	738,927	1,385,462	553,996	759,645
Others	267	20,713	156,744	93,813	108,739
Total	1,077,473	1,960,456	3,218,608	1,584,699	1,450,487
Staff costs (including directors' and supervisors' remuneration)					
Salaries, bonuses and allowances .	1,410,515	2,174,464	4,268,723	1,939,045	1,650,421
Staff benefits	195,139	210,487	300,865	118,331	160,457
Contributions to defined contribution schemes (i)	117,880	138,246	173,440	76,972	101,149
Total	1,723,534	2,523,197	4,743,028	2,134,348	1,912,027

II NOTES TO THE FINANCIAL INFORMATION (Continued)

11 EXPENSES (Continued)

(i) Retirement benefits are included, and their nature is described below:

Full-time employees of the Group in Mainland China are covered by various government-sponsored retirement plans including social pension schemes and corporate pension schemes, under which the employees are entitled to a monthly pension. Relevant government agencies determine the amount of pension benefits and are responsible for the related pension liabilities to eligible retired employees. The Group is required to make monthly contributions to the government related to these government-sponsored retirement plans for active employees. The Group has no obligation for post-retirement benefits beyond these contributions, which are expensed as incurred.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries or regions outside of Mainland China.

Other operating expenses and costs:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Leasing expenses	159,697	186,074	228,490	155,157	112,551
Electronic equipment operating expenses	57,292	99,083	204,003	51,228	47,773
Business entertainment expenses	150,819	190,122	152,762	83,753	36,960
Business travel expenses	77,992	95,820	131,621	50,931	65,536
Office operating expenses	75,420	85,633	99,860	37,275	34,404
Securities investor protection fund	30,297	45,630	97,740	48,519	30,664
Postal and communication expenses	61,575	65,570	90,809	32,697	34,545
Membership fees of Exchanges	30,337	37,840	83,168	10,710	17,723
Depreciation and amortisation expenses	123,721	144,687	169,502	80,923	99,135
Property management expenses	24,681	27,980	32,972	17,125	13,842
Vehicle operating and transportation expenses	35,740	40,488	46,868	20,108	21,830
Auditors' remuneration	2,090	2,416	1,529	324	399
– Audit services	2,090	2,326	1,529	324	399
– Non-audit services	–	90	–	–	–
Others	182,127	174,254	213,265	88,172	95,989
Total	<u>1,011,788</u>	<u>1,195,597</u>	<u>1,552,589</u>	<u>676,922</u>	<u>611,351</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION

(1) Details of the directors' and supervisors' remuneration before tax are as follows:

Name	Year ended 31 December 2013				
	Salaries, allowances and other benefits	Discretionary bonuses	Directors' fees	Retirement benefits	Total remuneration before tax
Executive Directors					
Wang Changqing (Chairman)	1,615	4,000	–	93	5,708
Qi Liang (President)	1,482	4,000	–	88	5,570
Non-executive Directors					
Yin Rongyan	–	–	–	–	–
Li Huaqiang	–	–	–	–	–
Zhao Jifeng	–	–	–	–	–
Yu Zhongfu	–	–	–	–	–
Liu Dingping	–	–	–	–	–
Wang Shumin	–	–	–	–	–
Qiu Jianyang	–	–	–	–	–
Independent Non-executive Directors					
Zhang Liqing	–	–	120	–	120
Yu Xiaofeng	–	–	120	–	120
Supervisors					
Zhu Limin	1,438	3,000	–	75	4,513
Lu Ya	957	1,000	–	70	2,027
Wu Lili	596	280	–	46	922
Wang Shouye	–	–	–	–	–
Fan Yong	–	–	–	–	–
Liu Hui	–	–	–	–	–
Total	<u>6,088</u>	<u>12,280</u>	<u>240</u>	<u>372</u>	<u>18,980</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration before tax are as follows: (Continued)

Name	Year ended 31 December 2014				
	Salaries, allowances and other benefits	Discretionary bonuses	Directors' fees	Retirement benefits	Total remuneration before tax
Executive Directors					
Wang Changqing (Chairman)	2,083	2,960	–	102	5,145
Qi Liang (President)	1,949	2,960	–	97	5,006
Non-executive Directors					
Yin Rongyan	–	–	–	–	–
Li Huaqiang	–	–	–	–	–
Zhao Jifeng	–	–	–	–	–
Yu Zhongfu	–	–	–	–	–
Liu Dingping	–	–	–	–	–
Wang Shumin	–	–	–	–	–
Qiu Jianyang	–	–	–	–	–
Independent Non-executive Directors					
Zhang Liqing	–	–	120	–	120
Yu Xiaofeng	–	–	120	–	120
Zhou Zhonghui (ii)	–	–	70	–	70
Supervisors					
Zhu Limin (iii)	473	3,200	–	–	3,673
Li Shihua (iv)	1,488	2,220	–	82	3,790
Lu Ya	1,151	1,100	–	74	2,325
Wu Lili	496	370	–	50	916
Wang Shouye	–	–	–	–	–
Fan Yong	–	–	–	–	–
Liu Hui	–	–	–	–	–
Total	<u>7,640</u>	<u>12,810</u>	<u>310</u>	<u>405</u>	<u>21,165</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration before tax are as follows: (Continued)

Name	Year ended 31 December 2015					Total remuneration before tax
	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	
Executive Directors						
Wang Changqing (Chairman)						
Current year	2,143	4,000	–	–	110	6,253
Year ended						
– 31 December 2013	–	–	520	–	–	520
Qi Liang (President)						
Current year	2,008	4,000	–	–	106	6,114
Year ended						
– 31 December 2013	–	–	520	–	–	520
Non-executive Directors						
Yin Rongyan	–	–	–	–	–	–
Li Huaqiang	–	–	–	–	–	–
Zhao Jifeng (v)	–	–	–	–	–	–
Yu Zhongfu	–	–	–	–	–	–
Wang Chenyang (vi)	–	–	–	–	–	–
Liu Dingping	–	–	–	–	–	–
Wang Shumin	–	–	–	–	–	–
Qiu Jianyang	–	–	–	–	–	–
Independent Non-executive Directors						
Zhang Liqing (vii)	–	–	–	40	–	40
Yu Xiaofeng (vii)	–	–	–	40	–	40
Zhou Zhonghui (viii)	–	–	–	20	–	20
Feng Genfu (ix)	–	–	–	50	–	50
Song Chang (x)	–	–	–	70	–	70
Guo Li (x)	–	–	–	70	–	70
Zhu Shengqin (x)	–	–	–	70	–	70
Supervisors						
Li Shihua						
Current year	1,524	3,600	–	–	89	5,213
Year ended						
– 31 December 2013	–	–	390	–	–	390
Lu Ya						
Current year	1,199	2,000	–	–	81	3,280
Year ended						
– 31 December 2011	–	–	900	–	–	900
Wu Lili	1,432	260	–	–	56	1,748
Wang Shouye	–	–	–	–	–	–
Fan Yong	–	–	–	–	–	–
Liu Hui	–	–	–	–	–	–
Total	8,306	13,860	2,330	360	442	25,298

II NOTES TO THE FINANCIAL INFORMATION (Continued)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration before tax are as follows: (Continued)

Name	Six months ended 30 June 2015 (Unaudited)					Total remuneration before tax
	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	
Executive Directors						
Wang Changqing (Chairman)						
Current period	1,071	4,000	–	–	55	5,126
Year ended						
– 31 December 2013	–	–	520	–	–	520
Qi Liang (President)						
Current period	1,005	4,000	–	–	52	5,057
Year ended						
– 31 December 2013	–	–	520	–	–	520
Non-executive Directors						
Yin Rongyan	–	–	–	–	–	–
Li Huaqiang	–	–	–	–	–	–
Zhao Jifeng (v)	–	–	–	–	–	–
Yu Zhongfu	–	–	–	–	–	–
Liu Dingping	–	–	–	–	–	–
Wang Shumin	–	–	–	–	–	–
Qiu Jianyang	–	–	–	–	–	–
Independent Non-executive Directors						
Zhang Liqing (vii)	–	–	–	40	–	40
Yu Xiaofeng (vii)	–	–	–	40	–	40
Zhou Zhonghui (viii)	–	–	–	20	–	20
Feng Genfu (ix)	–	–	–	20	–	20
Song Chang (x)	–	–	–	10	–	10
Guo Li (x)	–	–	–	10	–	10
Zhu Shengqin (x)	–	–	–	10	–	10
Supervisors						
Li Shihua						
Current period	763	3,600	–	–	43	4,406
Year ended						
– 31 December 2013	–	–	390	–	–	390
Lu Ya						
Current period	599	2,000	–	–	39	2,638
Year ended						
– 31 December 2011	–	–	900	–	–	900
Wu Lili	591	260	–	–	26	877
Wang Shouye	–	–	–	–	–	–
Fan Yong	–	–	–	–	–	–
Liu Hui	–	–	–	–	–	–
Total	4,029	13,860	2,330	150	215	20,584

II NOTES TO THE FINANCIAL INFORMATION (Continued)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration before tax are as follows: (Continued)

Name	Six months ended 30 June 2016					Total remuneration before tax
	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	
Executive Directors						
Wang Changqing (Chairman)						
Current period	1,074	–	–	–	56	1,130
Year ended						
– 31 December 2011	–	–	2,600	–	–	2,600
– 31 December 2012	–	–	3,000	–	–	3,000
– 31 December 2013	–	–	520	–	–	520
Qi Liang (President)						
Current period	1,006	–	–	–	54	1,060
Year ended						
– 31 December 2012	–	–	3,000	–	–	3,000
– 31 December 2013	–	–	520	–	–	520
Non-executive Directors						
Yin Rongyan	–	–	–	–	–	–
Li Huaqiang	–	–	–	–	–	–
Yu Zhongfu	–	–	–	–	–	–
Wang Chenyang	–	–	–	–	–	–
Liu Dingping	–	–	–	–	–	–
Wang Shumin	–	–	–	–	–	–
Qiu Jianyang	–	–	–	–	–	–
Independent Non-executive Directors						
Feng Genfu	–	–	–	60	–	60
Song Chang	–	–	–	60	–	60
Guo Li	–	–	–	60	–	60
Zhu Shengqin	–	–	–	60	–	60
Supervisors						
Li Shihua						
Current period	764	–	–	–	45	809
Year ended						
– 31 December 2011	–	–	1,200	–	–	1,200
– 31 December 2012	–	–	1,200	–	–	1,200
– 31 December 2013	–	–	390	–	–	390
Lu Ya						
Current period	603	3,000	–	–	42	3,645
Year ended						
– 31 December 2012	–	–	900	–	–	900
Wu Lili	306	550	–	–	29	885
Wang Shouye	–	–	–	–	–	–
Fan Yong	–	–	–	–	–	–
Liu Hui	–	–	–	–	–	–
Total	3,753	3,550	13,330	240	226	21,099

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**12 DIRECTORS' AND SUPERVISORS' REMUNERATION** (*Continued*)**(1) Details of the directors' and supervisors' remuneration before tax are as follows:** (*Continued*)

- (i) Deferred bonuses refer to amounts accrued in previous years and paid in the current year/period. For the year ended 31 December 2013, according to "Rules for Governance of Securities Companies" (2012 No. 41) issued by the CRSC, deferred payment included 40% discretionary bonuses for directors, supervisors and senior management of the Group. In addition, according to the Bonuses Management Policies of the Group, a portion of the bonuses for the directors, supervisors, senior management, middle management and core employees are accrued by the Group at an approved percentage of the profit before tax and these bonuses are subject to a three-year lock-up period. The exact amounts of bonuses distributable to individuals will be finalised after the expiration of their lock-up period.

For the year ended 31 December 2015 and the six months ended 30 June 2015, Executive Director Wang Changqing received 2013 deferred bonuses of RMB0.52 million, Executive Director Qi Liang received 2013 deferred bonuses of RMB0.52 million, Supervisor Li Shihua received 2013 deferred bonuses of RMB0.39 million, Supervisor Lu Ya received 2011 deferred bonuses of RMB0.90 million.

For the six months ended 30 June 2016, Executive Director Wang Changqing received 2011 deferred bonuses of RMB2.60 million, 2012 deferred bonuses of RMB3.00 million and 2013 deferred bonuses of RMB0.52 million, Executive Director Qi Liang received 2012 deferred bonuses of RMB3.00 million and 2013 deferred bonuses of RMB0.52 million, Supervisor Li Shihua received 2011 deferred bonuses of RMB1.20 million, 2012 deferred bonuses of RMB1.20 million and 2013 deferred bonuses of RMB0.39 million, Supervisor Lu Ya received 2012 deferred bonuses of RMB0.90 million.

For each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, no directors and supervisors waived their remuneration. For non-executive directors and supervisors whose remuneration were not paid by the Group were shown as zero in the tables.

- (ii) Zhou Zhonghui was appointed as independent non-executive director in June 2014.
- (iii) Zhu Limin resigned as the chairman of the Board of Supervisor in April 2014.
- (iv) Li Shihua was appointed as the chairman of the Board of Supervisor in April 2014.
- (v) Zhao Jifeng resigned as non-executive director in May 2015.
- (vi) Wang Chenyang was appointed as non-executive director in July 2015.
- (vii) Zhang Liqing and Yu Xiaofeng resigned as independent non-executive director in May 2015.
- (viii) Zhou Zhonghui resigned as independent non-executive director in April 2015.
- (ix) Feng Genfu was appointed as independent non-executive director in May 2015.
- (x) Song Chang, Guo Li and Zhu Shengqin were appointed as independent non-executive director in June 2015.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)***12 DIRECTORS' AND SUPERVISORS' REMUNERATION** *(Continued)***(2) Other benefits and rights of directors and supervisors**

For each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, no emoluments were paid by the Group to any of the persons who are directors, or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office. Except for the contributions to defined contribution schemes, there were no other retirement benefits for directors or supervisors; meanwhile, there were no consideration provided to third parties for making available directors' and supervisor' services.

For each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly. In addition, the Group did not provide any guarantees or securities to certain controlled body corporates and connected entities of the directors or supervisors in respect of their loans, quasi-loans or credit transactions.

13 FIVE HIGHEST PAID EMPLOYEES

For each of the years ended 31 December 2013, 2014, and 2015 and the six months ended 30 June 2015, the five highest paid employees included two directors and one supervisor; two directors; two directors and two directors respectively. These directors' and supervisors' remuneration are disclosed in Note 12. For the six months ended 30 June 2016, no directors and supervisors were included in the five highest paid employees.

The remuneration for the rest of the five highest paid employees for the years ended 31 December 2013, 2014 and 2015, and the six months ended 30 June 2015 and 2016 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Salaries, allowances and other benefits	3,242	4,139	4,884	2,128	2,705
Discretionary bonuses	5,400	12,550	15,150	14,990	45,020
Deferred bonuses	–	–	1,100	1,800	3,300
Retirement benefits	169	240	241	112	195
Total	<u>8,811</u>	<u>16,929</u>	<u>21,375</u>	<u>19,030</u>	<u>51,220</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

13 FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of these individuals whose remuneration fell within the following bands is set out below:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
RMB4,000,001 to					
RMB5,000,000 yuan	2	1	–	–	–
RMB5,000,001 to					
RMB6,000,000 yuan	–	–	–	2	–
RMB6,000,001 to					
RMB7,000,000 yuan	–	2	2	–	–
RMB7,000,001 to					
RMB8,000,000 yuan	–	–	–	–	–
RMB8,000,001 to					
RMB9,000,000 yuan	–	–	1	1	–
RMB9,000,001 to					
RMB10,000,000 yuan	–	–	–	–	2
RMB10,000,001 to					
RMB11,000,000 yuan	–	–	–	–	3
Total	<u>2</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>5</u>

For each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, no remunerations were paid by the Group to these individuals as an inducement to join or upon joining the Group.

14 IMPAIRMENT LOSSES/(REVERSAL)

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Available-for-sale financial assets . .	8,521	–	24,120	–	–
Margin financing and securities					
lending	148,861	(140,285)	116,626	17,263	(13,924)
Financial assets held under resale					
agreements	18,564	(18,564)	2,082	–	137
Others	(111)	35	12,047	–	–
Total	<u>175,835</u>	<u>(158,814)</u>	<u>154,875</u>	<u>17,263</u>	<u>(13,787)</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

15 INCOME TAX EXPENSE

(1) Income tax

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Current income tax					
– Mainland China	758,486	1,207,395	3,202,665	1,525,431	774,898
– Hong Kong	–	–	2,475	–	7,624
Subtotal	758,486	1,207,395	3,205,140	1,525,431	782,522
Deferred income tax	(115,848)	(62,239)	(395,518)	(119,057)	156,356
Total	<u>642,638</u>	<u>1,145,156</u>	<u>2,809,622</u>	<u>1,406,374</u>	<u>938,878</u>

(2) Reconciliation between income tax and accounting profit

A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate of 25% to income tax expense at the Group's effective income tax rate is as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Profit before income tax	2,420,512	4,543,349	11,461,475	5,667,110	3,743,988
Income tax at the PRC					
statutory income tax rate	605,128	1,135,837	2,865,369	1,416,778	935,997
Effects of different applicable rates of tax prevailing in various regions	(5,662)	(7,885)	(14,896)	(6,200)	(13,658)
Non-deductible expenses	32,266	36,608	20,492	10,672	7,438
Non-taxable income	(2,837)	(24,500)	(51,307)	(23,444)	(23,977)
Others	13,743	5,096	(10,036)	8,568	33,078
Income tax expenses at the Group's effective income tax rate	<u>642,638</u>	<u>1,145,156</u>	<u>2,809,622</u>	<u>1,406,374</u>	<u>938,878</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

16 DIVIDENDS

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Dividends on ordinary shares declared and paid	390,000	180,000	–	–	–
Dividends per ordinary share (expressed in RMB yuan per share)	0.06	0.03	–	–	–
Distribution to other equity instrument holders	–	–	294,000	–	–

17 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Earnings:					
Profit attributable to equity holders of the Company	1,786,963	3,407,125	8,638,825	4,256,577	2,777,219
Less: Profit attributable to other equity instrument holders of the Company (i)	–	–	(294,000)	–	–
Profit attributable to ordinary equity holders of the Company	1,786,963	3,407,125	8,344,825	4,256,577	2,777,219
Shares:					
Weighted average number of ordinary shares in issue (thousand)	6,100,000	6,100,000	6,100,000	6,100,000	6,100,000
Basic and diluted earnings per ordinary share (in RMB yuan) . .	0.29	0.56	1.37	0.70	0.46

Basic earnings per ordinary share was calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding.

For each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, there were no dilutive events. Therefore, the diluted earnings per share equals to the basic earnings per share.

- (i) The Company issued two batches of perpetual subordinated bonds during the year ended 31 December 2015, under the terms and conditions as detail in Note 45 Other Equity Instruments.

For the purpose of calculating basic earnings per ordinary share, distribution of RMB294 million on perpetual subordinated bonds in respect of the year 2015 was deducted from the amounts attributable to ordinary equity holders of the Company.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

18 PROPERTY, PLANT AND EQUIPMENT

The Group

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2013	367,816	253,856	28,990	4,181	37,039	6,700	25,930	724,512
Increases	22,167	38,996	6,121	1,581	9,995	661	1,897	81,418
Decreases	(22,550)	(12,674)	(1,534)	(130)	(613)	(79)	–	(37,580)
31 December 2013	367,433	280,178	33,577	5,632	46,421	7,282	27,827	768,350
Accumulated depreciation								
1 January 2013	(52,821)	(202,579)	(17,828)	(3,046)	(26,768)	(3,963)	(13,190)	(320,195)
Increases	(13,806)	(32,073)	(4,634)	(489)	(5,965)	(1,122)	(5,154)	(63,243)
Decreases	4,123	12,666	1,488	125	617	76	–	19,095
31 December 2013	(62,504)	(221,986)	(20,974)	(3,410)	(32,116)	(5,009)	(18,344)	(364,343)
Net carrying amount								
31 December 2013	304,929	58,192	12,603	2,222	14,305	2,273	9,483	404,007
	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2014	367,433	280,178	33,577	5,632	46,421	7,282	27,827	768,350
Increases	7,451	66,119	3,585	374	6,777	237	2,859	87,402
Decreases	(5,362)	(13,451)	(611)	–	(1,244)	(108)	–	(20,776)
31 December 2014	369,522	332,846	36,551	6,006	51,954	7,411	30,686	834,976
Accumulated depreciation								
1 January 2014	(62,504)	(221,986)	(20,974)	(3,410)	(32,116)	(5,009)	(18,344)	(364,343)
Increases	(11,393)	(34,162)	(4,870)	(586)	(7,658)	(1,063)	(5,153)	(64,885)
Decreases	922	13,453	593	–	960	95	–	16,023
31 December 2014	(72,975)	(242,695)	(25,251)	(3,996)	(38,814)	(5,977)	(23,497)	(413,205)
Net carrying amount								
31 December 2014	296,547	90,151	11,300	2,010	13,140	1,434	7,189	421,771
	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2015	369,522	332,846	36,551	6,006	51,954	7,411	30,686	834,976
Increases	58,700	108,107	2,870	610	12,791	342	304	183,724
Decreases	(13,221)	(13,374)	(2,108)	(299)	(1,381)	(127)	–	(30,510)
31 December 2015	415,001	427,579	37,313	6,317	63,364	7,626	30,990	988,190
Accumulated depreciation								
1 January 2015	(72,975)	(242,695)	(25,251)	(3,996)	(38,814)	(5,977)	(23,497)	(413,205)
Increases	(12,551)	(51,375)	(3,472)	(669)	(8,061)	(631)	(3,349)	(80,108)
Decreases	2,901	13,277	1,667	290	1,285	125	–	19,545
31 December 2015	(82,625)	(280,793)	(27,056)	(4,375)	(45,590)	(6,483)	(26,846)	(473,768)
Net carrying amount								
31 December 2015	332,376	146,786	10,257	1,942	17,774	1,143	4,144	514,422

II NOTES TO THE FINANCIAL INFORMATION (Continued)

18 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group (Continued)

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2016	415,001	427,579	37,313	6,317	63,364	7,626	30,990	988,190
Increases	973	40,747	–	–	4,141	187	6	46,054
Decreases	–	(3,464)	(346)	–	(273)	(66)	(7)	(4,156)
30 June 2016	415,974	464,862	36,967	6,317	67,232	7,747	30,989	1,030,088
Accumulated depreciation								
1 January 2016	(82,625)	(280,793)	(27,056)	(4,375)	(45,590)	(6,483)	(26,846)	(473,768)
Increases	(5,907)	(36,888)	(1,641)	(283)	(5,009)	(185)	(1,206)	(51,119)
Decreases	–	3,456	336	–	273	58	6	4,129
30 June 2016	(88,532)	(314,225)	(28,361)	(4,658)	(50,326)	(6,610)	(28,046)	(520,758)
Net carrying amount								
30 June 2016	327,442	150,637	8,606	1,659	16,906	1,137	2,943	509,330

The Company

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2013	367,816	237,827	28,330	3,940	36,286	6,551	25,922	706,672
Increases	22,167	26,226	6,121	29	6,519	310	1,897	63,269
Decreases	(22,550)	(12,674)	(1,534)	(130)	(613)	(79)	–	(37,580)
31 December 2013	367,433	251,379	32,917	3,839	42,192	6,782	27,819	732,361
Accumulated depreciation								
1 January 2013	(52,821)	(190,590)	(17,709)	(3,009)	(26,115)	(3,873)	(13,190)	(307,307)
Increases	(13,806)	(28,557)	(4,504)	(342)	(5,303)	(1,071)	(5,152)	(58,735)
Decreases	4,123	12,663	1,488	125	612	76	–	19,087
31 December 2013	(62,504)	(206,484)	(20,725)	(3,226)	(30,806)	(4,868)	(18,342)	(346,955)
Net carrying amount								
31 December 2013	304,929	44,895	12,192	613	11,386	1,914	9,477	385,406

II NOTES TO THE FINANCIAL INFORMATION (Continued)

18 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company (Continued)

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2014	367,433	251,379	32,917	3,839	42,192	6,782	27,819	732,361
Increases	7,451	63,463	3,585	17	5,387	237	2,859	82,999
Decreases	(5,362)	(12,310)	(611)	–	(719)	(108)	–	(19,110)
31 December 2014	369,522	302,532	35,891	3,856	46,860	6,911	30,678	796,250
Accumulated depreciation								
1 January 2014	(62,504)	(206,484)	(20,725)	(3,226)	(30,806)	(4,868)	(18,342)	(346,955)
Increases	(11,393)	(28,676)	(4,743)	(232)	(6,337)	(970)	(5,153)	(57,504)
Decreases	922	12,308	593	–	720	95	–	14,638
31 December 2014	(72,975)	(222,852)	(24,875)	(3,458)	(36,423)	(5,743)	(23,495)	(389,821)
Net carrying amount								
31 December 2014	296,547	79,680	11,016	398	10,437	1,168	7,183	406,429
	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2015	369,522	302,532	35,891	3,856	46,860	6,911	30,678	796,250
Increases	58,700	102,494	2,870	248	11,890	342	304	176,848
Decreases	(13,221)	(12,057)	(2,108)	(299)	(1,317)	(127)	–	(29,129)
31 December 2015	415,001	392,969	36,653	3,805	57,433	7,126	30,982	943,969
Accumulated depreciation								
1 January 2015	(72,975)	(222,852)	(24,875)	(3,458)	(36,423)	(5,743)	(23,495)	(389,821)
Increases	(12,551)	(44,930)	(3,344)	(238)	(6,432)	(562)	(3,344)	(71,401)
Decreases	2,901	11,968	1,667	290	1,221	125	–	18,172
31 December 2015	(82,625)	(255,814)	(26,552)	(3,406)	(41,634)	(6,180)	(26,839)	(443,050)
Net carrying amount								
31 December 2015	332,376	137,155	10,101	399	15,799	946	4,143	500,919

II NOTES TO THE FINANCIAL INFORMATION (Continued)

18 PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company (Continued)

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2016	415,001	392,969	36,653	3,805	57,433	7,126	30,982	943,969
Increases	973	39,651	–	–	3,929	187	6	44,746
Decreases	–	(2,406)	(346)	–	(273)	(66)	(7)	(3,098)
30 June 2016	415,974	430,214	36,307	3,805	61,089	7,247	30,981	985,617
Accumulated depreciation								
1 January 2016	(82,625)	(255,814)	(26,552)	(3,406)	(41,634)	(6,180)	(26,839)	(443,050)
Increases	(5,907)	(33,604)	(1,598)	(41)	(4,248)	(151)	(1,206)	(46,755)
Decreases	–	2,397	336	–	273	58	6	3,070
30 June 2016	(88,532)	(287,021)	(27,814)	(3,447)	(45,609)	(6,273)	(28,039)	(486,735)
Net carrying amount								
30 June 2016	327,442	143,193	8,493	358	15,480	974	2,942	498,882

19 INTANGIBLE ASSETS

The Group

	Software	Trading seat rights and others	Total
Cost			
1 January 2013	83,675	71,000	154,675
Increases	36,789	393	37,182
31 December 2013	120,464	71,393	191,857
Accumulated amortisation			
1 January 2013	(38,898)	(49,010)	(87,908)
Increases	(15,895)	(6,960)	(22,855)
31 December 2013	(54,793)	(55,970)	(110,763)
Net carrying amount			
31 December 2013	65,671	15,423	81,094

II NOTES TO THE FINANCIAL INFORMATION (Continued)

19 INTANGIBLE ASSETS (Continued)

The Group (Continued)

	Software	Trading seat rights and others	Total
Cost			
1 January 2014	120,464	71,393	191,857
Increases	45,848	4,501	50,349
Decreases	(1,700)	–	(1,700)
31 December 2014	<u>164,612</u>	<u>75,894</u>	<u>240,506</u>
Accumulated amortisation			
1 January 2014	(54,793)	(55,970)	(110,763)
Increases	(22,954)	(6,960)	(29,914)
31 December 2014	<u>(77,747)</u>	<u>(62,930)</u>	<u>(140,677)</u>
Net carrying amount			
31 December 2014	<u>86,865</u>	<u>12,964</u>	<u>99,829</u>
	Software	Trading seat rights and others	Total
Cost			
1 January 2015	164,612	75,894	240,506
Increases	58,132	25	58,157
Decreases	(660)	–	(660)
31 December 2015	<u>222,084</u>	<u>75,919</u>	<u>298,003</u>
Accumulated amortisation			
1 January 2015	(77,747)	(62,930)	(140,677)
Increases	(29,763)	(6,670)	(36,433)
Decreases	660	–	660
31 December 2015	<u>(106,850)</u>	<u>(69,600)</u>	<u>(176,450)</u>
Net carrying amount			
31 December 2015	<u>115,234</u>	<u>6,319</u>	<u>121,553</u>
	Software	Trading seat rights and others	Total
Cost			
1 January 2016	222,084	75,919	298,003
Increases	13,092	8	13,100
30 June 2016	<u>235,176</u>	<u>75,927</u>	<u>311,103</u>
Accumulated amortisation			
1 January 2016	(106,850)	(69,600)	(176,450)
Increases	(17,549)	–	(17,549)
30 June 2016	<u>(124,399)</u>	<u>(69,600)</u>	<u>(193,999)</u>
Net carrying amount			
30 June 2016	<u>110,777</u>	<u>6,327</u>	<u>117,104</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

19 INTANGIBLE ASSETS (Continued)

The Company

	Software	Trading seat rights and others	Total
Cost			
1 January 2013	79,914	69,600	149,514
Increase	26,552	–	26,552
31 December 2013	<u>106,466</u>	<u>69,600</u>	<u>176,066</u>
Accumulated amortisation			
1 January 2013	(36,955)	(49,010)	(85,965)
Increase	(14,677)	(6,960)	(21,637)
31 December 2013	<u>(51,632)</u>	<u>(55,970)</u>	<u>(107,602)</u>
Net carrying amount			
31 December 2013	<u>54,834</u>	<u>13,630</u>	<u>68,464</u>
Cost			
1 January 2014	106,466	69,600	176,066
Increase	38,200	4,500	42,700
Decrease	(1,700)	–	(1,700)
31 December 2014	<u>142,966</u>	<u>74,100</u>	<u>217,066</u>
Accumulated amortisation			
1 January 2014	(51,632)	(55,970)	(107,602)
Increase	(19,702)	(6,960)	(26,662)
31 December 2014	<u>(71,334)</u>	<u>(62,930)</u>	<u>(134,264)</u>
Net carrying amount			
31 December 2014	<u>71,632</u>	<u>11,170</u>	<u>82,802</u>
Cost			
1 January 2015	142,966	74,100	217,066
Increase	52,398	–	52,398
Decrease	(660)	–	(660)
31 December 2015	<u>194,704</u>	<u>74,100</u>	<u>268,804</u>
Accumulated amortisation			
1 January 2015	(71,334)	(62,930)	(134,264)
Increase	(25,220)	(6,670)	(31,890)
Decrease	660	–	660
31 December 2015	<u>(95,894)</u>	<u>(69,600)</u>	<u>(165,494)</u>
Net carrying amount			
31 December 2015	<u>98,810</u>	<u>4,500</u>	<u>103,310</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

19 INTANGIBLE ASSETS (Continued)

The Company (Continued)

	Software	Trading seat rights and others	Total
Cost			
1 January 2016	194,704	74,100	268,804
Increase	12,620	–	12,620
30 June 2016	<u>207,324</u>	<u>74,100</u>	<u>281,424</u>
Accumulated amortisation			
1 January 2016	(95,894)	(69,600)	(165,494)
Increase	(14,916)	–	(14,916)
30 June 2016	<u>(110,810)</u>	<u>(69,600)</u>	<u>(180,410)</u>
Net carrying amount			
30 June 2016	<u>96,514</u>	<u>4,500</u>	<u>101,014</u>

20 INVESTMENTS IN SUBSIDIARIES

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Investments in subsidiaries	<u>1,034,824</u>	<u>1,291,084</u>	<u>1,830,153</u>	<u>1,910,153</u>

General information of the Company's principal subsidiaries are as follows:

Name of subsidiaries	Principal operating place	Place of registration	Registered share capital	Proportion of voting rights				Directly/Indirectly hold	Principal activities
				As at 31 December			As at 30 June		
				2013	2014	2015	2016		
China Futures Co., Ltd.	Chongqing	Chongqing	RMB700 million	100%	100%	100%	100%	Directly	Futures brokerage
China Capital Management Co., Ltd.	Beijing	Beijing	RMB650 million	100%	100%	100%	100%	Directly	Project investment
China (International) Finance Holding Co., Ltd.	Hong Kong	Hong Kong	Not applicable	100%	100%	100%	100%	Directly	Shareholding and investment
China Fund Management Co., Ltd.	Beijing	Beijing	RMB150 million	55%	55%	55%	55%	Directly	Funds business, asset management

The statutory financial statements of the Company's principal subsidiaries prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation for each of the years ended 31 December 2013 and 2014 were audited by Ernst & Young Hua Ming LLP, and for the year ended 31 December 2015 were audited by PricewaterhouseCoopers Zhong Tian LLP, both are firms of certified public accountants registered in the PRC.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

23 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Collateral received ·····	7,121,260	3,030,376	7,190,001	8,451,092
Collateral allowed to be re-pledged ···	1,301,811	1,599,437	4,774,155	6,262,206
Collateral re-pledged ·····	1,301,811	1,275,953	4,743,351	6,038,440

24 REFUNDABLE DEPOSITS

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Trading deposits ·····	506,726	413,237	767,458	386,087
Performance bonds ·····	626,485	898,081	1,265,730	1,777,352
Credit deposits ·····	18,059	28,827	111,329	61,839
Total ·····	1,151,270	1,340,145	2,144,517	2,225,278

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Trading deposits ·····	488,668	393,785	748,964	366,823
Performance bonds ·····	113,237	250,671	154,531	86,632
Credit deposits ·····	18,059	28,827	111,329	61,839
Total ·····	619,964	673,283	1,014,824	515,294

II NOTES TO THE FINANCIAL INFORMATION (Continued)

25 DEFERRED TAX ASSETS AND LIABILITIES

Changes of deferred tax asset and deferred tax liabilities are as follow:

The Group

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for impairment losses	Others	Total
1 January 2013	17,742	10,912	22,325	638	51,617
Credit/(Charge) to profit or loss . . .	59,514	10,025	28,349	(306)	97,582
Credit to other comprehensive income	–	57,386	–	–	57,386
31 December 2013	<u>77,256</u>	<u>78,323</u>	<u>50,674</u>	<u>332</u>	<u>206,585</u>
Credit/(Charge) to profit or loss . . .	192,878	100,110	(39,702)	(19)	253,267
Debit to other comprehensive income	–	(57,386)	(731)	–	(58,117)
31 December 2014	<u>270,134</u>	<u>121,047</u>	<u>10,241</u>	<u>313</u>	<u>401,735</u>
Credit/(Charge) to profit or loss . . .	418,484	(107,614)	32,688	2,676	346,234
Credit/(Debit) to other comprehensive income	–	150	(722)	–	(572)
31 December 2015	<u>688,618</u>	<u>13,583</u>	<u>42,207</u>	<u>2,989</u>	<u>747,397</u>
Credit/(Charge) to profit or loss . . .	(150,327)	16,925	(3,447)	1,859	(134,990)
Credit/(Debit) to other comprehensive income	–	53	(656)	–	(603)
30 June 2016	<u>538,291</u>	<u>30,561</u>	<u>38,104</u>	<u>4,848</u>	<u>611,804</u>

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
1 January 2013	51,078	73	51,151
Credit to profit or loss	(18,266)	–	(18,266)
Credit to other comprehensive income	(17,776)	–	(17,776)
31 December 2013	<u>15,036</u>	<u>73</u>	<u>15,109</u>
Charge to profit or loss	190,734	294	191,028
Debit to other comprehensive income	51,524	–	51,524
31 December 2014	<u>257,294</u>	<u>367</u>	<u>257,661</u>
Credit to profit or loss	(49,257)	(27)	(49,284)
Debit to other comprehensive income	10,233	–	10,233
31 December 2015	<u>218,270</u>	<u>340</u>	<u>218,610</u>
Charge to profit or loss	21,206	160	21,366
Credit to other comprehensive income	(97,337)	–	(97,337)
30 June 2016	<u>142,139</u>	<u>500</u>	<u>142,639</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

25 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

The Company

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for impairment losses	Others	Total
1 January 2013	15,902	10,912	22,325	353	49,492
Credit/(Charge) to profit or loss . . .	57,194	10,025	28,349	(306)	95,262
Credit to other comprehensive income	–	57,313	–	–	57,313
31 December 2013	73,096	78,250	50,674	47	202,067
Credit/(Charge) to profit or loss . . .	192,285	100,110	(39,702)	(19)	252,674
Debit to other comprehensive income	–	(57,313)	(731)	–	(58,044)
31 December 2014	265,381	121,047	10,241	28	396,697
Credit/(Charge) to profit or loss . . .	417,717	(107,614)	32,688	2,676	345,467
Debit to other comprehensive income	–	–	(722)	–	(722)
31 December 2015	683,098	13,433	42,207	2,704	741,442
Credit/(Charge) to profit or loss . . .	(150,327)	16,771	(3,447)	1,859	(135,144)
Debit to other comprehensive income	–	–	(656)	–	(656)
30 June 2016	532,771	30,204	38,104	4,563	605,642

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
1 January 2013	45,176	73	45,249
Credit to profit or loss	(18,266)	–	(18,266)
Credit to other comprehensive income	(26,910)	–	(26,910)
31 December 2013	–	73	73
Charge to profit or loss	173,221	–	173,221
Debit to other comprehensive income	74,444	–	74,444
31 December 2014	247,665	73	247,738
Credit to profit or loss	(101,090)	(73)	(101,163)
Debit to other comprehensive income	60,275	–	60,275
31 December 2015	206,850	–	206,850
Credit to profit or loss	(6,524)	–	(6,524)
Credit to other comprehensive income	(72,788)	–	(72,788)
30 June 2016	127,538	–	127,538

II NOTES TO THE FINANCIAL INFORMATION (Continued)

26 OTHER NON-CURRENT ASSETS

As at 31 December 2013, 2014, 2015 and 30 June 2016, the other non-current assets of the Group and the Company represented long-term deferred expenses incurred on improvement of leasing of property, plant and equipment.

27 MARGIN ACCOUNTS

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Margin accounts				
– Individuals	13,298,377	30,794,357	34,812,008	26,181,376
– Institutions	1,474,284	1,155,537	1,244,327	1,820,895
Subtotal	14,772,661	31,949,894	36,056,335	28,002,271
Allowance for impairment losses	(147,727)	(8,576)	(125,202)	(111,277)
Total	14,624,934	31,941,318	35,931,133	27,890,994

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Margin accounts				
– Individuals	13,298,377	30,710,909	34,609,921	26,133,347
– Institutions	1,474,284	1,137,808	803,539	687,550
Subtotal	14,772,661	31,848,717	35,413,460	26,820,897
Allowance for impairment losses	(147,727)	(8,576)	(125,202)	(111,277)
Total	14,624,934	31,840,141	35,288,258	26,709,620

Margin accounts are funds that the Group and the Company provided to clients in margin financing and securities lending business. As at 31 December 2013, the Group and the Company's beneficial rights over margin accounts mortgaged as collateral for short-term borrowings (Note 40) amounted to RMB2,676.66 million. As at 31 December 2014 and 2015 and 30 June 2016, the Group and the Company's beneficial rights over margin accounts pledged as collateral for repurchase agreements (Note 37) amounted to RMB16,462.71 million, RMB5,559.34 million and RMB1,416.68 million, respectively.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Group received collateral with fair value amounted to RMB35,639.32 million, RMB93,090.74 million, RMB125,164.87 million and RMB95,014.55 million (the Company: RMB35,639.32 million, RMB92,989.56 million, RMB123,307.30 million and RMB91,939.94 million), respectively, in margin financing and securities lending business.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

28 ACCOUNTS RECEIVABLE

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Assets management fee receivable	4,776	15,551	37,719	72,478
Clearing settlement fund and refundable deposits advanced on behalf of sponsored structured entities	12,842	20,154	22,988	23,172
Clearing funds receivable	15,337	40,396	31,653	90,539
Others	14,374	88,369	60,965	109,131
Total	<u>47,329</u>	<u>164,470</u>	<u>153,325</u>	<u>295,320</u>

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Assets management fee receivable	5,501	16,558	37,719	81,973
Clearing settlement fund and refundable deposits advanced on behalf of sponsored structured entities	12,842	20,154	22,988	23,172
Clearing funds receivable	–	18,475	10	3,630
Others	1	25,000	135	16,088
Total	<u>18,344</u>	<u>80,187</u>	<u>60,852</u>	<u>124,863</u>

29 FINANCIAL ASSETS HELD FOR TRADING

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Debt instruments	7,140,123	14,347,303	20,983,191	24,361,427
Equity investments	437,346	2,241,464	1,864,558	652,030
Fund investments	800,218	895,216	4,372,398	3,802,081
Others	4,000	834,275	1,265,846	1,542,391
Total	<u>8,381,687</u>	<u>18,318,258</u>	<u>28,485,993</u>	<u>30,357,929</u>
Analysed into:				
Listed in Hong Kong	–	–	4,627	–
Listed outside Hong Kong	8,379,687	17,310,827	26,164,752	27,870,621
Unlisted	2,000	1,007,431	2,316,614	2,487,308
Total	<u>8,381,687</u>	<u>18,318,258</u>	<u>28,485,993</u>	<u>30,357,929</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

29 FINANCIAL ASSETS HELD FOR TRADING (Continued)

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Debt instruments	6,614,659	9,060,852	8,408,960	8,488,324
Equity investments	437,346	2,241,464	1,859,931	652,030
Fund investments	800,218	841,815	4,372,398	3,458,186
Others	4,000	1,320,252	1,903,665	2,890,229
Total	7,856,223	13,464,383	16,544,954	15,488,769
Analysed into:				
Listed outside Hong Kong	7,854,223	12,157,974	14,211,289	12,073,623
Unlisted	2,000	1,306,409	2,333,665	3,415,146
Total	7,856,223	13,464,383	16,544,954	15,488,769

As at 31 December 2013, 2014 and 2015, and 30 June 2016, the fair value of financial assets held for trading pledged as collateral for repurchase agreements (Note 37), placements from China Securities Finance Corporation Limited (Note 38), borrowings (Note 40) and bonds borrowing business by the Group amounted to RMB2,103.96 million, RMB10,541.56 million, RMB11,739.80 million and RMB7,879.28 million (the Company: RMB2,103.96 million, RMB7,818.82 million, RMB5,330.77 million and RMB4,904.02 million), respectively.

30 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group

Current	As at 31 December			As at 30 June
	2013	2014	2015	2016
Debt instruments	–	–	–	98,433
Equity investments	225,379	334,205	3,509	3,083
Fund investments	127,483	191,299	274	230
Others	–	–	1,500,000	206,250
Total	352,862	525,504	1,503,783	307,996
Analysed into:				
Listed outside Hong Kong	352,862	525,504	3,783	101,746
Unlisted	–	–	1,500,000	206,250
Total	352,862	525,504	1,503,783	307,996

II NOTES TO THE FINANCIAL INFORMATION (Continued)

30 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The Company

Current	As at 31 December			As at 30 June
	2013	2014	2015	2016
Equity investments	225,379	334,205	3,509	3,083
Fund investments	127,483	191,299	274	230
Others	–	–	1,500,000	206,250
Total	352,862	525,504	1,503,783	209,563
Analysed into:				
Listed outside Hong Kong	352,862	525,504	3,783	3,313
Unlisted	–	–	1,500,000	206,250
Total	352,862	525,504	1,503,783	209,563

As at 31 December 2013, 2014 and 2015 and 30 June 2016, financial assets designated as at fair value through profit or loss held by the Group and the Company included securities lent amounted to RMB81.93 million, RMB200.03 million and RMB2.86 million and RMB2.36 million, respectively. The collateral received in margin financing and securities lending business by the Group and the Company was disclosed in Note 27 Margin Accounts.

31 DERIVATIVE FINANCIAL INSTRUMENTS

The Group

	As at 31 December 2013		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	12,282,017	113,690	115,289
Equity derivatives	848,947	–	–
Others	4,283	–	–
Total	13,135,247	113,690	115,289

	As at 31 December 2014		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	41,451,207	126,095	140,208
Equity derivatives	2,466,750	24,486	657,944
Others	281,674	–	–
Total	44,199,631	150,581	798,152

	As at 31 December 2015		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	46,196,440	131,346	137,432
Equity derivatives	10,509,351	10,706	49,725
Others	483,243	–	3,595
Total	57,189,034	142,052	190,752

II NOTES TO THE FINANCIAL INFORMATION (Continued)

31 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The Group (Continued)

	As at 30 June 2016		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	78,537,873	100,135	104,163
Equity derivatives	2,570,093	8,388	110,838
Others	697,424	94	5,572
Total	81,805,390	108,617	220,573

The Company

	As at 31 December 2013		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	12,282,017	113,690	115,289
Equity derivatives	848,947	–	–
Others	4,283	–	–
Total	13,135,247	113,690	115,289

	As at 31 December 2014		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	40,783,936	126,095	140,208
Equity derivatives	2,466,750	24,486	657,944
Others	281,674	–	–
Total	43,532,360	150,581	798,152

	As at 31 December 2015		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	44,031,604	131,346	137,432
Equity derivatives	10,509,351	10,706	49,725
Others	483,243	–	3,595
Total	55,024,198	142,052	190,752

	As at 30 June 2016		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	76,023,859	100,135	104,163
Equity derivatives	2,570,093	8,388	110,838
Others	696,538	–	5,572
Total	79,290,490	108,523	220,573

II NOTES TO THE FINANCIAL INFORMATION *(Continued)***31 DERIVATIVE FINANCIAL INSTRUMENTS** *(Continued)***The Company** *(Continued)*

In the daily settlement system, any gains or losses on the Group's futures contract position are settled on a daily basis and included in "Cash and Bank Balances". Accordingly, as at 31 December 2013, 2014 and 2015, and 30 June 2016, the futures investments accounted under derivative financial instruments were presented on a net basis and were of zero balance.

As at 31 December 2013, 2014, 2015 and 30 June 2016, the cumulative gains and losses from changes in fair value of the Group's unexpired futures contracts were a net unrealised loss of RMB1.65 million, a net unrealised loss of RMB37.62 million, a net unrealised loss of RMB12.59 million and a net unrealised loss of RMB21.59 million respectively (the Company: a net unrealised loss of RMB1.65 million, a net unrealised loss of RMB36.22 million, a net unrealised gain of RMB2.69 million and a net unrealised loss of RMB0.75 million, respectively).

32 CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold cash on behalf of customers arising from its normal course of business. The Group has recorded the related amounts as cash held on behalf of clients and the corresponding liabilities as accounts payable to brokerage clients (Note 35). In the Mainland China, the use of cash held on behalf of clients for securities trading and settlement is restricted and governed by relevant third-party custodian regulations issued by the CSRC. In Hong Kong, the "Securities and Futures (Client Money) Rules" under the Securities and Futures Ordinance impose similar restrictions.

33 CASH AND BANK BALANCES**The Group**

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Cash on hand	247	292	183	130
Deposits in banks	5,321,612	11,447,629	16,154,083	14,018,871
Total	5,321,859	11,447,921	16,154,266	14,019,001

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Cash on hand	201	235	145	106
Deposits in banks	4,580,536	10,414,832	14,113,747	12,627,224
Total	4,580,737	10,415,067	14,113,892	12,627,330

As at 31 December 2015 and 30 June 2016, the Group's deposits in banks of RMB187.04 million and 278.18 million, respectively, was pledged as collateral for the Group's borrowings (Note 40). As at 31 December 2013 and 2014, no such deposit was pledged as collateral.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

34 OTHER CURRENT ASSETS

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Interest receivable	774,282	895,254	1,239,198	1,547,465
Prepaid expenses	–	–	214,281	–
Deferred expenses	17,390	23,728	24,661	26,148
Others	139,378	147,439	275,833	256,959
Subtotal	931,050	1,066,421	1,753,973	1,830,572
Allowance for impairment losses	(38,790)	(38,826)	(38,833)	(38,833)
Total	892,260	1,027,595	1,715,140	1,791,739

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Interest receivable	756,456	732,470	861,963	1,078,754
Deferred expenses	14,446	20,684	23,346	22,436
Others	114,123	91,381	130,077	171,279
Subtotal	885,025	844,535	1,015,386	1,272,469
Allowance for impairment losses	(26,751)	(26,786)	(38,833)	(38,833)
Total	858,274	817,749	976,553	1,233,636

35 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

Accounts payable to brokerage clients represent the amounts received from and repayable to clients arising from the ordinary course of the Group's securities brokerage business. For more details, please refer to Note 32 Cash Held on Behalf of Clients.

36 FINANCIAL LIABILITIES HELD FOR TRADING

The Group and the Company

Current	As at 31 December			As at 30 June
	2013	2014	2015	2016
Debt securities	212,217	90,525	93,191	141,233
Gold	–	766,552	–	–
Total	212,217	857,077	93,191	141,233

II NOTES TO THE FINANCIAL INFORMATION (Continued)

37 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

The Group

Current	As at 31 December			As at 30 June
	2013	2014	2015	2016
Analysed by collateral:				
Debt securities	16,285,364	16,174,588	18,503,053	21,368,163
Beneficial rights over margin financing and securities lending (Note 27)	–	12,512,720	2,715,000	100,000
Gold	–	1,863,193	5,517,528	7,230,120
Others	–	351,292	726,690	752,599
Total	16,285,364	30,901,793	27,462,271	29,450,882
Analysed by counterparty:				
Banks	1,074,636	7,445,307	11,474,773	13,108,983
Non-bank financial institutions	13,650,980	22,998,924	14,434,787	15,272,258
Others	1,559,748	457,562	1,552,711	1,069,641
Total	16,285,364	30,901,793	27,462,271	29,450,882

Non-current	As at 31 December			As at 30 June
	2013	2014	2015	2016
Analysed by collateral:				
Beneficial rights over margin financing and securities lending (Note 27)	–	1,000,000	1,800,000	800,000
Analysed by counterparty:				
Banks	–	–	1,000,000	–
Non-bank financial institutions	–	1,000,000	800,000	800,000
Total	–	1,000,000	1,800,000	800,000

The Company

Current	As at 31 December			As at 30 June
	2013	2014	2015	2016
Analysed by collateral:				
Debt securities	16,554,682	14,697,707	14,236,695	16,871,014
Beneficial rights over margin financing and securities lending (Note 27)	–	12,512,720	2,715,000	100,000
Gold	–	1,863,193	5,517,528	7,230,120
Others	–	351,292	726,690	752,599
Total	16,554,682	29,424,912	23,195,913	24,953,733
Analysed by counterparty:				
Banks	1,074,636	7,445,307	10,522,375	13,108,983
Non-bank financial institutions	13,510,385	20,992,155	11,513,953	10,775,109
Others	1,969,661	987,450	1,159,585	1,069,641
Total	16,554,682	29,424,912	23,195,913	24,953,733

II NOTES TO THE FINANCIAL INFORMATION (Continued)

37 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (Continued)

The Company (Continued)

Non-current	As at 31 December			As at 30 June
	2013	2014	2015	2016
Analysed by collateral:				
Beneficial rights over margin financing and securities lending (Note 27)	–	1,000,000	1,800,000	800,000
Analysed by counterparty:				
Banks	–	–	1,000,000	–
Non-bank financial institutions	–	1,000,000	800,000	800,000
Total	–	1,000,000	1,800,000	800,000

38 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The Group and the Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Placements from banks	1,300,000	300,000	1,000,000	700,000
Placements from China Securities Finance Corporation Limited	3,720,000	3,284,000	1,284,000	1,000,000
Total	5,020,000	3,584,000	2,284,000	1,700,000

39 TAXES PAYABLE

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Income tax	267,814	412,302	1,115,480	209,804
Business tax	51,792	83,697	138,912	294
Value added tax	–	240	503	46,779
Others	142,361	46,606	336,863	705,331
Total	461,967	542,845	1,591,758	962,208

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Income tax	260,594	402,522	1,084,200	158,614
Business tax	50,939	80,976	134,562	–
Value added tax	–	–	–	44,116
Others	141,673	45,626	335,412	682,055
Total	453,206	529,124	1,554,174	884,785

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)

40 BORROWINGS

(1) Short-term borrowings

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Analysed by nature:				
Credit borrowings	–	500,000	837,780	949,571
Mortgage borrowings	2,500,000	–	109,999	109,999
Pledged borrowings	–	–	175,000	175,000
Total	<u>2,500,000</u>	<u>500,000</u>	<u>1,122,779</u>	<u>1,234,570</u>

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Analysed by nature:				
Credit borrowings	–	500,000	–	–
Mortgage borrowings	2,500,000	–	–	–
Total	<u>2,500,000</u>	<u>500,000</u>	<u>–</u>	<u>–</u>

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the interest rates on the short-term borrowings of the Group were in the range of 6.50% to 7.50%, 7.14%, 1.90% to 4.50% and 1.90% to 4.50%, respectively.

(2) Long-term borrowings

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Mortgage borrowings				
– Maturity within one year (<i>Note 42</i>)	–	–	290,001	290,001
– Maturity over one year	–	290,001	–	–
	<u>–</u>	<u>290,001</u>	<u>–</u>	<u>–</u>

As at 31 December 2014 and 2015 and 30 June 2016, the interest rates on the long-term borrowings of the Group were all at 4.60%.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

41 SHORT-TERM FINANCING INSTRUMENTS PAYABLE

The Group and the Company

Name	Issue date	Maturity date	Coupon rate	1 January 2013	Increase	Decrease	31 December 2013	
13	CSC CP001	17/01/2013	19/04/2013	3.98%	–	1,600,000	(1,600,000)	–
13	CSC CP002	22/02/2013	26/05/2013	3.58%	–	1,600,000	(1,600,000)	–
13	CSC CP003	13/03/2013	12/06/2013	3.81%	–	1,700,000	(1,700,000)	–
13	CSC CP004	24/04/2013	24/07/2013	3.90%	–	1,600,000	(1,600,000)	–
13	CSC CP005	28/05/2013	27/08/2013	3.80%	–	1,600,000	(1,600,000)	–
13	CSC CP006	17/06/2013	16/09/2013	5.00%	–	1,700,000	(1,700,000)	–
13	CSC CP007	25/07/2013	24/10/2013	4.89%	–	1,600,000	(1,600,000)	–
13	CSC CP008	02/09/2013	02/12/2013	4.95%	–	1,600,000	(1,600,000)	–
13	CSC CP009	23/09/2013	23/12/2013	5.15%	–	1,700,000	(1,700,000)	–
13	CSC CP010	31/10/2013	28/01/2014	6.00%	–	1,600,000	–	1,600,000
13	CSC CP011	09/12/2013	10/03/2014	6.35%	–	1,600,000	–	1,600,000
Total					–	17,900,000	(14,700,000)	3,200,000

Name	Issue date	Maturity date	Coupon rate	1 January 2014	Increase	Decrease	31 December 2014	
13	CSC CP010	31/10/2013	28/01/2014	6.00%	1,600,000	–	(1,600,000)	–
13	CSC CP011	09/12/2013	10/03/2014	6.35%	1,600,000	–	(1,600,000)	–
14	CSC CP001	11/02/2014	13/05/2014	5.75%	–	1,900,000	(1,900,000)	–
14	CSC CP002	11/04/2014	13/07/2014	4.80%	–	1,900,000	(1,900,000)	–
14	CSC CP003	20/05/2014	19/08/2014	4.52%	–	1,900,000	(1,900,000)	–
14	CSC CP004	14/07/2014	13/10/2014	4.50%	–	1,700,000	(1,700,000)	–
14	CSC CP005	04/08/2014	03/11/2014	4.53%	–	1,900,000	(1,900,000)	–
14	CSC CP006	25/08/2014	24/11/2014	4.70%	–	1,900,000	(1,900,000)	–
14	CSC CP007	17/10/2014	18/01/2015	4.22%	–	1,700,000	–	1,700,000
14	CSC CP008	14/11/2014	15/02/2015	4.09%	–	1,900,000	–	1,900,000
14	CSC CP009	05/12/2014	08/03/2015	4.95%	–	1,900,000	–	1,900,000
Structured notes (i)	24/10/2014- 15/12/2014	13/01/2015- 16/03/2015		–	67,416	–	67,416	
Total					3,200,000	16,767,416	(14,400,000)	5,567,416

Name	Issue date	Maturity date	Coupon rate	1 January 2015	Increase	Decrease	31 December 2015	
14	CSC CP007	17/10/2014	18/01/2015	4.22%	1,700,000	–	(1,700,000)	–
14	CSC CP008	14/11/2014	15/02/2015	4.09%	1,900,000	–	(1,900,000)	–
14	CSC CP009	05/12/2014	08/03/2015	4.95%	1,900,000	–	(1,900,000)	–
15	CSC CP001	13/04/2015	13/07/2015	4.74%	–	1,900,000	(1,900,000)	–
15	CSC CP002	08/05/2015	09/08/2015	3.50%	–	1,800,000	(1,800,000)	–
15	CSC CP003	08/06/2015	07/09/2015	3.08%	–	1,800,000	(1,800,000)	–
15	CSC CP004	21/07/2015	20/10/2015	2.90%	–	1,900,000	(1,900,000)	–
15	CSC CP005	18/08/2015	17/11/2015	2.80%	–	1,800,000	(1,800,000)	–
15	CSC CP006	15/09/2015	15/12/2015	2.91%	–	1,800,000	(1,800,000)	–
15	CSC CP007	25/11/2015	24/02/2016	3.20%	–	3,000,000	–	3,000,000
15	CSC CP008	21/12/2015	18/03/2016	3.10%	–	2,500,000	–	2,500,000
Structured notes (i) (ii)	24/03/2015- 31/12/2015	12/01/2016- 28/06/2017		67,416	8,970,741	(3,215,471)	5,822,686	
Total					5,567,416	25,470,741	(19,715,471)	11,322,686

II NOTES TO THE FINANCIAL INFORMATION (Continued)

41 SHORT-TERM FINANCING INSTRUMENTS PAYABLE (Continued)

The Group and the Company (Continued)

Name	Issue date	Maturity date	Coupon rate	1 January 2016	Increase	Decrease	30 June 2016
15 CSC CP007	25/11/2015	24/02/2016	3.20%	3,000,000	–	(3,000,000)	–
15 CSC CP008	21/12/2015	18/03/2016	3.10%	2,500,000	–	(2,500,000)	–
16 CSC CP001	08/03/2016	03/06/2016	2.63%	–	3,000,000	(3,000,000)	–
16 CSC D1	15/06/2016	12/03/2017	3.28%	–	2,995,842	–	2,995,842
	26/05/2015–	04/07/2016–					
Structured notes (i) (ii)	30/06/2016	10/01/2017		5,822,686	3,178,614	(7,120,462)	1,880,838
Total				11,322,686	9,174,456	(15,620,462)	4,876,680

As at 31 December 2013, 2014 and 2015 and 30 June 2016, there were no defaults related to any short-term financing instruments payable.

- (i) As at 31 December 2014 and 2015 and 30 June 2016, the Group had issued two types of structured notes, namely those accruing interests at a fixed annual rate and those accruing at a floating rate linked to certain stock indexes, among which the fixed annual rates were 4.80%–5.30%, 3.60%–6.20% and 3.20%–5.70%, respectively.
- (ii) As at 31 December 2015, the Group issued two structured notes with maturity over one year. Due to redemption option embedded which would be exercised within one year by the Group, these two structured notes were classified as current liabilities. As at 30 June 2016, there was no structured notes issued with maturity over one year.

42 OTHER CURRENT LIABILITIES

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Salaries, bonuses and allowances payable	943,867	1,751,083	2,829,701	2,313,701
Interest payable	127,886	441,196	760,449	599,140
Accounts payable to underwriting clients	506,050	64,870	136,933	214,522
Settlement deposits payable	111,155	325,377	576,549	895,806
Securities investor protection fund payable	17,030	29,892	48,438	31,144
Futures settlement risk funds payable	30,675	36,863	45,920	50,827
Funds payable to securities holders	6,227	6,155	6,120	6,108
Dividends payable	–	–	294,000	–
Provision	50,739	50,680	52,720	60,156
Amounts due to other holders of consolidated structured entities	603,611	3,152,760	6,017,807	8,226,883
Long-term borrowings maturity within one year (Note 40)	–	–	290,001	290,001
Bonds in issue maturity within one year (Note 43)	–	5,000,000	7,713,193	13,719,353
Others	235,505	323,565	1,014,419	510,773
Total	2,632,745	11,182,441	19,786,250	26,918,414

II NOTES TO THE FINANCIAL INFORMATION (Continued)

42 OTHER CURRENT LIABILITIES (Continued)

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Salaries, bonuses and allowances payable	903,457	1,681,519	2,726,474	2,281,101
Interest payable	132,889	449,442	750,136	578,800
Funds payable to securities issuers	506,050	64,870	136,933	214,522
Settlement deposits payable	111,126	301,551	550,136	781,098
Investor protection fund payable	15,610	27,428	47,183	29,575
Funds payable to securities holders	6,227	6,155	6,120	6,108
Dividends payable	–	–	294,000	–
Provision	50,739	50,680	52,720	60,156
Bonds in issue maturity within				
one year (Note 43)	–	5,000,000	7,713,193	13,719,353
Others	235,425	302,374	926,473	412,201
Total	<u>1,961,523</u>	<u>7,884,019</u>	<u>13,203,368</u>	<u>18,082,914</u>

43 BONDS IN ISSUE

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Bonds in issue				
– Maturity within one year (Note 42)	–	5,000,000	7,713,193	13,719,353
– Maturity over one year	<u>4,685,515</u>	<u>7,698,921</u>	<u>15,072,207</u>	<u>12,090,716</u>

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Bonds in issue				
– Maturity within one year (Note 42)	–	5,000,000	7,713,193	13,719,353
– Maturity over one year	<u>4,685,515</u>	<u>7,698,921</u>	<u>13,790,936</u>	<u>10,780,525</u>

(1) As at 31 December 2013, 2014 and 2015 and 30 June 2016, there were no defaults related to any bonds in issue.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

43 BONDS IN ISSUE (Continued)

(2) The details of bonds in issue

The Group and the Company

Maturity within one year	As at 31 December			As at 30 June
	2013	2014	2015	2016
Corporate bonds				
13 Zhongxinjian (i)	–	–	4,713,193	4,719,353
Subordinated bonds				
14 Zhongxinjian (ii)	–	3,000,000	–	–
14 Zhongxintou (iii)	–	2,000,000	–	–
14 Zhongjiantou (iv)	–	–	2,000,000	2,000,000
14 Xinjiantou (v)	–	–	1,000,000	1,000,000
15 Zhongjiantou (vi)	–	–	–	6,000,000
Carrying amount	–	5,000,000	7,713,193	13,719,353

The Group

Maturity over one year	As at 31 December			As at 30 June
	2013	2014	2015	2016
Corporate bonds				
13 Zhongxinjian (i)	4,685,515	4,698,921	–	–
15 Xinjiantou (vii)	–	–	6,000,000	6,000,000
15 Xintou 01 (viii)	–	–	1,790,936	1,792,893
CSCIFN15B2009 (ix)	–	–	1,281,271	1,310,191
16 Xintou G1 (x)	–	–	–	2,987,632
Subordinated bonds				
14 Zhongjiantou (iv)	–	2,000,000	–	–
14 Xinjiantou (v)	–	1,000,000	–	–
15 Zhongjiantou (vi)	–	–	6,000,000	–
Carrying amount	4,685,515	7,698,921	15,072,207	12,090,716

The Company

Maturity over one year	As at 31 December			As at 30 June
	2013	2014	2015	2016
Corporate bonds				
13 Zhongxinjian (i)	4,685,515	4,698,921	–	–
15 Xinjiantou (vii)	–	–	6,000,000	6,000,000
15 Xintou 01 (viii)	–	–	1,790,936	1,792,893
16 Xintou G1 (x)	–	–	–	2,987,632
Subordinated bonds				
14 Zhongjiantou (iv)	–	2,000,000	–	–
14 Xinjiantou (v)	–	1,000,000	–	–
15 Zhongjiantou (vi)	–	–	6,000,000	–
Carrying amount	4,685,515	7,698,921	13,790,936	10,780,525

- (i) In November 2013, the Company publicly issued a 3-year fixed rate corporate bond, which pays interest annually at 6.15% per annum and is guaranteed by China Bond Insurance Corporation.
- (ii) In March 2014, the Company privately issued an 18-month fixed rate subordinated bond with a face value of RMB3 billion, which pays interest annually at 5.98% per annum and is not guaranteed.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

43 BONDS IN ISSUE (Continued)

(2) The details of bonds in issue (Continued)

- (iii) In August 2014, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB2 billion, which offers the options, at the end of the first year, for the Company to redeem it at face value or increase the coupon rate, or for the investors to sell back the bond. The bond pays interest annually at 5.55% per annum and is not guaranteed.
- (iv) In October 2014, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB2 billion, which offers the option, at the end of the second year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 5.50% per annum and is not guaranteed.
- (v) In October 2014, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB1 billion, which offers the options, at the end of the second year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 5.50% per annum and is not guaranteed.
- (vi) In April 2015, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB6 billion, which offers the options, at the end of the second year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 5.45% per annum and is not guaranteed.
- (vii) In June 2015, the Company privately issued a 5-year fixed rate corporate bond with a face value of RMB6 billion which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 5.32% per annum and is not guaranteed.
- (viii) In August 2015, the Company publicly issued a 10-year fixed rate corporate bond with a face value of RMB1.8 billion, which offers the options, at the end of the fifth year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 4.20% per annum and is not guaranteed.
- (ix) In September 2015, CSCI Finance (2015) Co., Ltd. publicly issued a 5-year fixed rate credit enhancement bond with a face value of USD0.2 billion. The bond pays interest semi-annually at 3.125% per annum and is unconditionally and irrevocably guaranteed by China Securities (International) Financial Holding Co., Ltd.
- (x) In May 2016, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB3 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 3.14% per annum and is not guaranteed.

44 SHARE CAPITAL

All shares issued by the Company were fully paid ordinary shares with a nominal value of RMB1 per share. The Company's number of shares and nominal value are as follows:

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Registered, issued and fully paid	6,100,000	6,100,000	6,100,000	6,100,000

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**45 OTHER EQUITY INSTRUMENTS**

In January 2015, the Company issued first batch of perpetual subordinated bonds amounted to RMB2 billion. In March 2015, the second batch amounted to RMB3 billion was issued.

Key terms and conditions relating to the above equity instruments are as follows:

- The bonds are repriced every 5 interest-accruing years, and at the end of the repricing cycle, the issuer has the option to extend the bonds for another repricing cycle (another five years) or redeem them in full;
- The bonds offer no redemption option to the investors so that investors cannot require the issuer to redeem their bonds during the duration of the bonds;
- The issuer has the option to defer interest payment, except in the event of mandatory interest payments, so that at each interest payment date, the issuer may choose to defer the interest payment to the next payment date for the current period as well as all interests and accreted interests already deferred according to the related terms in the prospectus, without any limitation with respect to the number of deferrals. Mandatory interest payment events are limited to dividend distributions to ordinary shareholders and reductions of registered capital;
- The bonds' priority of payments is subordinate to the Company's general debts but senior to the Company's equity shares. Unless in the event of discontinuance, closure or liquidation of the Company, investor cannot require the Company to accelerate the payment of the bonds' principals.

The perpetual subordinated bonds issued by the Company are classified as equity instruments, and recognised under equity in the consolidated statement of financial position.

46 RESERVES

The amounts of the Group's reserves and the related movements are presented in the consolidated statement of changes in equity.

(1) Capital reserve

Capital reserve primarily includes share premium arising from the issuance of new shares at prices in excess of par value.

(2) Surplus reserve**(i) Statutory surplus reserve**

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its profit for the year for the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after this capitalisation is not less than 25% of the registered capital immediately before capitalisation.

(ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Company may also appropriate its after-tax profit for the year, as determined under Accounting Standards of Business Enterprises, to its discretionary surplus reserve upon approval by the equity holders in a general meeting. Subject to the shareholders' approval, the discretionary surplus reserve may be used to offset accumulated losses, if any, and may be converted into capital of the Company.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)46 RESERVES (*Continued*)

(3) General reserve

Pursuant to the requirements of regulatory authorities, including the Ministry of Finance and the CSRC, the Company is required to appropriate 10% of its after-tax profit for the year for the general risk reserve and 10% for the transaction risk reserve. These reserves may be used to offset accumulated losses of the Company but shall not be declared as dividends or converted into share capital. Regulatory reserve represents reserves that are established by subsidiaries and branches in certain countries or jurisdictions outside Mainland China in accordance with the regulatory requirements in their respective territories are also included herein.

(4) Investment revaluation reserve

The investment revaluation reserve represents the fair value changes of available-for-sale financial assets.

(5) Foreign currency translation reserve

The foreign currency translation reserve represents the exchange difference arising from the translation of the financial statements of the subsidiaries incorporated outside Mainland China with functional currencies other than RMB.

(6) Distributable profits

The Company's distributable profits are based on the retained profits of the Company as determined under Accounting Standards of Business Enterprises and IFRSs, whichever is lower.

(7) In addition, the Company issued a three-year corporate bond "2013 Zhong Xin Jian" on 22 November 2013 (as disclosed in Note 43 Bonds in Issue). According to the resolution of the 22nd meeting of the Company's first Board of Directors and the resolution of the first extraordinary shareholders meeting in 2013, the Company shall, during the life of the corporate bond, make additional appropriations to the discretionary surplus reserve at no less than 1% of the annual net profit, and additional appropriations to the general reserve at no less than 1% of the annual net profit. If the Company expects a significant risk that may affect the repayment of principal and interests of this corporate bond in the current period, it shall increase the appropriation ratios for the discretionary surplus reserve and the general reserve.

For each of the years ended 31 December 2013, 2014 and 2015, the Company made additional appropriations of 1% of the net profit of the year to the discretionary surplus reserve and the general reserve additionally.

47 CASH AND CASH EQUIVALENTS

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Cash and bank balance	5,321,859	11,447,921	16,154,266	14,019,001
Less: Restricted deposits (<i>Note 33</i>)	–	–	(187,041)	(278,177)
Cash and cash equivalents	<u>5,321,859</u>	<u>11,447,921</u>	<u>15,967,225</u>	<u>13,740,824</u>

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)

48 INTERESTS IN STRUCTURED ENTITIES

The Group is involved with structured entities primarily through investments management business. The Group determines whether to consolidate these structured entities depending on whether the Group has control over them.

(1) Structured entities included in consolidated financial statements

Considering that the Company acts as the principal or the investment consultant for the structured entities, and has invested in the subordinated tranches or all of the shares issued by the structured entities, bearing most or all the risk of the products and obtaining most or all of the variable returns, the Group therefore consolidated these structured entities in its consolidated financial statements.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, total assets of consolidated structured entities, the Group's initial investment and maximum exposure arising from its investments in consolidated structured entities are as follow:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Total assets	619,890	5,424,117	11,673,215	15,337,625
Initial investment	99,024	1,057,783	1,720,396	2,906,335
Maximum exposure	89,888	1,136,971	2,004,671	3,292,569

(2) Interests in unconsolidated structured entities

(i) Structured entities sponsored by the Group

Unconsolidated structured entities sponsored by the Group primarily include asset management plans and investment funds sponsored by the Group. As the manager of these structured entities, the Group invests, on behalf of its customers, the funds raised in the assets as described in the investment plan related to each structured entities. The interests held by the Group in these unconsolidated structured entities primarily include investments held directly or management fees earned from managed structured entities. The variable return that the Group has in relation to the structured entities is not significant, therefore, the structured entities are not consolidated by the Group.

For each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, the Group earned management fee, commission and performance fee amounted to RMB170.71 million, RMB259.64 million, RMB510.94 million, RMB198.30 million and RMB371.06 million, respectively, from unconsolidated structured entities sponsored by the Group, for which the Group held no interest in as at the end of the reporting year/period.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)48 INTERESTS IN STRUCTURED ENTITIES (*Continued*)(2) Interests in unconsolidated structured entities (*Continued*)(i) Structured entities sponsored by the Group (*Continued*)

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the maximum exposure and the carrying amount of relevant balance sheet items of the Group arising from these unconsolidated structured entities sponsored by the Group, for which the Group held interest in as at the end of the reporting year/period, were set out as below:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Financial assets held for trading				
– Carrying amount	–	–	–	9,990
– Maximum exposure	–	–	–	9,990
Available-for-sale financial assets				
– Carrying amount	38,256	170,199	393,556	511,005
– Maximum exposure	38,307	171,229	395,717	521,163

(ii) Structured entities sponsored by third party financial institutions

As at 31 December 2013, 2014, 2015 and as at 30 June 2016, the maximum exposure and the book value of relevant balance sheet items of the Group arising from the interest held of directly invested structured entities sponsored by third party financial institutions were set out as below:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Financial assets held for trading	804,218	1,613,262	5,638,244	5,319,216
Financial assets designated as at fair value through profit or loss	127,482	191,299	1,500,274	206,480
Available-for-sale financial assets	697,246	1,905,141	1,738,092	4,417,579

49 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or customers. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

Repurchase transactions

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under repurchase transactions. The counterparties are allowed to repledge those securities sold under repurchase transactions in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require counterparties to return part of collateral or be required to pay additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them. A financial liability is recognised for cash received.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

49 TRANSFERRED FINANCIAL ASSETS (Continued)

Securities lending arrangements

Transferred financial assets that do not qualify for derecognition include securities lent to customers for securities selling transactions, for which the customers provide the Group with collateral that could fully cover the credit risk exposure of the securities lent. The customers have an obligation to return the securities according to the contracts. If the securities increase or decrease in value, the Group may in certain circumstances be required to return part of collateral or require counterparties to pay additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them.

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties or customers that did not qualify for derecognition and their associated financial liabilities:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Carrying amount of transferred assets				
– Financial assets sold under repurchase agreements	965,086	464,761	293,220	182,259
– Securities lending	112,257	244,781	3,546	7,242
Total	<u>1,077,343</u>	<u>709,542</u>	<u>296,766</u>	<u>189,501</u>
Carrying amount of related liabilities				
– Financial assets sold under repurchase agreements	975,053	461,076	284,046	182,233

50 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Capital commitments

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Contracted, but not provided for	<u>2,160</u>	<u>6,113</u>	<u>8,208</u>	<u>16,794</u>

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Contracted, but not provided for	<u>2,160</u>	<u>6,113</u>	<u>6,945</u>	<u>14,654</u>

The above-mentioned capital commitments are primarily in respect of the construction of properties and purchase of equipment by the Group and the Company.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

50 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(2) Operating lease commitments

At the end of the reporting year/period, the Group and the Company leased certain office properties under operating lease arrangements. The total future minimum lease payments under irrevocable operating lease arrangements are summarised below:

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Within one year	143,671	160,562	219,449	246,438
After one year but not more than two years	133,129	162,336	214,895	243,995
After two years but not more than three years	111,835	144,486	153,227	190,180
After three years	219,710	213,684	206,558	292,772
Total	<u>608,345</u>	<u>681,068</u>	<u>794,129</u>	<u>973,385</u>

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Within one year	126,018	137,856	186,480	213,334
After one year but not more than two years	120,374	138,531	181,914	212,925
After two years but not more than three years	104,756	122,499	123,056	160,428
After three years	213,007	191,225	181,212	282,220
Total	<u>564,155</u>	<u>590,111</u>	<u>672,662</u>	<u>868,907</u>

(3) Legal proceedings

From time to time in the ordinary course of business, the Group and the Company are subject to claims and are parties to legal and regulatory proceedings. As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Group and the Company were not involved in any material legal, or arbitration proceedings that if adversely determined, would have material impact on their financial position or results of operations.

51 RELATED PARTY DISCLOSURES

(1) Beijing State-Owned Capital Operation and Management Center

As at 31 December 2013, 2014 and 2015 and 30 June 2016, Beijing State-Owned Capital Operation and Management Center owned 45% of the equity interest and voting rights of the Company.

Beijing State-Owned Capital Operation and Management Center was established by State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality, which is a whole people-owned enterprise controlled by the PRC government.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

51 RELATED PARTY DISCLOSURES (Continued)

(1) Beijing State-Owned Capital Operation and Management Center (Continued)

The transactions with Beijing State-Owned Capital Operation and Management Center were as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Investment banking income . . .	–	12,584	–	–	–

(2) Central Huijin and companies under Central Huijin

As at 31 December 2013, 2014 and 2015 and 30 June 2016, Central Huijin Investments Limited. (“Central Huijin”) owned 40% of the equity interest and voting rights of the Company.

Central Huijin is a wholly-owned subsidiary of China Investment Corporation, which is incorporated in Beijing, the PRC. Central Huijin was established to hold certain equity interests in state-owned financial institutions as authorised by the Chinese State Council and does not engage in other commercial activities. Central Huijin exercises its legal rights and assumes obligations related to the Company on behalf of the PRC Government. Central Huijin has equity interests in certain other banks and financial institutions under the direction of the Chinese government.

The Group enters into transactions with Central Huijin and its related parties in the ordinary course of business under normal commercial terms. Corresponding transactions and balances with these banks and financial institutions were as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Brokerage services income . . .	1,914	1,429	3,206	2,325	1,231
Investment banking income . . .	54,849	48,641	75,614	21,326	34,680
Interest income	148,665	138,904	357,146	143,827	133,533
Brokerage expenses	(11,399)	(11,991)	(34,934)	(13,098)	(12,847)
Investment banking expenses . .	(2,009)	(5,140)	(2,775)	(250)	(383)
Interest expenses	(3,949)	(13,668)	(37,521)	(10,092)	(26,576)

II NOTES TO THE FINANCIAL INFORMATION (Continued)

51 RELATED PARTY DISCLOSURES (Continued)

(2) Central Huijin and companies under Central Huijin (Continued)

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Assets				
Available-for-sale financial assets	–	50,000	154,724	1,384,492
Financial assets held for trading	475,017	196,132	2,266,498	1,300,367
Derivative financial assets	14,853	16,497	19,078	14,412
Cash held on behalf of clients	3,899,778	8,386,558	15,777,258	12,191,356
Cash and bank balances	67,473	485,549	308,234	737,760
Interest receivable	4,343	11,172	20,557	29,123
Liabilities				
Accounts payable to brokerage clients	52	23	75	35,320
Derivative financial liabilities	21,307	7,397	16,114	11,414
Financial assets sold under repurchase agreements	95,500	994,000	260,469	1,258,591
Short-term borrowings	–	–	251,333	300,022
Long-term borrowings	–	290,001	–	–
Short-term financing instruments payables	–	–	–	300,000
Interest payable	1,593	3,711	14,356	13,447
Other liabilities	–	–	290,001	290,001

(3) Government related entities

According to the provisions of IAS 24 — Related Parties Disclosures, government entities controlled and jointly controlled by the Chinese government and their subsidiaries (the “**government related entities**”) are also regarded as related parties of the Group.

Part of the Group’s transactions including securities and futures dealing and broking, underwriting of debt securities, purchase and sale of government bonds, and equity and debt securities issued by other government related entities are entered into with government related entities. These transactions are entered into under normal commercial terms and conditions.

Directors of the Company consider that transactions with government related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the counterparties are government related entities.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

51 RELATED PARTY DISCLOSURES (Continued)

(4) Other major shareholder and its related parties

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Investment banking income . . .	–	–	47,960	–	–
	As at 31 December			As at 30 June	
	2013	2014	2015	2015	2016
Assets					
Financial assets held for trading . . .	–	–	80,000	80,320	80,320

(5) Subsidiaries and consolidated structured entities

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Brokerage services income . . .	110	1,129	343	164	5,527
Asset and fund management income	–	6,237	13,334	4,707	17,315
Other fee and commission income	–	941	–	–	1,504
Interest expenses	(12,371)	(29,947)	(27,551)	(15,348)	(11,479)
Net investment gains	(285)	(406)	(647)	(502)	(194)
	As at 31 December			As at 30 June	
	2013	2014	2015	2015	2016
Assets					
Cash and bank balances	120,677	257,824	266,831	171,535	171,535
Cash held on behalf of clients . . .	18,817	26,264	6,261	37,710	37,710
Refundable deposits	112,709	238,546	61,324	40,900	40,900
Accounts receivable	725	1,248	4,481	9,496	9,496
Other receivables	–	–	–	713	713
Liabilities					
Financial assets sold under repurchase agreements	409,913	529,887	400,434	284,582	284,582
Accounts payable to brokerage clients	18,817	26,264	6,261	37,710	37,710
Interest payables	5,003	9,774	6,818	1,653	1,653
Other payables	19,069	19,069	–	–	–

The related transactions and balance with above subsidiaries and consolidated structured entities of the Company have been offset in the consolidated financial statements.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**51 RELATED PARTY DISCLOSURES** (*Continued*)**(6) The Group's associate**

The Group entered into transactions with its associate at arm's length in the ordinary course of business. Management considers that transactions between the Group and its associate are not significant.

(7) Key management personnel

Key management personnel are those who have the authority and responsibility to directly or indirectly plan, direct and control the Group activities, including the board of directors, the board of supervisors and other senior management personnel.

The Group's remuneration for key management personnel (including Note 12 Directors' and Supervisors' Remuneration) are disclosed as follow:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				Unaudited	
Salaries, bonuses and allowances	45,586	69,791	87,570	74,416	62,355
Staff benefits	1,967	2,602	2,720	1,408	1,420
Contributions to defined contribution schemes	1,011	1,479	1,514	738	788
Total	<u>48,564</u>	<u>73,872</u>	<u>91,804</u>	<u>76,562</u>	<u>64,563</u>

52 FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

- Level 1: where the inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2: where the inputs are all directly and indirectly observable inputs other than the quoted market prices of assets and liabilities in Level 1.
- Level 3: where the inputs are unobservable inputs for relevant assets or liabilities.

The Group uses valuation techniques or counterparty quotations to determine fair value when market prices are not available in active markets.

The major parameters used in valuation techniques include underlying securities prices, interest rates, foreign exchange rates, volatilities, correlations and counterparty credit spreads, among others, which are all observable and available from an active market.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy (Continued)

For certain unlisted equity securities (private equity securities), thinly traded equity securities, unlisted funds, and certain over-the-counter derivative contracts, the management uses counterparty quotations or valuation techniques to determine their fair value. Valuation techniques used include discounted cash flow analysis, net asset value method and market comparison approach. The fair value measurement of these financial instruments may use unobservable inputs that may have significant impact on the valuation results, and therefore, the Group includes them as Level 3 assets and liabilities. The unobservable inputs that may have impact on the valuation include weighted average cost of capital, liquidity discount, and price to book ratio, among others. As at 31 December 2013, 2014 and 2015 and 30 June 2016, fair value changes resulting from the changes in the unobservable inputs were not significant. The Group has implemented internal control procedures to monitor and control the Group's exposures to such financial instruments.

(1) Financial instruments recorded at fair value

The Group

	31 December 2013			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt instruments	4,038,381	3,101,742	–	7,140,123
– Equity investments	422,271	15,075	–	437,346
– Fund investments	800,218	–	–	800,218
– Others	–	4,000	–	4,000
Subtotal	5,260,870	3,120,817	–	8,381,687
Financial assets designated as at fair value through profit or loss	352,862	–	–	352,862
Derivative financial assets	–	113,690	–	113,690
Available-for-sale financial assets				
– Debt instruments	10,636,137	2,027,542	–	12,663,679
– Equity investments	156,879	–	30,279	187,158
– Fund investments	63,856	–	–	63,856
– Others	–	671,645	–	671,645
Subtotal	10,856,872	2,699,187	30,279	13,586,338
Total assets	16,470,604	5,933,694	30,279	22,434,577
Financial liabilities held for trading	–	212,217	–	212,217
Derivative financial liabilities	–	115,289	–	115,289
Total liabilities	–	327,506	–	327,506

II NOTES TO THE FINANCIAL INFORMATION (Continued)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value (Continued)

The Group (Continued)

	31 December 2014			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt instruments	10,594,763	3,752,540	–	14,347,303
– Equity investments	2,241,464	–	–	2,241,464
– Fund investments	895,216	–	–	895,216
– Others	3,844	830,431	–	834,275
Subtotal	13,735,287	4,582,971	–	18,318,258
Financial assets designated as at fair value through profit or loss	525,504	–	–	525,504
Derivative financial assets	–	150,581	–	150,581
Available-for-sale financial assets				
– Debt instruments	5,328,663	4,030,476	–	9,359,139
– Equity investments	195,969	–	72,017	267,986
– Fund investments	25,326	–	–	25,326
– Others	1,073	2,081,052	–	2,082,125
Subtotal	5,551,031	6,111,528	72,017	11,734,576
Total assets	19,811,822	10,845,080	72,017	30,728,919
Financial liabilities held for trading	766,552	90,525	–	857,077
Derivative financial liabilities	–	798,152	–	798,152
Total liabilities	766,552	888,677	–	1,655,229

II NOTES TO THE FINANCIAL INFORMATION (Continued)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value (Continued)

The Group (Continued)

	31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt instruments	7,224,063	13,759,128	–	20,983,191
– Equity investments	1,864,558	–	–	1,864,558
– Fund investments	4,372,398	–	–	4,372,398
– Others	–	1,265,846	–	1,265,846
Subtotal	13,461,019	15,024,974	–	28,485,993
Financial assets designated as at fair value through profit or loss	3,783	1,500,000	–	1,503,783
Derivative financial assets	10,663	131,389	–	142,052
Available-for-sale financial assets				
– Debt instruments	120,724	9,798,692	–	9,919,416
– Equity investments	579,527	–	21,698	601,225
– Fund investments	54,442	6,173	–	60,615
– Others	2,110	6,116,925	–	6,119,035
Subtotal	756,803	15,921,790	21,698	16,700,291
Total assets	14,232,268	32,578,153	21,698	46,832,119
Financial liabilities held for trading	–	93,191	–	93,191
Derivative financial liabilities	41,721	149,031	–	190,752
Total liabilities	41,721	242,222	–	283,943

II NOTES TO THE FINANCIAL INFORMATION (Continued)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value (Continued)

The Group (Continued)

	30 June 2016			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt instruments	5,368,152	18,993,275	–	24,361,427
– Equity investments	652,030	–	–	652,030
– Fund investments	3,802,081	–	–	3,802,081
– Others	–	1,542,391	–	1,542,391
Subtotal	9,822,263	20,535,666	–	30,357,929
Financial assets designated as at fair value through profit or loss	3,313	304,683	–	307,996
Derivative financial assets	4,446	104,171	–	108,617
Available-for-sale financial assets				
– Debt instruments	97,164	15,806,980	–	15,904,144
– Equity investments	464,612	102,724	25,614	592,950
– Fund investments	119,848	–	–	119,848
– Others	–	8,595,458	–	8,595,458
Subtotal	681,624	24,505,162	25,614	25,212,400
Total assets	10,511,646	45,449,682	25,614	55,986,942
Financial liabilities held for trading	–	141,233	–	141,233
Derivative financial liabilities	13,468	207,105	–	220,573
Total liabilities	13,468	348,338	–	361,806

II NOTES TO THE FINANCIAL INFORMATION (Continued)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value (Continued)

The Company

	31 December 2013			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt instruments	3,512,917	3,101,742	–	6,614,659
– Equity investments	422,271	15,075	–	437,346
– Fund investments	800,218	–	–	800,218
– Others	–	4,000	–	4,000
Subtotal	4,735,406	3,120,817	–	7,856,223
Financial assets designated as at fair value through profit or loss	352,862	–	–	352,862
Derivative financial assets	–	113,690	–	113,690
Available-for-sale financial assets				
– Debt instruments	10,525,285	2,027,542	–	12,552,827
– Equity investments	55,681	–	–	55,681
– Fund investments	17,126	–	–	17,126
– Others	–	760,807	–	760,807
Subtotal	10,598,092	2,788,349	–	13,386,441
Total assets	15,686,360	6,022,856	–	21,709,216
Financial liabilities held for trading	–	212,217	–	212,217
Derivative financial liabilities	–	115,289	–	115,289
Total liabilities	–	327,506	–	327,506

II NOTES TO THE FINANCIAL INFORMATION (Continued)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value (Continued)

The Company (Continued)

	31 December 2014			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt instruments	5,308,312	3,752,540	–	9,060,852
– Equity investments	2,241,464	–	–	2,241,464
– Fund investments	841,815	–	–	841,815
– Others	3,844	1,316,408	–	1,320,252
Subtotal	8,395,435	5,068,948	–	13,464,383
Financial assets designated as at fair value through profit or loss	525,504	–	–	525,504
Derivative financial assets	–	150,581	–	150,581
Available-for-sale financial assets				
– Debt instruments	5,245,619	4,030,476	–	9,276,095
– Equity investments	125,852	–	–	125,852
– Fund investments	25,326	–	–	25,326
– Others	–	2,547,890	–	2,547,890
Subtotal	5,396,797	6,578,366	–	11,975,163
Total assets	14,317,736	11,797,895	–	26,115,631
Financial liabilities held for trading	766,552	90,525	–	857,077
Derivative financial liabilities	–	798,152	–	798,152
Total liabilities	766,552	888,677	–	1,655,229

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)52 FAIR VALUE AND FAIR VALUE HIERARCHY (*Continued*)(1) Financial instruments recorded at fair value (*Continued*)The Company (*Continued*)

	31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt instruments	27,944	8,381,016	–	8,408,960
– Equity investments	1,859,931	–	–	1,859,931
– Fund investments	4,372,398	–	–	4,372,398
– Others	–	1,903,665	–	1,903,665
Subtotal	6,260,273	10,284,681	–	16,544,954
Financial assets designated as at fair value through profit or loss	3,783	1,500,000	–	1,503,783
Derivative financial assets	10,663	131,389	–	142,052
Available-for-sale financial assets				
– Debt instruments	7,591	9,798,692	–	9,806,283
– Equity investments	455,935	–	–	455,935
– Fund investments	54,442	–	–	54,442
– Others	–	7,299,587	–	7,299,587
Subtotal	517,968	17,098,279	–	17,616,247
Total assets	6,792,687	29,014,349	–	35,807,036
Financial liabilities held for trading	–	93,191	–	93,191
Derivative financial liabilities	41,721	149,031	–	190,752
Total liabilities	41,721	242,222	–	283,943

II NOTES TO THE FINANCIAL INFORMATION (Continued)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value (Continued)

The Company (Continued)

	30 June 2016			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt instruments	69,708	8,418,616	–	8,488,324
– Equity investments	652,030	–	–	652,030
– Fund investments	3,458,186	–	–	3,458,186
– Others	–	2,890,229	–	2,890,229
Subtotal	4,179,924	11,308,845	–	15,488,769
Financial assets designated as at fair value through profit or loss	3,313	206,250	–	209,563
Derivative financial assets	4,352	104,171	–	108,523
Available-for-sale financial assets				
– Debt instruments	5,142	15,670,647	–	15,675,789
– Equity investments	371,586	–	–	371,586
– Fund investments	40,223	–	–	40,223
– Others	–	10,125,117	–	10,125,117
Subtotal	416,951	25,795,764	–	26,212,715
Total assets	4,604,540	37,415,030	–	42,019,570
Financial liabilities held for trading	–	141,233	–	141,233
Derivative financial liabilities	13,468	207,105	–	220,573
Total liabilities	13,468	348,338	–	361,806

II NOTES TO THE FINANCIAL INFORMATION (Continued)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(2) Movements in Level 3 financial instruments measured at fair value

The Group

Movements in Level 3 financial instruments measured at fair value in each year/period are as follow:

	Year ended 31 December			Six months ended 30 June
	2013	2014	2015	2016
Available-for-sale financial assets				
Beginning balance	8,015	30,279	72,017	21,698
Total gains recorded in profit or loss for the year/period	–	21,622	227,138	–
Total gains/(losses) recorded in other comprehensive income for the year/period	22,264	39,688	(43,569)	3,916
Increases	–	25,750	19,000	–
Decreases	–	(23,518)	–	–
Transfers to Level 1 from Level 3	–	(21,804)	(252,888)	–
Ending balance	<u>30,279</u>	<u>72,017</u>	<u>21,698</u>	<u>25,614</u>
Gains for the year/period included in profit or loss for assets held at the end of the year/period	<u>95</u>	<u>–</u>	<u>–</u>	<u>–</u>

(3) Important unobservable input value in fair value measurement of Level 3

For financial instruments in Level 3, prices are determined by discounted cash flow models. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are primarily based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level 3 of the Group.

Financial assets	Valuation technique and key input	Significant unobservable input	Relationship of unobservable input to fair value
Equity investment	Discounted cash flow technique	Liquidity adjustment	The lower the discount, the higher the fair value

II NOTES TO THE FINANCIAL INFORMATION (Continued)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(4) Transfers between Level 1 and Level 2

For each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, there were no transfers of fair value measurement between Level 1 and Level 2.

(5) Financial assets and financial liabilities not measured at fair value

As at 31 December 2013, 2014 and 2015 and 30 June 2016, among the Group's financial assets and financial liabilities not measured at fair value, the fair value of financial instruments that are traded in an active market, are quoted as market price at the end of the reporting year/period or evaluated by data published by the valuation institution. The fair value of financial instruments that are not traded in an active market are determined by the current value of estimated future cash flow using market rate at the end of the reporting year/period as the discounted rate, including financial assets held under resale agreements, refundable deposits, margin accounts, accounts receivable, cash held on behalf of clients, cash and bank balances, accounts payable to brokerage clients, financial assets sold under repurchase agreements, placements from banks and other financial institutions, short-term borrowings and short-term financing instruments payable, due to the fact that these financial instruments are approaching their maturity, their fair values approximate their carrying amounts.

The fair value of held-to-maturities financial assets and long-term borrowings are not significantly different from their carrying amounts due to their amount is not significant or less remaining maturities. As at 31 December 2013, 2014 and 2015 and 30 June 2016, the carrying amounts and fair values of bonds in issue are summarised below:

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Debt instruments issued				
– Carrying amount	4,685,515	12,698,921	22,785,400	25,810,069
– Fair value	4,657,150	12,833,583	23,515,128	26,452,608

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Debt instruments issued				
– Carrying amount	4,685,515	12,698,921	21,504,129	24,499,878
– Fair value	4,657,150	12,833,583	22,226,836	25,097,191

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**53 FINANCIAL INSTRUMENTS RISK MANAGEMENT****Overview**

The management considers effective risk management a critical element in ensuring the Company's successful operations. Therefore, the Company has established a set of comprehensive risk management and internal control systems to enable the Company to monitor, evaluate and manage various financial risks in its business activities, including primarily credit risk, market risk and liquidity risk.

Structure of risk management

The Board of Directors is the Company's highest decision-making body in risk management, the executive management is the execution body, while different units are responsible for directly managing the risks they face in their business or operational activities. The Company has three dedicated risk control departments, namely the Risk Management Department, the Legal and Compliance Department and the Internal Audit Department, which independently monitor and manage risks before the event, during the event and after the event, as per their respective roles and responsibilities.

The Board of Directors makes decisions with respect to the Company's overall risk-management strategies and policies, internal control arrangements, and actions to address material risks facing the Company, among other things.

The Risk Management Committee under the Board of Directors is responsible for supervising the overall risk management of the Company and ensuring the risks are adequately managed so that risk management activities may be effectively carried out on risks associated with the Company's business and operating activities. The Board Risk Management Committee also has the following responsibilities: preparing the overall risk management policies for the Board's deliberation; determining the strategic structure and resources for risk management so that they are aligned with the internal risk management policies; setting limits for major risks; and supervising and reviewing the risk management policies and making recommendations to the Board.

The Company's Executives Committee makes general decisions with respect to the prevention, control, mitigation, or acceptance of risks in the Company's business and operating activities and makes decisions on efforts to improve the internal control rules and procedures and control measures in accordance with the risk management policies adopted by the Board.

The Company Risk Management Committee of the Executives Committee is responsible for discussing and proposing the Company's risk preference and tolerance as well as key risk limits for further decision-making; review and approval of specific risk limits and risk control criteria for each business lines; drafting and promoting the implementation of various risk management rules and measures; review and approval of new businesses and products; review and approval of the Company's risk reports; and formulating risk control strategies and plans for material business matters.

The Chief Risk Officer of the Company, serving also as the chairman of the Company Risk Management Committee, is responsible for leading risk management activities across the Company, including organising the formulation of relevant risk management rules and procedures, improving the Company's risk management practices, and guiding the Risk Management Department in the identification, evaluation, monitoring and reporting of various risks.

Each and every department and branch/subsidiary of the Company, within their respective roles and responsibilities, is responsible for following the decisions, rules and procedures, and risk control polices, and implementing risk-control measures and engaging in direct risk control efforts in their business activities. Every staff of the Company has the responsibility to comply with the Company's relevant rules and procedures and contribute to daily risk control efforts as part of their own job responsibilities.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**53 FINANCIAL INSTRUMENTS RISK MANAGEMENT** (*Continued*)**Structure of risk management** (*Continued*)

The Risk Management Department that is responsible for risk management of the Company, the Legal and Compliance Department that is responsible for legal affairs and compliance management, and the Internal Audit Department that is responsible for the Company's internal audit activities are the three independent risk management functions that establish their own rules and procedures and operate independently to promote risk management of the Company. Specifically, the Risk Management Department is responsible for before- and during-the-event risk management through risk monitoring and assessment, the Legal Compliance Department is responsible for managing the overall legal and compliance risks of the Company, and the Internal Audit Department is responsible for conducting audits to identify material defects in key rules and procedures and processes, as well as internal control weakness, and supervising corrections and rectifications.

Risk management activities

The Risk Management Department works with business departments and back-office departments to jointly identify major risks facing the business and management lines, and create the Risk Catalogue and Key Control List on two levels for key business or management lines and general business or management lines, and continues to update the Risk Catalogue and Key Control List in light of business changes and monitoring findings.

The Risk Management Department formulates the risk monitoring processes and indicators for key business and management lines, with risk monitoring indicators for brokerage business, proprietary business, securities financing business, and asset management business embedded in the monitoring system, while the risk monitoring for other business or management lines primarily relies on regular and *ad hoc* monitoring.

The Risk Management Department also formulates operational process for risk assessment, and determines main assessment methods and qualitative and quantitative risk rating criteria. It assesses and rates the risk matters on an ongoing basis, evaluates the controls of major business risks on a regular basis, and conducts comprehensive year-end assessments of the risk control process, risk exposures and positions, and risk incidents of the departments, branches and subsidiaries as a key component of their performance assessment.

The Risk Management Department is responsible for building and maintaining mechanisms for communicating and reporting risk information and significant risk early warning information. The Company has established a risk information management system for communicating and managing risk information and providing significant risk early warnings, and the Risk Management Department is responsible for formulating operational procedures for communicating and reporting risk information and issuing risk early warnings, so that the departments and branches and subsidiaries can report risk information or issue early warnings on potential risks identified to the Risk Management Department. The Risk Management Department then aggregates and manages the risk information, performs comprehensive analyses on various risk information to identify risk control weaknesses and loopholes and prepare improvement recommendations on risk control, reports significant risks to the Chief Risk Officer and executive management or Risk Management Committee, and at the same time, and communicates risk information to relevant parties, while tracking any follow-up activities. The Risk Management Department prepares risk reports and risk control recommendation report in the course of before-the-event risk prevention and before- and during-the-event risk monitoring and evaluation, and reports the findings to relevant parties, responsible persons, the president and the chairman of the Board of directors. The Risk Management Department continuously monitors the risks and the risk control status by following up on the implementation of risk control recommendations by relevant parties in managing risks identified in the risk reports.

II NOTES TO THE FINANCIAL INFORMATION *(Continued)***53 FINANCIAL INSTRUMENTS RISK MANAGEMENT** *(Continued)***Risk management activities** *(Continued)*

The Legal and Compliance Department manages legal and compliance risks through contract review, litigation management, and before- and during-the-event compliance management for business and management lines, and reports legal and compliance risks to the Company's Chief Compliance Officer and executive management.

The Internal Audit Department detects material defects in rules and procedures and processes or internal control weaknesses through audits, reports these issues to the Company's Board of Supervisors, the Board's Audit Committee, executive management, the Legal and Compliance Department and the Risk Management Department, and drives and reviews any follow-up actions.

Risk analysis and control

Financial risks in the Company's daily operating activities primarily include market risk, liquidity risk, credit risk, and operational risk. The Company has established specific policies and procedures to identify and address these risks, set out appropriate risk limits and internal control processes to manage these risks, and built reliable management and information systems to continuously monitoring these risks.

53.1 Credit risk

Credit risk refers to potential losses due to borrowers or counterparties' failures to meet their contractual obligations.

The Company primarily faces four types of credit risk: firstly, the credit risk associated with its securities financing activities, which is risk of losses due to defaults of its margin financing and securities lending clients, contractual repurchase clients and collateralised stock repurchase clients; secondly, the default risk of bond investments, namely the risk of asset impairment and changes in investment returns due to defaults of bond issuers or counterparties who refuse to repay matured principals and interests; thirdly, the risk associated with over-the-counter derivative transactions where the customers default and are unable to provide margin deposits in full or make settlement payments; and fourthly, the risk of loss arising from the Company's obligations to settle on behalf of its customers in securities trading or derivative trading on the customers' accounts which become under-margined on the settlement date due to the Company's failure to require full margin deposits before the transactions or because the customers are unable to cover their transactions due to other reasons.

Credit risk arises from securities financing business primarily due to fraudulent credit information from customers, failure of customers to repay debts in full on a timely manner, customers' breach of contract with respect to the size and structures of trading positions, customers' violation of regulatory requirements in their trading actions, decline in value or liquidity of collateral provided by customers, and involvement of collateral in legal disputes, among others. Methods for controlling credit risk arising from this type of business primarily include customer education, credit investigation and verification, setting proper limits, credit review and approval, daily marking to market, customer risk warnings, forced closure customers' positions, and rights of recourse, among others.

Credit risk arises from securities investments primarily due to counterparty defaults, credit issuer defaults or decline in the creditworthiness of issuers, among others. The Company establishes credit lines for counterparties and maintains black lists to manage its counterparty credit risk, and sets a number of credit limits to help control risks on credit facilities, including minimum ratings for credit products and maximum credit exposure of a single borrower.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

The Company controls credit risk arising from over-the-counter derivative transactions by setting counterparty ratings and credit lines, and setting limits to the sizes of transactions and credit risk exposures before transactions take place. The Company has also adopted mark-to-market practices to monitor the prices of underlying securities of derivative transactions and for valuation of collateral, and established position squaring procedures to help control its credit risk exposures within established limits.

In order to manage the credit risk arising from the brokerage business, securities brokerage transactions in Mainland China are all settled on a fully-pledged basis, which enables settlement risks associated with brokerage business to be well under control. The Company strictly complies with relevant trading and settlement rules and procedures to eliminate non-compliant financing operations for clients. With regard to clients' credit risk, the Company has adopted safeguard measures to prevent overdraft or negative balance of equivalent securities for repurchase financing clients, including minimum ratio of equivalent securities retained and maximum leverage ratio, and established various rules and practices to manage the credit risk of option trading clients, including margin management, position limits, and forced close-out.

Furthermore, the Company's Risk Management Department monitors the credit risk on an ongoing basis, including tracking the credit risk status of counterparties and the Company's businesses and products, as well as using stress testing and sensitivity analysis, among other methods, to measure the credit risk of major business lines.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The Group

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Available-for-sale financial assets	12,652,473	9,392,649	12,005,233	20,855,192
Held-to-maturity investments	–	–	388,413	379,500
Financial assets held under resale agreements	3,280,253	2,260,294	6,896,446	7,965,197
Refundable deposits	1,151,270	1,340,145	2,144,517	2,225,278
Margin accounts	14,624,934	31,941,318	35,931,133	27,890,994
Financial assets held for trading	7,140,123	14,318,061	26,457,381	29,562,334
Financial assets designated as at fair value through profit or loss	–	–	1,500,000	304,683
Derivative financial assets	113,690	150,581	142,052	108,617
Cash held on behalf of clients	19,067,252	42,761,967	70,663,754	62,195,609
Bank balances	5,321,612	11,447,629	16,154,083	14,018,871
Others	922,200	1,168,336	1,843,806	2,060,910
Total maximum credit risk exposure	<u>64,273,807</u>	<u>114,780,980</u>	<u>174,126,818</u>	<u>167,567,185</u>

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (*Continued*)Risk analysis and control (*Continued*)53.1 Credit risk (*Continued*)

The Company

	As at 31 December			As at 30 June
	2013	2014	2015	2016
Available-for-sale financial assets	12,630,784	9,584,165	13,066,480	22,076,870
Financial assets held under resale agreements	3,280,253	2,155,929	6,692,405	7,879,355
Refundable deposits	619,964	673,283	1,014,824	515,294
Margin accounts	14,624,934	31,840,141	35,288,258	26,709,620
Financial assets held for trading	6,614,659	9,031,610	14,520,969	14,693,173
Financial assets designated as at fair value through profit or loss	–	–	1,500,000	206,250
Derivative financial assets	113,690	150,581	142,052	108,523
Cash held on behalf of clients	18,069,785	40,080,354	67,126,626	58,462,277
Bank balances	4,580,536	10,414,832	14,113,747	12,627,224
Others	862,173	877,252	1,014,060	1,336,064
Total maximum credit risk exposure	<u>61,396,778</u>	<u>104,808,147</u>	<u>154,479,421</u>	<u>144,614,650</u>

53.2 Liquidity risk

Liquidity risk is the risk of loss when the Company is unable to fund its obligations to financial liabilities. The Company has established clear decision-making levels, authority delegation and risk control rules and procedures, and clearly defined the roles and responsibilities of the Board of Directors, executive management and business departments in liquidity risk management. The Company has established strict rules and procedures for managing its own funds and requires strict compliance with these rules and procedures in taking debts, providing guarantees and making investments; it also sets liquidity risk limits and conducts daily position analyses and monthly liquidity position analyses to manage liquidity movements. For effective management of market liquidity risk of its securities portfolios, the Company has implemented securities centralisation management for securities investment and financing activities, and adopted credit rating criteria for fixed-income securities investments. The Company also calculates liquidity coverage ratio and net stable funds ratio as per regulatory requirements and all indicators fall within the safety zone.

The Company has the Treasury Operation Department to manage the liquidity of its own funds, including developing long-term and stable funding channels, improving asset allocation between business lines, and steadily optimising its of assets and liabilities structure. The Company continues to improve its daily practices for liquidity risk management with the help of level-by-level liquidity reserves, liquidity contingency planning, and stress testing. In addition to improving liquidity risk management practices and systems, the Company aims to further improve the use of technology and the level of automation in process management, fund allocation, and position monitoring.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (*Continued*)Risk analysis and control (*Continued*)53.2 Liquidity risk (*Continued*)

The maturity profile of the financial liabilities as at the end of the reporting year, based on their contractual undiscounted amounts, is as follows:

The Group

	31 December 2013						Total
	Overdue/ repayable on demand	Less than 3 months	3 months to one year	1 to 5 years	More than 5 years	Undated	
Accounts payable to brokerage clients	19,652,787	–	–	–	–	–	19,652,787
Derivative financial liabilities in net settlement	–	62	23,824	91,403	–	–	115,289
Financial liabilities held for trading	–	212,217	–	–	–	–	212,217
Financial assets sold under repurchase agreements	–	16,210,613	88,632	–	–	–	16,299,245
Placements from banks and other financial institutions	–	5,037,516	–	–	–	–	5,037,516
Short-term borrowings	–	36,555	2,589,078	–	–	–	2,625,633
Short-term financing instruments payable	–	3,226,571	–	–	–	–	3,226,571
Bonds in issue	–	–	289,050	5,246,423	–	–	5,535,473
Others	1,013,291	391,196	105,755	2,710	2,233	11	1,515,196
Total	<u>20,666,078</u>	<u>25,114,730</u>	<u>3,096,339</u>	<u>5,340,536</u>	<u>2,233</u>	<u>11</u>	<u>54,219,927</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The Group (Continued)

	31 December 2014						
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undated	Total
Accounts payable to brokerage clients	43,486,999	–	–	–	–	–	43,486,999
Derivative financial liabilities in net settlement	657,944	1,481	9,185	129,542	–	–	798,152
Financial liabilities held for trading	–	91,445	779,931	–	–	–	871,376
Financial assets sold under repurchase agreements	–	19,847,023	11,531,570	1,129,911	–	–	32,508,504
Placements from banks and other financial institutions	–	1,621,814	2,058,644	–	–	–	3,680,458
Short-term borrowings	–	507,239	–	–	–	–	507,239
Short-term financing instruments payable	–	5,627,816	–	–	–	–	5,627,816
Bonds in issue	–	–	454,050	8,154,050	–	–	8,608,100
Long-term borrowings	–	3,335	9,709	303,044	–	–	316,088
Others	1,451,470	919,475	6,948,525	10,276	631	111	9,330,488
Total	45,596,413	28,619,628	21,791,614	9,726,823	631	111	105,735,220

II NOTES TO THE FINANCIAL INFORMATION (Continued)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The Group (Continued)

	31 December 2015					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients . . .	72,045,265	–	–	–	–	72,045,265
Derivative financial liabilities in net settlement	49,683	898	8,646	131,525	–	190,752
Financial liabilities held for trading . . .	–	93,222	–	–	–	93,222
Financial assets sold under repurchase agreements	–	23,043,103	4,705,115	1,886,421	–	29,634,639
Placements from banks and other financial institutions	–	2,325,145	–	–	–	2,325,145
Short-term borrowings	–	848,838	592,325	–	–	1,441,163
Short-term financing instruments payable .	–	9,509,260	2,010,101	–	–	11,519,361
Bonds in issue	–	20,237	742,148	16,528,860	–	17,291,245
Others	2,494,279	4,090,742	9,709,216	15,702	1	16,309,940
Total	<u>74,589,227</u>	<u>39,931,445</u>	<u>17,767,551</u>	<u>18,562,508</u>	<u>1</u>	<u>150,850,732</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The Group (Continued)

	30 June 2016					Total
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Accounts payable to brokerage clients . . .	63,992,009	–	–	–	–	63,992,009
Derivative financial liabilities in net settlement	110,278	4,683	5,659	99,953	–	220,573
Financial liabilities held for trading . . .	–	141,282	–	–	–	141,282
Financial assets sold under repurchase agreements	–	22,470,690	7,313,812	837,500	–	30,622,002
Placements from banks and other financial institutions	–	1,708,225	–	–	–	1,708,225
Short-term borrowings	–	1,536,650	–	–	–	1,536,650
Short-term financing instruments payable .	–	1,571,856	3,409,804	–	–	4,981,660
Bonds in issue	–	107,198	434,122	13,113,920	–	13,655,240
Others	2,356,094	5,724,136	16,336,884	4,164	30	24,421,308
Total	<u>66,458,381</u>	<u>33,264,720</u>	<u>27,500,281</u>	<u>14,055,537</u>	<u>30</u>	<u>141,278,949</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The Company

	31 December 2013					
	Overdue/ repayable on demand	Less than 3 months	3 months to one year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients . . .	18,124,072	–	–	–	–	18,124,072
Derivative financial liabilities in net settlement	–	62	23,824	91,403	–	115,289
Financial liabilities held for trading . . .	–	212,217	–	–	–	212,217
Financial assets sold under repurchase agreements	–	16,485,160	88,632	–	–	16,573,792
Placements from banks and other financial institutions	–	5,037,516	–	–	–	5,037,516
Short-term borrowings	–	36,555	2,589,078	–	–	2,625,633
Short-term financing instruments payable .	–	3,226,571	–	–	–	3,226,571
Bonds in issue	–	–	289,050	5,246,423	–	5,535,473
Others	777,439	52,933	44,066	1,314	2,233	877,985
Total	<u>18,901,511</u>	<u>25,051,014</u>	<u>3,034,650</u>	<u>5,339,140</u>	<u>2,233</u>	<u>52,328,548</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The Company (Continued)

	31 December 2014						
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undated	Total
Accounts payable to brokerage clients	40,150,652	–	–	–	–	–	40,150,652
Derivative financial liabilities in net settlement	657,944	1,481	9,185	129,542	–	–	798,152
Financial liabilities held for trading	–	91,445	779,931	–	–	–	871,376
Financial assets sold under repurchase agreements	–	18,411,648	11,531,570	1,129,911	–	–	31,073,129
Placements from banks and other financial institutions	–	1,621,814	2,058,644	–	–	–	3,680,458
Short-term borrowings	–	507,239	–	–	–	–	507,239
Short-term financing instruments payable	–	5,627,816	–	–	–	–	5,627,816
Bonds in issue	–	–	454,050	8,154,050	–	–	8,608,100
Others	651,637	223,545	5,207,185	3,372	631	111	6,086,481
Total	<u>41,460,233</u>	<u>26,484,988</u>	<u>20,040,565</u>	<u>9,416,875</u>	<u>631</u>	<u>111</u>	<u>97,403,403</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The Company (Continued)

	31 December 2015					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients	67,407,321	–	–	–	–	67,407,321
Derivative financial liabilities in net settlement	49,683	898	8,646	131,525	–	190,752
Financial liabilities held for trading	–	93,222	–	–	–	93,222
Financial assets sold under repurchase agreements	–	18,917,652	4,705,115	1,886,421	–	25,509,188
Placements from banks and other financial institutions	–	2,325,145	–	–	–	2,325,145
Short-term financing instruments payable	–	9,509,260	2,010,101	–	–	11,519,361
Bonds in issue	–	–	721,800	15,067,800	–	15,789,600
Others	1,552,516	404,886	8,157,493	5,068	1	10,119,964
Total	<u>69,009,520</u>	<u>31,251,063</u>	<u>15,603,155</u>	<u>17,090,814</u>	<u>1</u>	<u>132,954,553</u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The Company (Continued)

	30 June 2016					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients	58,582,640	–	–	–	–	58,582,640
Derivative financial liabilities in net settlement	110,278	4,683	5,659	99,953	–	220,573
Financial liabilities held for trading	–	141,282	–	–	–	141,282
Financial assets sold under repurchase agreements	–	18,181,943	7,041,110	837,500	–	26,060,553
Placements from banks and other financial institutions	–	1,708,225	–	–	–	1,708,225
Short-term financing instruments payable	–	1,571,856	3,409,804	–	–	4,981,660
Bonds in issue	–	75,600	413,400	11,610,000	–	12,099,000
Others	1,388,184	31,277	14,505,091	3,989	30	15,928,571
Total	<u>60,081,102</u>	<u>21,714,866</u>	<u>25,375,064</u>	<u>12,551,442</u>	<u>30</u>	<u>119,722,504</u>

53.3 Market risk

Market risk represents risk of fluctuations in fair values or future cash flows of financial instruments due to movements in market prices. Market risks primarily include stock price risk, interest rate risk, foreign exchange rate risk, and other price risks.

For market risks, the Company has established a sound risk management organisational structure and built risk management processes that enables end-to-end coverage of investment activities before, during and after making the investments, with risk limits applied to every investment. The Company annually reviews and approves risk limits for the whole Company as well as each and every proprietary business lines, including exposure limits, stop-loss limits, VaR limits and stress testing limits, and charges the Risk Management Department to monitor and supervise their implementation and compliance. The Company has adopted daily mark-to-market practices, and implemented stop-loss procedures commensurate with its trading strategies. On a regular basis, the Company assesses the risk tolerance of its proprietary business lines and the effectiveness of its risks, and includes the assessment results in the performance evaluation of these business lines. The Company makes ongoing efforts to improve its proprietary business management system, including automated controls over relevant limit indicators.

II NOTES TO THE FINANCIAL INFORMATION (Continued)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

(1) Value at risk (VaR)

The Company adopts VaR as a tool to measure the market risk of its whole securities investment portfolio comprising different types and varieties of financial instruments. VaR is a method that estimates the maximum possible loss on the portfolio due to movements in market interest rates or securities prices over a specified time period and within a given confidence interval.

VaR is calculated using the Company's historical data (at a confidence level of 95% and with a holding period of 10 trading days). Although VaR analysis is a key instrument for measuring market risk, it has to rely on historical data and relevant information, and accordingly, it has certain inherent limitations so that it may not accurately predict the future changes of risk factors and in particular, cannot effectively reflect the risk under extreme market conditions.

The Company's VaR analysis by risk categories is summarised as follows:

	As at 31 December 2013	Year ended 31 December 2013		
		Average	Maximum	Minimum
Equity price-sensitive financial instruments . . .	25,803	36,468	70,574	17,747
Interest rate-sensitive financial instruments . . .	34,863	34,853	51,421	24,394
	As at 31 December 2014	Year ended 31 December 2014		
		Average	Maximum	Minimum
Equity price-sensitive financial instruments . . .	27,721	24,053	41,985	13,000
Interest rate-sensitive financial instruments . . .	79,307	62,017	91,785	41,747
	As at 31 December 2015	Year ended 31 December 2015		
		Average	Maximum	Minimum
Equity price-sensitive financial instruments . . .	209,026	127,789	241,232	22,005
Interest rate-sensitive financial instruments . . .	91,560	169,802	288,415	82,206
	As at 30 June 2016	Six months ended 30 June 2016		
		Average	Maximum	Minimum
Equity price-sensitive financial instruments . . .	94,393	120,932	178,640	84,055
Interest rate-sensitive financial instruments . . .	107,524	67,756	107,524	42,667

II NOTES TO THE FINANCIAL INFORMATION (Continued)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

(1) Value at risk (VaR) (Continued)

In addition, for the purpose of maintaining market stability, the Company made contributions to a special account solely managed by China Securities Finance Corporation Limited and agreed with other investing securities companies to share risks and returns on the investments in proportion to their respective contributions. This investment is also exposed to market risks, but since it is impossible to accurately estimate the exposure, it is not included in the calculations for the above VaR indicators.

(2) Interest rate risk

Interest rate risk represents the risk of losses to the fair values or future cash flows of financial instruments due to adverse movements in market interest rates. The Company's interest rate risk primarily comes from the interest rate-sensitive financial instruments whose fair values are subject to changes due to adverse movements in market interest rates.

The Company primarily uses interest rate sensitivity analysis to monitor its interest rate risk. Sensitivity analysis measures the impact of fair value changes of financial instruments held at the year end on the Company's total income and shareholders' equity when reasonable and possible changes occur to interest rates, assuming all other variables remain the same. Sensitivity analysis assumes that market interest rates shift in a parallel manner and does not consider any risk management actions that the management may take to reduce its interest rate risk.

Interest rate sensitivity analysis of the Group and the Company are as follows:

The Group

Sensitivity of revenue	Year ended 31 December			Six months ended 30 June
	2013	2014	2015	2016
Change in basis points				
+ 25 basis points	(35,273)	(57,436)	(107,085)	(154,810)
- 25 basis points	35,592	58,059	107,936	156,595
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Sensitivity of equity	Year ended 31 December			Six months ended 30 June
	2013	2014	2015	2016
Change in basis points				
+ 25 basis points	(80,658)	(89,122)	(63,203)	(129,776)
- 25 basis points	81,454	90,486	64,155	131,692
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

II NOTES TO THE FINANCIAL INFORMATION (Continued)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

(2) Interest rate risk (Continued)

The Company

Sensitivity of revenue	Year ended 31 December			Six months ended 30 June
	2013	2014	2015	2016
Change in basis points				
+ 25 basis points	(34,464)	(53,815)	(62,653)	(63,633)
– 25 basis points	35,467	56,792	63,626	64,415
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Sensitivity of equity	Year ended 31 December			Six months ended 30 June
	2013	2014	2015	2016
Change in basis points				
+ 25 basis points	(77,369)	(84,341)	(62,789)	(127,589)
– 25 basis points	79,725	86,910	63,741	129,490
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(3) Foreign currency rate risk

The Group believes that it has limited foreign exchange rate risk and its foreign exchange rate risk does not have a significant impact on the Group's current operations, considering that assets and liabilities denominated in foreign currencies represent only a small portion in the Group's entire assets and liabilities, and income from businesses conducted in foreign currencies also represents an insignificant portion in the Group's income structure, as almost all income-earning businesses are conducted in RMB.

(4) Other price risks

Other price risks refer to risks of fair value decline to the Company's investment portfolio due to fluctuations in market prices other than stock prices, interest rates, and foreign exchange rates, including primarily commodity prices. The Company's investment portfolio primarily comprises equity securities and their derivative instruments as well as fixed income businesses. Other market price-related businesses include gold trading where the Company primarily focuses on providing liquidity services and arbitrage trading, and hedges its positions with deferred gold trading and gold futures. The size of its gold portfolio represents a very small portion in the Company's investment portfolio and a negligible risk exposure. Accordingly, the Group believes that other price risks do not have a significant impact on the Group's current operations.

53.4 Capital management

The Group's objectives of capital management are:

- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;

II NOTES TO THE FINANCIAL INFORMATION *(Continued)***53 FINANCIAL INSTRUMENTS RISK MANAGEMENT** *(Continued)***Risk analysis and control** *(Continued)***53.4 Capital management** *(Continued)*

- To support the Group's stability and growth;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2008) (the "**Administrative Measures**") issued by the CSRC, the Company is required to meet the following standards for risk control indicators on a continual basis:

- The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100%;
- The ratio of net capital divided by net assets shall be no less than 40%;
- The ratio of net capital divided by liabilities shall be no less than 8%;
- The ratio of net assets divided by liabilities shall be no less than 20%;
- The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100%; and
- The ratio of the value of fixed income securities held divided by net capital shall not exceed 500%.

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

On 16 June 2016, the CSRC issued the Administrative Rules for Risk Control Indicators of Securities Companies (2016 amended) with amendments to the framework and criteria of risk control indicators with which the securities companies must maintain continuing compliance, and the amended rules are set to become effective on 1 October 2016.

54 EVENTS AFTER THE REPORTING PERIOD

In August 2016, the Company publicly issued a 5-year fixed rate corporate bond ("**16 Xintou G2**") with a face value of RMB1.5 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or for the investors to sell back the bonds. The bond pays interest annually at 2.90% per annum and is not guaranteed.

In August 2016, the Company increased capital contribution to its subsidiary China Fund Management Co., Ltd. by RMB82.50 million.

II NOTES TO THE FINANCIAL INFORMATION (*Continued*)**54 EVENTS AFTER THE REPORTING PERIOD** (*Continued*)

On 8 March 2016, Century Jinyuan Investment Group Limited (“**Century Jinyuan**”), a shareholder of the Company, entered into a share transfer agreement with Xizang Shannan Century Jinyuan Investment Management Limited (“**Shannan Jinyuan**”) to transfer 300,000,000 of its shares in the Company (representing 4.92% of the total share capital) to Shannan Jinyuan. The transfer was completed on 18 July 2016. On 22 August 2016, Century Jinyuan entered into a share transfer agreement with Shanghai Shangyan Investment Center (Limited Partnership) (“**Shanghai Shangyan**”) to transfer 150,624,815 of its shares in the Company (representing 2.47% of the total share capital) to Shanghai Shangyan. The transfer was completed on 1 September 2016. After the completion of this share transfer, Shannan Jinyuan will hold 4.92% of the Company’s shares, Shanghai Shangyan will hold 2.47% of the Company’s shares, and Century Jinyuan will hold 0.61% of the Company’s shares.

III SUBSEQUENT FINANCIAL STATEMENTS

The Group has not prepared audited financial statements for the period between 30 June 2016 and the date of this report. In addition to the above disclosure, the Group has not declared or paid dividends during any period after 30 June 2016.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountant's Report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of the unaudited pro forma adjusted consolidated net tangible assets attributable to shareholders of the Company which has been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules for the purpose of illustrating the effect of Global Offering as if it had taken place on 30 June 2016 and based on the consolidated net tangible assets attributable to shareholders of the Company as at 30 June 2016 as shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 30 June 2016 or at any future date.

	Audited consolidated net tangible assets attributable to owners of our Company as of 30 June 2016 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company per Share	
		(RMB in thousands)		(RMB) ⁽³⁾⁽⁵⁾	(HK\$) ⁽⁴⁾⁽⁵⁾
Based on Offer Price of HK\$6.36 per Share	32,489,214	5,891,571	38,380,785	5.35	6.01
Based on Offer Price of HK\$7.26 per Share	32,489,214	6,731,559	39,220,773	5.47	6.15

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (1) The audited consolidated net tangible assets attributable to owners of our Company as of 30 June 2016 is based on the consolidated net assets attributable to owners of our Company of approximately RMB32,606,318 thousand as adjusted for intangible assets of approximately RMB117,104 thousand as extracted from the Accountant's Report set out in Appendix I to this Prospectus.
- (2) The estimated net proceeds from the issue of our Shares pursuant to the Global Offering at the offer price of lower limit and upper limit of HK\$6.36 and HK\$7.26 per Share, respectively, after deduction of the underwriting commissions and fees and other related fees assuming that the over-allotment option is not exercised. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into RMB at an exchange rate of HK\$1 to RMB0.88932, which was the currency exchange rate prevailing on 21 November 2016. No representation is made that Hong Kong dollar amounts have been, could have been or could be converted to RMB, or vice versa, at that rate or at any other rates or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share are calculated after the adjustments referred to in note (2) above and on the basis that 7,176,470,000 Shares are issued and outstanding, assuming the Global Offering had been completed on 30 June 2016, and no over-allotment option will be exercised.
- (4) The translation between RMB and HK\$ has been made at the rate of HK\$1 to RMB0.88932. No representation is made that the RMB amounts have been, could have been or could be converted to Hong Kong dollar, or vice versa, at that rate or at any other rates or at all.
- (5) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company to reflect any trading results or other transactions which the Group entered into subsequent to 30 June 2016.

B. THE UNAUDITED PRO FORMA FINANCIAL INFORMATION REPORT

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**TO THE DIRECTORS OF CSC FINANCIAL CO., LTD.**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of CSC Financial Co., Ltd. (the “**Company**”) and its subsidiaries (collectively the “**Group**”) by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 30 June 2016, and related notes (the “**Unaudited Pro Forma Financial Information**”) as set out on pages II-1 to II-2 of the Company’s prospectus dated 29 November 2016, in connection with the proposed initial public offering of the H shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group’s financial position as at 30 June 2016 as if the proposed initial public offering had taken place at 30 June 2016. As part of this process, information about the Group’s financial position has been extracted by the directors from the Group’s financial information for the six months ended 30 June 2016, on which an accountant’s report has been published.

Directors’ Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA 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 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

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 plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 30 June 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 November 2016

TAXATION

Certain PRC and Hong Kong tax consequences on investors relating to the ownership of H shares by an investor who purchases such H Shares in the Global Offering and holds the H shares as capital assets are summarized as follows. This summary does not purport to and is not intended to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investor, some of which may be subject to special provisions.

This summary is based on the tax laws of the PRC and Hong Kong (including the tax treaties to which PRC or Hong Kong is a party thereto) in effect as of the Latest Practicable Date, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This section in this prospectus does not address any aspect of the PRC or Hong Kong taxation other than income tax, capital tax, business tax, stamp duty and estate duty. Potential investors are urged to consult their tax advisors regarding the PRC, Hong Kong and other tax consequences of investing in H Shares.

PRC TAXATION OF THE NON-RESIDENT INVESTORS

Taxation on Dividends

Individual investors

According to the *Individual Income Tax Law of the PRC* (中華人民共和國個人所得稅法) (“**IIT Law**”), as amended, and its implementation rules, dividends paid to individuals by PRC companies are generally subject to an individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, his/her receipt of dividends from a PRC company is normally subject to PRC withholding tax of 20% unless specifically exempted by the taxation authority of the State Council or exempted or reduced by an international convention or applicable tax treaty which the PRC Government has signed or acceded to.

Pursuant to the *Circular on Questions Concerning the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045* (Guo Shui Han [2011] No. 348) (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) promulgated for implementation by the SAT 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.

Enterprises

In accordance with the EIT Law, and the *Implementation Rules of the Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法實施條例》), both effective on January 1, 2008, a non-PRC resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income, including dividends received from a PRC resident enterprise whose shares are issued and listed in Hong Kong, if such non-PRC resident enterprise does not have an establishment or premises in the PRC, or has an establishment or premises in the PRC but the PRC-sourced income is not actually connected with such establishment or premises in the PRC. Such withholding tax may be reduced or eliminated under an applicable treaty for the avoidance of double taxation. The aforesaid income tax payable by the non-PRC resident enterprises shall be withheld at source by the company paying the dividend as the withholding agent.

Notice on the Issues Concerning Withholding and Remitting Enterprise Income Tax on the Dividends Payable by PRC Resident Enterprises to Overseas Non-PRC Resident Enterprise Shareholders of H Share (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) issued by the SAT on November 6, 2008, further clarified that a PRC resident enterprise must withhold enterprise income tax at a rate of 10% on dividends paid to non-PRC resident enterprise shareholders of H Shares which are derived out of profit generated since January 1, 2008. A non-PRC resident enterprise which is entitled to a preferential tax rate under an applicable tax treaty or arrangement may, directly or through its agent, apply to the competent tax authorities for a refund of the excess amount of tax withheld.

Tax Treaties or Arrangements

Non-PRC resident investors residing in countries which have entered into treaties with the PRC for the avoidance of double taxation or residing in Hong Kong or Macau may be entitled to preferential treatment of the withholding tax imposed on dividends received by such investors from the PRC company. For example, according to the *Agreement of 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 with Respect to Tax on Income* (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on August 21, 2006, the PRC Government may impose tax on dividends paid to a Hong Kong resident (including natural person and legal entity) by a PRC company, but such tax shall not exceed 10% of the gross amount of the dividends payable. If a Hong Kong resident directly holds 25% or more of equity interest in a PRC company, such tax shall not exceed 5% of the gross amount of dividends payable by that PRC company.

The PRC has entered into arrangements for the avoidance of double taxation with Hong Kong and Macau, respectively, and has entered into treaties for the avoidance of double

taxation with certain other countries, including but not limited to Australia, Canada, France, Germany, Japan, Malaysia, Netherlands, Singapore, the United Kingdom and the United States. A non-PRC resident enterprise which is entitled to a preferential tax rate under a relevant income tax treaty or arrangement may apply to the PRC tax authorities for a refund of the difference between the amount of tax withheld and tax computed based on the treaty rate.

Taxation on Gains from Share Transfer

Individual Investors

In accordance with the IIT Law and its implementation rules, individuals are subject to individual income tax at the rate of 20% on gains realized on the sale of equity interests in PRC resident enterprises. The implementation rules further provide that the MOF shall formulate measures for the collection of individual income tax on income generated from the transfer of shares, and such measures shall be submitted to the State Council for approval. However, no such measures have been proposed or formulated by the MOF. Under the *Circular Declaring that Individual Income Tax Continues to Be Exempted over Individual Income from Transfer of Shares* (財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) (Cai Shui Zi [1998] No. 61) issued by the MOF and the SAT on March 30, 1998, effective from January 1, 1997, gains of individuals from the transfer of shares of listed enterprises continues to be exempted from individual income tax. After the latest amendment to the IIT Law on June 30, 2011 and its implementing rules amended on July 19, 2011 and implemented on September 1, 2011, the SAT has not explicitly stated whether it will continue to exempt individuals from income tax on income derived from the transfer of listed shares. However, on December 31, 2009, the MOF, the SAT and the CSRC jointly issued the *Circular on Relevant Issues Concerning 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) (Cai Shui [2009] No. 167), which provides that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the individual income tax, except for certain shares which are subject to sales limitations (as defined in the supplementary notice of such Circular issued on November 10, 2010).

On December 7, 2014, the SAT promulgated the *Administrative Measures for Individual Income Tax on Equity Transfer Incomes (Provisional)* (股權轉讓所得個人所得稅管理辦法(試行)), which became effective on January 1, 2015. The foregoing measures provide that the transfer of equity interest in the enterprises or entities incorporated in the PRC by individuals are subject to the individual income tax. These measures are not applicable to transfer of shares of companies listed on the Shanghai Stock Exchange or Shenzhen Stock Exchange which are acquired from public offering or the stock transfer market by individuals, transfer of shares that are subject to sales limitations, and other equity interest transfers that are subject to special provisions. The aforesaid provision has not expressly provided that individual income tax shall be collected from non-PRC resident individuals on the sale of shares of PRC resident enterprises listed on overseas stock exchanges.

Enterprises

In accordance with the EIT Law and its implementation rules, a non-PRC resident enterprise is generally subject to enterprise income tax at the rate of 10% with respect to PRC-sourced income, including gains derived from the disposition of shares in a PRC resident enterprise, if it does not have an establishment or premises in the PRC, or has an establishment or premises in the PRC but the PRC-sourced income is not actually connected with such establishment or premises in the PRC. Such tax may be reduced or eliminated under applicable tax treaties or arrangements.

PRC stamp duty

Under the Provisional Regulations of the *PRC Concerning Stamp Duty* (中華人民共和國印花稅暫行條例) amended on January 8, 2011 and the *Implementation Rules of Provisional Regulations of the PRC Concerning Stamp Duty* (中華人民共和國印花稅暫行條例施行細則), effective on October 1, 1988, PRC stamp duty is imposed on documents that are legally binding in the PRC and governed by the PRC laws. Therefore, PRC stamp duty does not apply to acquisitions or dispositions of H shares outside the PRC.

Estate duty

The PRC currently does not impose any estate duty.

MAJOR TAXES ON THE COMPANY IN THE PRC**Income tax**

According to the EIT Law, enterprises and other organizations generating income within the territory of the PRC are subject to enterprise income tax at the rate of 25%.

Business tax

According to the *PRC Provisional Regulations on Business Tax* (中華人民共和國營業稅暫行條例) amended on November 10, 2008 and implemented on January 1, 2009, enterprises and individuals that provide labor services, transfer intangible assets or sell real estate within the territory of the PRC as specified by such regulations are subject to business tax. The business tax rate applicable to financial and insurance companies is 5%.

Pursuant to the *Pilot Scheme for the Conversion of Business Tax to Value-added Tax* (“VAT”) (營業稅改徵增值稅試點方案) (Cai Shui [2011] No. 110) promulgated by the MOF and the SAT on November 16, 2011, effective from January 1, 2012, the State started the taxation reform of collecting VAT in lieu of business tax in certain regions (including Shanghai and Beijing) and in certain service industries (including transportation and certain modern service industries) on a trial basis.

On March 23, 2016, the MOF and the SAT promulgated the *Circular on Overall Implementation of the Pilot Scheme for Converting Business Tax to VAT* (關於全面推開營業稅改徵增值稅試點的通知) (Cai Shui [2016] No. 36), the pilot scheme for the conversion of

business tax to VAT shall be implemented nationwide effective from May 1, 2016 and all business tax payers in construction industry, real estate industry, finance industry and consumer service industry, etc. shall be included in the scope of the pilot scheme and pay VAT instead of business tax. In accordance with one of the appendices to such Circular, *Implementation Measures of the Pilot Scheme for the Conversion of Business Tax to Value-added Tax* (營業稅改徵增值稅試點實施辦法), effective on May 1, 2016, entities and individuals engaging in the sale of services, intangible assets or real property within the territory of the PRC shall pay VAT instead of business tax. Sale of services refers to the provisions of transportation services, postal services, telecommunication services, construction services, financial services, modern services and consumer services. The VAT rate applicable thereto shall be 6%.

HONG KONG TAXATION

Tax on Dividends

Under the current practices 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 (for example, financial institutions, insurance companies and securities dealers) are likely to be regarded as deriving trading gains rather than capital gains 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 stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which no Hong Kong estate duty is payable, and no estate duty clearance papers are needed for the application of a grant of representation in respect of holders of H Shares whose deaths occur on or after February 11, 2006.

FOREIGN EXCHANGE CONTROLS OF THE PRC

Renminbi is the lawful currency of the PRC, which is subject to foreign exchange controls and is not freely exchangeable. The SAFE, under the authorization of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

In accordance with the *Circular on Deepening the Reform of the Foreign Exchange Administration System* (關於進一步改革外匯管理體制的通知) (Guo Fa [1993] No. 89), since January 1, 1994, the policy of conditional exchange of Renminbi applied to current account items, and the official exchange rate and the market rate for Renminbi was unified. The unified Renminbi exchange rate adopted a single, controlled floating exchange rate system based on market demand and supply. The PBOC shall publish the exchange rate of Renminbi to other main currencies on a daily basis by reference to the changes on international foreign exchange market. Buying and selling of foreign exchange between designated foreign exchange banks and their clients are allowed to be conducted within a range of floating exchange rates.

On January 29, 1996, the State Council promulgated the *Regulations for the Control of Foreign Exchange of the PRC* (中華人民共和國外匯管理條例) (“**Foreign Exchange Control Regulations**”) which became effective from April 1, 1996. The Foreign Exchange Control Regulations classifies all international payments and transfers into current account items and capital account items. Most of the current account items are not subject to SAFE approval while capital account items are. The Foreign Exchange Control Regulations were subsequently amended on January 14, 1997 and August 5, 2008. The latest amended Foreign Exchange Control Regulations clarifies that the State does not impose restrictions on international payments and transfers under the current account items (as described below).

On June 20, 1996, the PBOC promulgated the *Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange* (結匯、售匯及付匯管理規定) (“**Settlement Regulations**”) which became effective on July 1, 1996. The Settlement Regulations abolished all other restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On October 25, 1998, the PBOC and the SAFE jointly promulgated the *Notice Concerning the Discontinuance of Foreign Exchange Swapping Business* (關於停辦外匯調劑業務的通知), pursuant to which and with effect from December 1, 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

On July 21, 2005, the PBOC announced that, effective on the same date, the PRC would implement a regulated and managed floating exchange rate system in which the exchange rate would be determined based on market supply and demand and with reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the US dollar. The PBOC shall publish the closing price of a foreign currency such as the US dollar traded against the Renminbi in the inter-bank foreign exchange market on each trading day after the closing of the market, and shall fix the central parity for the transaction of such foreign currency against Renminbi on the following 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 inter-bank foreign exchange spot market. In addition, the liquidity of the foreign exchange market was also improved by adopting a market-making system in the inter-bank foreign exchange market.

On August 5, 2008, the State Council promulgated the revised *Regulations for the Control of Foreign Exchange of the PRC* (中華人民共和國外匯管理條例) (“**Revised Foreign Exchange Control Regulations**”), which have made substantial changes to the foreign exchange regulatory system of the PRC. First, the Revised Foreign Exchange Control Regulations adopted an approach of balancing the inflow and outflow of foreign exchange fund. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administration authorities. Second, the Revised Foreign Exchange Control Regulations improved the mechanism for determining the Renminbi exchange rate based on market supply and demand. Third, the Revised Foreign Exchange Control Regulations enhanced the monitoring of cross-border foreign exchange fund flows. In the event that revenues and costs in connection with international transactions suffer or may suffer a material imbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures. Fourth, the Revised Foreign Exchange Control Regulations enhanced the supervision and administration of foreign exchange transactions and granted extensive authority to the SAFE to strengthen its supervisory and administrative ability.

Pursuant to the relevant rules and regulations of the State, all foreign exchange income generated from current account transactions of the PRC enterprises may be either retained or sold to financial institutions engaging in the settlement or sale of foreign exchange. Foreign exchange income from loans issued by organizations or from the issuance of bonds and shares outside the territory of the PRC (for example, foreign exchange income received by us from the sale of shares overseas) is not required to be sold to designated foreign exchange banks and can be deposited into foreign exchange accounts at the designated foreign exchange banks.

The PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of the SAFE, effect payment from their foreign exchange accounts at the designated foreign exchange banks with the support of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises (like us) which, in accordance with regulations, are required to pay dividends to shareholders

in foreign exchange, may on the strength of board resolutions or shareholders' resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay at the designated foreign exchange banks.

The *Decision of the State Council on Cancelling and Adjusting a Group of Administrative Approval Items and Other Matters* (國務院關於取消和調整一批行政審批項目等事項的決定) (Guo Fa [2014] No. 50), which was issued and became effective on October 23, 2014, cancelled the administrative approval by the SAFE and its branches over matters concerning the repatriation and settlement of foreign exchange of overseas-raised funds through overseas listing.

According to the *Circular on Relevant Issues Concerning the Foreign Exchange Administration of Overseas Listing* (關於境外上市外匯管理有關問題的通知) issued by SAFE on December 26, 2014, a domestic issuer shall, within 15 working days after the completion of the offering of shares for its overseas listing, register overseas listing with the local Foreign Exchange Bureau at the place of its incorporation. The proceeds raised from overseas listing of a domestic issuer can be repatriated to PRC or deposited overseas, and the usage of such proceeds shall be consistent with the purpose as specified in the prospectus and other disclosure documents.

On February 13, 2015, the SAFE issued the *Circular of the State Administration of Taxation on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment* (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (“SAFE Circular”), which came into effect on June 1, 2015. The SAFE Circular cancels the foreign exchange registration approval under domestic direct investment and foreign exchange registration approval under overseas direct investment, and requires the banks to review and carry out foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment directly. SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks. Furthermore, according to the SAFE Circular, new overseas enterprises established or controlled by overseas enterprises established or controlled by domestic investors through re-investment are not required to go through the foreign exchange filing procedures.

Summaries of certain aspects of PRC laws and regulations which are relevant to the Company's operations and business are generally set forth in this Appendix. The principal objective of this summary is to provide potential investors with an overview of the principal laws and regulations applicable to us. This summary is not intended to include all the information which might be important to the potential investors, and shall not be construed as an exhaustive summary of all the relevant laws and regulations. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers.

Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix III — Taxation and Foreign Exchange" to this prospectus. For discussion of laws and regulations which are relevant to the business of the Company, please see the section entitled "Regulatory Environment."

THE PRC LEGAL SYSTEM

The PRC legal system is composed of constitution, laws, administrative regulations, local regulations, separate regulations, autonomous regulations, rules and regulations of departments, rules and regulations of local governments, international treaties of which the PRC Government is a signatory, and other regulatory documents. Judicial decisions do not constitute binding precedents. However, they may be used as judicial reference and guidance. The *PRC Constitution* (中華人民共和國憲法) (the "**Constitution**"), enacted by the NPC, is the basis of the PRC legal system and has the supreme legal authority.

According to the Constitution and *the Legislation Law of the PRC* (中華人民共和國立法法) (the "**Legislation Law**"), 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 basic laws governing civil and criminal matters, state organs and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest administrative authority of the PRC and has the power to formulate administrative regulations based on 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 actual requirements of their own respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations.

The ministries and commissions of the State Council, the PBOC, the National Audit Office, and institutions with administrative functions directly under the State Council may formulate department rules within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council.

The people's congresses of cities divided into districts and their respective standing committees may formulate local regulations on aspects such as urban and rural construction and management, environmental protection and historical and cultural protection based on the specific circumstances and actual requirements of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions. However, if there are separate provisions by law on the formulation of local regulations by cities divided into districts, those provisions shall prevail. Such local regulations will become enforceable after being reported to and approved by the standing committees of the people's congresses of the relevant provinces or autonomous regions. People's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the ethnic groups in the areas concerned.

The people's governments of the provinces, autonomous regions and municipalities directly under the Central Government as well as cities divided into districts and autonomous prefectures may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities. The people's governments of cities divided into districts and autonomous prefectures may only formulate local regulations in respect of urban and rural construction and management, environmental protection and historical and cultural protection. Local regulations which have been enacted involving aspects other than those described above shall continue to be in effect.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations and separate regulations and rules may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The authority of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the cities divided into districts within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee of the NPC has the power to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws or administrative regulations, and to annul any autonomous regulations or local regulations which have been approved by the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities directly under the Central Government, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate rules and regulations of departments and rules of local governments. The people's congresses of provinces, autonomous regions or municipalities directly under the Central Government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The standing committees of the local people's congresses have the power to annul any inappropriate rules enacted by the people's governments at the corresponding

level. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at a lower level. The authorizing authorities have the power to annul any regulations enacted by the authorized authorities that transcends the authorized powers or contravenes the purpose of such authorization, and may revoke such authorization when necessary.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. According to the *Resolutions of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws* (全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed on June 10, 1981, the Supreme People's Court has the power to give general interpretation on questions involving the specific application of laws and decrees in court trials. Interpretation of questions involving the specific application of laws and decrees in the procuratorial work of the procuratorates shall be provided by the Supreme People's Procuratorate. If the interpretations provided by the Supreme People's Court and the Supreme People's Procuratorate are at variance with each other in principle, they shall be submitted to the Standing Committee of the NPC for interpretation or decision. Interpretation of questions involving the specific application of laws and decrees in areas unrelated to judicial and procuratorial work shall be provided by the State Council and competent authorities. In case where the scope of local regulations needs to be further defined or additional stipulations need to be made, the standing committees of the people's congresses of provinces, autonomous regions and municipalities directly under the Central Government which have enacted these regulations shall provide the interpretations or make the stipulations. Interpretation of questions involving the specific application of local regulations shall be provided by the competent authorities under the people's governments of provinces, autonomous regions and municipalities directly under the Central Government.

PRC Judicial System

Under the Constitution and the *PRC Law on the Organization of the People's Courts* (中華人民共和國人民法院組織法), the PRC judicial system is composed of the Supreme People's Court, the local people's courts, military courts and other special people's courts.

The local people's courts are composed of the primary people's courts, the intermediate people's courts and the higher people's courts. The primary people's courts may organize criminal division, civil division and economic division. The intermediate people's courts have similar divisions to those of the primary people's courts, and are entitled to organize other courts as needed such as the intellectual property division.

The higher level people's courts supervise the primary and intermediate people's courts. The Supreme People's Court is the highest judicial body in the PRC which supervises the judicial administration of the people's courts at all levels and all special people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels.

The people's courts apply a two-tier appellate system in the trial of cases. A party may appeal against a judgment or ruling of a local people's court to the people's court at the next higher level in accordance with the legal procedures. The people's procuratorate may appeal to the people's court at the next higher level in accordance with the legal procedures. In the

absence of any appeal by any parties to the case concerned and/or any appeal by the people's procuratorate within the stipulated period, the judgment and ruling of the first instance by the local people's courts shall be final. Second judgments or ruling given at the next higher level are final. However, if the Supreme People's Court or a people's court at a higher level finds an error in a judgment which has been given in any people's court at a lower level, or the president of the people's court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures. The death penalty shall be reported to the Supreme People's Court for approval unless it is otherwise adjudged by the Supreme People's Court.

The *PRC Civil Procedure Law* (《中華人民共和國民事訴訟法》) (the “**Civil Procedure Law**”), which was promulgated in 1991 and amended in 2007 and 2012, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law.

Generally, a civil case is initially heard by a local court of the district, county or municipality in which the defendant resides. The parties to a contract may, by express agreement, select a competent judicial court where civil actions may be brought, provided that the judicial court is either within the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or within the place of the object of the action and other place which has actual connection with the dispute, provided that the provisions of this law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated. 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 apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or ruling made by a people's court or an award made by an arbitration panel in the PRC, the other party may apply to the people's court for the enforcement of the same. There is a two-year time limit imposed on the right to apply for such enforcement. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, enforce the judgment in accordance with the law.

A party seeking to enforce a judgment or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognized and enforced by the people's court according to PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or against social and public interest.

The Company Law, Special Regulations and Mandatory Provisions

The Standing Committee of the NPC promulgated the Company Law on December 29, 1993, and amended it on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013 respectively. The latest revision came into effect on March 1, 2014. The Company Law was formulated with a view to regulating the organizations and activities of the companies incorporated in the PRC, protecting the legitimate rights and interests of the companies and their shareholders and creditors, maintaining the social and economic orders and to promoting and facilitating the development of the socialist market economy. The latest amendment to the Company Law in 2013 has lifted the requirement of minimum registered capital. Paid-up capital requirement was also replaced by subscribed capital requirement.

Except for the Company Law, a joint stock limited company which is incorporated in the PRC and seeking a listing on the Hong Kong Stock Exchange is also mainly subject to the Special Regulations and the Mandatory Provisions.

The Special Regulations, which were promulgated by the State Council on August 4, 1994, are applicable to the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions, which were jointly promulgated by the former Securities Committee of the State Council and the State Economic Restructuring Commission on August 27, 1994, prescribe the mandatory provisions which must be incorporated into the articles of association of a joint stock limited company seeking an overseas listing. As such, the Mandatory Provisions are set out in the Articles of Association of the Company, the summary of which is set out in Appendix V — Summary of Articles of Association to this prospectus.

Copies of the Chinese versions of the Company Law, Special Regulations and Mandatory Provisions together with 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 document.

Set out below is a summary of the provisions of the Company Law, the Special Regulations and the Mandatory Provisions applicable to our Company.

General

A joint stock limited company is an enterprise legal person incorporated in the PRC under the Company Law. The registered capital of a joint stock limited company shall be divided into shares of equal par value. The liability of its shareholders shall be limited to the extent of shares held by those shareholders, and the liability of the company shall be limited by the full amount of the total value of its assets.

A SOE that is reorganized into a joint stock limited company shall comply with the conditions and requirements specified by laws and administrative regulations for the modification of its operation mechanisms, the disposal and valuation of the company’s assets and liabilities and the establishment of internal management organizations.

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 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 joint stock limited company may be incorporated by promotion or subscription. A joint stock limited company may be incorporated by a minimum of two but not more than 200 promoters, and at least half of the promoters must have residence within the PRC.

A joint stock limited company incorporated by promotion shall have its registered capital entirely subscribed for by the promoters, whereas the promoters are required to subscribe for no less than 35% of its total number of shares in the event that the company is incorporated by subscription, with the remaining shares to be offered to the public or specific persons, unless otherwise stipulated by laws and regulations.

For joint stock limited companies incorporated by promotion, the registered capital shall be the total capital subscribed for by all promoters as registered with the company registration authority. The company shall not raise capital from others before the promoters have fully paid the capital subscribed for by them. For joint stock limited companies incorporated by subscription, the registered capital shall be the amount of total paid-up capital as registered with the company registration authority.

According to the Special Regulations, SOEs or enterprises with the majority of their assets owned by the PRC Government may be restructured into joint stock limited companies which may issue shares to overseas investors in accordance with the relevant regulations. These companies, if incorporated by promotion, may have less than five promoters and may issue new shares once incorporated.

According to the Securities Law, the total share capital of a company seeking to list its shares on a stock exchange shall be no less than RMB30 million.

The promoters must convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and must give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before convening the meeting. The inaugural meeting may be convened only with the presence of promoters or subscribers representing at least half of the shares in the company.

At the inaugural meeting, matters including the adoption of articles of association and the election of members of the board of directors and members of the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors must apply to the registration authority for registration of the establishment of the joint stock limited company. A company is formally established and has the status of a legal person once the business license has been issued by the relevant registration authority. Joint stock limited companies established by the subscription method shall file the approval on the offering of shares issued by the securities administration department of the State Council with the company registration authority for record.

A joint stock limited company's promoters shall be liable for: (i) the payment of all expenses and debts incurred in the incorporation process jointly and severally if the company cannot be incorporated; (ii) the refund of subscription monies to the subscribers, together with interest, at bank rates for a deposit of the same term jointly and severally if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

Allotment and Issue of Shares

All issue of shares of a joint stock limited company shall be based on the principles of equality and fairness. The same class of shares must be granted with equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. It may issue shares at par value or at a premium, but it may not issue shares below the par value.

A company shall obtain the approval of the CSRC to offer its shares to the overseas public. Under the Special Regulations, shares issued to foreign investors by joint stock limited companies and listed overseas are known as "overseas-listed and foreign invested shares." Shares issued to investors within the PRC by joint stock limited companies, which also issues overseas listed and foreign shares, are known as "domestic shares." Upon approval of the CSRC, a company issuing overseas listed and foreign invested shares in total shares determined by the issuance program may agree with underwriters in the underwriting agreement to retain not more than 15% of the aggregate number of overseas listed and foreign invested shares outside the underwritten amount. The issuance of the retained shares is deemed to be a part of this issuance.

Registered Shares

Under the Company Law, the shareholders may make capital contributions in cash, or alternatively may make capital contributions with such valuated non-monetary property as physical items, intellectual property rights, and land-use rights that may be valued in monetary term and may be transferred in accordance with the law.

A joint stock limited company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in registered form 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.

Pursuant to the Special Regulations, overseas listed and foreign invested shares shall be issued in registered form, denominated in Renminbi and subscribed for in a foreign currency. Domestic shares issued shall be in registered form.

Under the Company Law, when the company issues shares in registered form, it shall maintain a register of shareholders, stating the following matters:

- the name and domicile of each shareholder;
- the number of shares held by each shareholder;
- the serial numbers of shares held by each shareholder; and
- the date on which each shareholder acquired the shares.

Increase of Share Capital

According to the Company Law, an issuance of new shares by a joint stock limited company shall be approved by the shareholders in general meeting. The matters to be resolved in such general meeting shall include:

- the type and number of shares;
- the issue price;
- the commencement date and ending date of the issuance;
- the type and numbers of shares to be issued to the existing shareholders.

Except for the above requirement, for a public offering of new shares, the company shall also comply with the following requirements as provided in the Securities Law:

- has a sound organizational structure with satisfactory operating record;
- has the capability of continuing profitability and a healthy financial position;
- has no false statements and other material breaches in the financial and accounting documents in the past three years;
- fulfills other conditions required by the securities administration department of the State Council as approved by the State Council.

When the company launches a public offering of new shares with the approval of the CSRC, it shall publish a prospectus and financial and accounting reports, and prepare the share subscription form. After the new share issuance has been paid up, the change shall be registered with the company registration authorities and an announcement shall be made.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

- it shall prepare a balance sheet and a property list;
- the reduction of registered capital shall be approved by shareholders in general meeting;
- it shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- creditors may require the company to pay its debts or provide guarantees covering the debts within 30 days after receiving the notice, or within 45 days of the public announcement if no notice has been received; and
- it shall apply to the relevant industry and commerce administration the registration of the reduction in registered capital.

Repurchase of Shares

According to the Company Law, a joint stock limited company may not purchase its shares other than for one of the following purposes:

- to reduce its registered capital;
- to merge with another company that holds its shares;
- to grant its shares to its employees as incentives; and
- to purchase its shares from shareholders who are against the resolution regarding the merger or division with other companies at a shareholders' general meeting.

The purchase of shares on the grounds set out in (i) to (iii) above shall be approved by a resolution passed by the shareholders in general meeting. Following the purchase of shares in accordance with the foregoing, such shares shall be cancelled within ten days from the date of purchase in the case of (i) above and transferred or cancelled within six months in the case of (ii) or (iv) above. Shares acquired in accordance with (iii) above shall not exceed 5% of the total number of the company's issued shares. Such acquisition shall be financed by funds appropriated from the company's profit after taxation, and the shares so acquired shall be transferred to the company's employees within one year.

The company shall not accept any pledge with its own shares as the subject matter.

Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. Pursuant to the Company Law, transfer of shares by shareholders of a joint stock limited company shall be carried out at a legally established securities exchange or in other ways stipulated by the State Council. No changes of registration in the share register caused by transfer of registered shares shall be effected within twenty days prior to the convening of shareholder's general meeting or five days prior to the base date for determination of dividend distributions. However, where there are separate provisions by law on change of registration in the share register of listed companies, those provisions shall prevail. Pursuant to the Mandatory Provisions, no modifications of registration in the share register caused by transfer of shares shall be carried out within thirty days prior to convening of shareholder's general meeting or five days prior to any base date for determination of dividend distributions.

Under the Company law, shares issued prior to the public issuance of shares shall not be transferred within one year from the date of the joint stock limited company's listing on a stock exchange. Directors, supervisors and the senior management shall declare to the company their shareholdings in the company and any changes of such shareholdings. They shall not transfer more than 25% of all the shares they hold in the company annually during their tenure. They shall not transfer the shares they hold within one year from the date on which the company's shares are listed and commenced trading on a stock exchange, nor within six months after their resignation from the company.

Shareholders

The shareholders of a joint stock limited company shall have the rights and obligations as set forth in the relevant laws and regulations and the company's articles of association. Under the Company Law and the Mandatory Provisions, the rights of holders of ordinary shares of a joint stock limited company include:

- the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- the right to transfer shares in accordance with laws, administrative regulations and articles of the articles of association;
- the right to inspect the company's articles of association, share register, counterfoil of company debentures, minutes of shareholder's general meetings, resolutions of meetings of the board of directors, resolutions of meetings of the supervisory committee and financial and accounting reports and to make proposals or enquires on the company's operations;
- the right to bring an action in the people's court to rescind resolutions passed by shareholder's general meetings and board of directors where the convening procedures or voting of such general meetings or meetings of the board of directors violates the laws, administrative regulations or articles of association or the contents of the resolutions passed thereby violate the articles of association;

- the right to receive dividends and other types of interest distributed in proportion to the number of shares held;
- in the event of the termination or liquidation of the company, the right to participate in the distribution of surplus assets of the company in proportion to the number of shares held; and
- other rights granted by laws, administrative regulations, other regulatory documents and the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription amount in respect of the shares subscribed for and in accordance with the form of making capital contributions, to be liable for the company's debts and liabilities to the extent of the amount of his or her subscribed shares, not to abuse shareholders' rights to damage the interests of the company or other shareholders of the company, not to abuse the independent status of the company as a legal person and the limited liability to damage the interests of the creditors of the company and any other shareholders' obligation specified in the company's articles of association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

Under the Company Law and the Mandatory Provisions, the shareholders' general meeting exercises the following principal powers:

- to decide on the company's operational policies and investment plans;
- to elect or remove the directors and supervisors (other than the supervisor representative of the employees of the company) and to decide on matters relating to the remuneration of directors and supervisors;
- to examine and approve reports of the board of directors;
- to examine and approve reports of the supervisory committee;
- to examine and approve the company's proposed annual financial budget and final accounts;
- to examine and approve the company's proposals for profit distribution plans and losses recovery plans;
- to decide on any increase or reduction of the company's registered capital;
- to decide on the issue of bonds by the company;

- to decide on issues such as merger, division, dissolution and liquidation or change of form of the company and other matters;
- to decide on the appointment and dismissal of accounting firm;
- to amend the company's articles of association;
- to decide on the proposals proposed by the shareholders holding more than 5% (inclusive) of the shares with voting rights; and
- other powers as provided for in the articles of association.

Shareholders' annual general meetings are required to be held once every year. Under the Company Law, an extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following:

- the number of directors is less than the number stipulated by the law or less than two thirds of the number specified in the articles of association;
- the aggregate losses of the company which are not recovered reach one-third of the company's total paid up share capital;
- when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;
- whenever the board of directors deems necessary;
- when the supervisory committee so requests; or
- other circumstances as provided for in the articles of associations.

Under the Company Law, shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or does not perform his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting.

Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for 90 days consecutively may unilaterally convene and preside over such meeting.

Under the Company Law, notice of shareholders' general meeting shall state the time and venue of and matters to be considered at the meeting and shall be given to all shareholders 20 days before the meeting. Notice of our extraordinary shareholder's general meetings shall be

given to all shareholders 15 days prior to the meeting. Under the Special Regulations and the Mandatory Provisions, such notice in writing shall be delivered to all the registered shareholders 45 days in advance to the meeting, and the matters to be considered and time and venue of the meeting shall be specified. The written reply of shareholders planning to attend the meeting shall be delivered to the company 20 days in advance of the meeting.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. Pursuant to the Special Regulations and the Mandatory Provisions, shareholder's general meeting may be convened where the number of voting shares held by the shareholders present at the meeting reaches one-half or more of the company's total voting shares. Otherwise the company shall, within five days, notify the shareholders again of the matters to be considered and time and venue of the meeting to shareholders by public announcement.

The company may convene the shareholders' general meeting after such public announcement. Pursuant to the Mandatory Provisions, modification or abrogation of rights conferred to any class of shareholders shall be passed both by special resolution of shareholders' general meeting and by class meeting convened respectively by shareholders of the affected class.

Pursuant to the Special Regulations, where the company convenes annual shareholder's general meeting, shareholders holding more than 5% of voting shares have a right to submit to the company new proposals in writing, in which the matters falling within the scope of shareholder's general meeting shall be placed in the agenda of the meeting.

Under the Company Law, shareholders present at shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights.

Pursuant to the articles of the articles of association or a resolution of the shareholders' general meeting, the accumulative voting system may be adopted for the election of directors and supervisors at the shareholders' general meeting. Under the accumulative voting system, each share shall be entitled to vote equivalent to the number of director or supervisor to be elected at the shareholders' general meeting and shareholders may consolidate their voting rights when casting a vote.

Pursuant to the Company Law and the Mandatory Provisions, resolutions of the shareholders' general meeting shall be adopted by more than half of the voting rights held by the shareholders present at the meeting, with the exception of matters relating to the merger, division, dissolution, increase or reduction of the share capital, change of the form of the company or amendments to the articles of association, which shall be adopted by more than 2/3 of the voting rights held by the shareholders present at the meeting.

Shareholders may entrust a proxy to attend the shareholders' general meetings on his or her behalf by a power of attorney which set forth the scope of exercising the voting rights.

Under the Company Law, meeting minutes shall be prepared in respect of decisions on matters discussed at the shareholders' general meeting. The chairman of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

Board of Directors

Under the Company Law, a joint stock limited company shall have a board of directors, which shall consist of 5 to 19 members. Members of the board of directors may include representatives of the employees of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, but no term of office shall last for more than three years. Directors may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of directors results in the number of directors being less than the quorum.

Under the Company Law, the board of directors mainly exercises the following powers:

- to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- to implement the resolutions passed at shareholders' general meetings;
- to decide on the company's business plans and investment proposals;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's profit distribution proposals and loss recovery proposals;
- to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division, dissolution and change in the form of the company;
- making decisions on the establishment of the Company's internal management bodies;
- decide on appointment or dismissal of company managers and their remuneration, and decide on appointment or dismissal of deputy managers and person in charge of finance of the company based on the nomination by the managers as well as their remuneration;
- to formulate the company's basic management system; and
- to exercise any other power under the articles of association.

According to the Mandatory Provisions, the board of directors is also responsible for formulating the proposals for amendment of the articles of association of the company.

According to the Mandatory Provisions, the directors of the company are obliged to act with caution, diligence and skill of a reasonable and prudent person acting under the similar circumstances. The directors of the company shall abide by the principle of good faith, and shall not put themselves in a position where their own interests and obligations may conflict with each other or the company and its shareholders.

Board Meetings

Under the Company Law, meetings of the board of directors of a joint stock limited company shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of voting rights, more than one-third of the directors or the supervisors. The chairman shall convene and preside over such meeting within 10 days after receiving such proposal. Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors shall be passed by more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf. The director so appointed shall be entitled to vote on behalf of the authorizing director in addition to his or her own vote.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be released from that liability.

Chairman of the Board

Under the Company Law, the board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist the work of the chairman. In the event that the chairman is incapable of performing or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of the directors shall perform his duties.

According to the Mandatory Provisions, the legal representative of the company is the chairman of the board of directors.

Qualification of Directors

Under the Company Law, the following persons shall not serve as a director of the company:

- a person who is unable or has limited ability to undertake any civil liabilities;
- a person who has been convicted of an offense of bribery, corruption, embezzlement or misappropriation of property, or the destruction of socialist market economy order; or who has been deprived of his political rights due to his crimes, in each case where less than five years have elapsed since the date of completion of the sentence;
- a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency 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;
- a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law and has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation;
- a person who is liable for a relatively large amount of debts that are overdue;
- other circumstances under which the person shall not serve as a director of the company set out in the Mandatory Provisions are included in the Appendix V — Summary of Articles of Association.”

Supervisory Committee

A joint stock limited company shall have a supervisory committee composed of not less than three members. The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the employees of the company. The proportion shall be stipulated in the articles of association, provided that the proportion of representatives of the employees shall not be less than one third of the supervisors. Representatives of the employees of the company in the supervisory committee shall be democratically elected by the employees at the employees’ representative assembly, employees’ general meeting or otherwise.

The directors and senior management may not act concurrently as supervisors.

The supervisory committee shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory committee are elected with approval of more than half of all the supervisors. The chairman of the supervisory committee shall convene and preside over the meetings of the supervisory committee. In the event that the chairman of the supervisory committee is incapable of performing or not performing his duties, the vice chairman of the supervisory committee shall convene and preside over the

meetings of the supervisory committee. In the event that the vice chairman of the supervisory committee is incapable of performing or not performing his duties, a supervisor nominated by more than half of the supervisors shall convene and preside over the meetings of the supervisory committee.

Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of supervisors results in the number of supervisors being less than the quorum.

According to the Company Law, the supervisory committee exercises the following powers:

- to review the company's financial condition;
- to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or the resolutions of shareholders' meeting;
- when the acts of directors and senior management are harmful to the company's interests, to require correction of those acts;
- to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' general meeting;
- to initiate proposals for resolutions to shareholders' general meeting;
- to initiate proceedings against directors and senior management; and
- other powers specified in the articles of association.

Supervisors may attend board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accounting firm to assist their work at the company's expense.

The circumstance under which a person shall not serve as a director of the company and the fiduciary duties of a director of the company described above shall apply mutatis mutandis to the supervisors of the company.

Meetings of the supervisory committee shall be convened at least every six months. The supervisors may convene interim meetings of the supervisory committee. The Company Law requires that the resolutions of the supervisory committee shall be passed by approval of more

than half of all the supervisors of the company, whereas the *Letter of Opinions on the Supplementation and Amendment of Articles of Association of Companies Listing in Hong Kong* (關於到香港上市公司對公司章程作補充修改的意見的函) provides that those resolutions shall be passed by approval of more than 2/3 of all the supervisors of the company. Each supervisor shall have one vote for resolutions to be approved by the supervisory committee.

Senior Management

Under the Company Law, a company shall have a manager who shall be appointed or removed by the board of directors. The manager shall report to the board of directors and may exercise the following powers:

- to manage the business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- to arrange for the implementation of the company's annual business plans and investment proposals;
- to formulate the establishment of the Company's internal management bodies;
- to formulate the general administration system of the company;
- to formulate the company's detailed rules;
- to recommend the appointment and dismissal of deputy managers and person-in-charge of finance;
- to appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors); and
- other powers conferred by the board of directors or the articles of association.

The manager may attend the meetings of the board of directors as a non-voting attendant.

According to the Company Law, senior management refers to the manager, deputy manager(s), person-in-charge of finance, board secretary (in case of a listed company) of a company and other personnel as stipulated in the articles of association.

The circumstance under which a person shall not serve as a director of the company and the fiduciary duties of a director of the company described above shall apply mutatis mutandis to the senior management of the company.

The articles of association of the company shall have binding effect on the shareholders, directors, supervisors, and senior management of the company.

Duties of Directors, Supervisors and Senior Management

Directors, supervisors and senior management of the company are required under the Company Law to comply with the relevant laws, regulations and the articles of association, and have the faithful and diligent duties to the company. Directors, supervisors and senior management are prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating of the company's properties. Directors and senior management are prohibited from:

- misappropriation of the company's capital;
- depositing the company's capital into accounts under his own name or the name of other individuals;
- loaning company funds to others or providing guarantees in favor of others supported by the company's assets in violation of the articles of association or without prior approval of the shareholders' general meeting or board of directors;
- entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' general meeting;
- using their position and powers to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefits or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' general meeting;
- accepting and possessing commissions paid by a third party for transactions conducted with the company;
- unauthorized divulgence of confidential business information of the company; or
- other acts in violation of their duty of loyalty to the company.

A director, supervisor or senior management who contravenes any law, regulation or the company's articles of association in the performance of his duties resulting in any loss to the company shall be personally liable to the company.

Where a director, supervisor or senior management of a company is required to attend a shareholders' general meeting, the director, supervisor or senior management shall do so and answer the inquiries from shareholders. The directors and senior management shall truthfully provide relevant information and materials to the supervisory committee, and shall not obstruct the supervisory committee to exercise their powers.

The Company shall not provide loans to any director, supervisor or senior management and shall disclose information regarding remunerations received by the aforesaid persons.

Amendment of the Articles of Association

According to the Company Law and the Mandatory Provisions, the company may amend its articles of association according to the laws, administrative regulations and articles of the articles of association. Shareholders' general meeting exercises the power to amend the company's articles of association. The resolution of a shareholders' general meeting regarding any amendment to a company's articles of association requires affirmative votes by at least two-thirds of the votes held by shareholders present at the meeting. The board of directors is responsible to the shareholders' general meeting and exercises powers including formulating the proposed amendments to the company's articles of association. The amendment of articles of association involving content of Mandatory Provisions will only be effective upon approval of the company examination and approval authority authorized by the State Council and of the CSRC. It must process the registration of changes involving matters of the company registration in accordance with laws. The Mandatory Provisions requires that the company must not modify or delete those provisions in the articles of association related to the mandatory articles of the articles of association without authorization, and that the company may include other contents which are not required to be included in the articles of association of the company by the Mandatory Provisions or may appropriately adjust the wordings and sequences of the articles without changing the meanings of the same.

Finance and Accounting

Under the Company Law, a company shall establish financial and accounting systems according to laws, administrative regulations and the regulations of the financial department of the State Council and shall at the end of each financial year prepare a financial and accounting report which shall be audited by an accounting firm as required by law. The company's financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

Pursuant to the Company Law, the company's financial and accounting reports shall be available at the company for inspection by the shareholders at least 20 days before the convening of an annual general meeting of shareholders. The company offering shares to the public shall also publish its financial and accounting reports.

When distributing each year's after-tax profits, it shall set aside 10% of its after-tax profits into a statutory reserve fund (except where the fund has reached 50% of its registered capital).

If its statutory reserve fund is not sufficient to make up losses of the previous year, profits of the current year shall be applied to make up losses before allocation is made to the statutory reserve fund pursuant to the above provisions.

After allocation of the statutory reserve fund from after-tax profits, it may, upon a resolution passed at the shareholders' general meeting, allocate discretionary reserve fund from after-tax profits.

The remaining after-tax profits after making up losses and allocation of reserve fund shall be distributed in proportion to the number of shares held by the shareholders, unless otherwise stipulated in the articles of association.

Shares held by the company shall not be entitled to any distribution of profit.

The premium received through issuance of shares at prices above par value and other incomes required by the financial department of the State Council to be allocated to the capital reserve fund shall be allocated to the company's capital reserve fund.

The company's reserve fund shall be applied to make up losses of the company, expand its business operations or be converted to increase the registered capital of the company. However, the capital reserve fund may not be applied to make up the company's losses. Upon the conversion of statutory reserve fund into capital, the balance of the statutory reserve fund 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. Its assets shall not be deposited in any accounts opened in the name of any individual.

Appointment and Retirement of Auditors

The company is required to engage an independent PRC qualified accounting firm to audit the annual report of the company at the end of each year. 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.

Pursuant to the Company Law, the appointment or dismissal of auditors responsible for the auditing of the company shall be determined by shareholders' general meeting or board of directors in accordance with provisions of articles of association. The auditors should be allowed to make representations when the shareholders' general meeting or board of directors conducts a vote on the dismissal of the auditors. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the auditors it engages without any refusal, withholding and misrepresentation.

The Special Regulations provide that a company shall engage an independent accounting firm complying with the relevant regulations of the State to audit its annual report and review and check other financial reports of the company. The accounting firm's term of office shall commence from its appointment at a shareholders' annual general meeting to the end of the next shareholders' annual general meeting. The appointment, removal or non re-appointment of accounting firm shall be decided by the shareholders' general meetings and shall be filed with CSRC for record.

Distribution of Profits

According to the Company Law, a company shall not distribute profits before losses have been made up and the statutory common reserve is provided. Under the Mandatory Provisions, a company shall appoint receiving agents on behalf of holders of the overseas listed and foreign invested shares to receive on behalf of such shareholders dividends and

other distributions payable in respect of their overseas listed and foreign invested shares. According to the Special Regulations, the dividends and other distributions to be paid to the holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency.

Dissolution and Liquidation

According to the Company Law, a company shall be dissolved in any of the following event:

- (i) the term of its operations set forth in the articles of association has expired or other events of dissolution specified in the articles of association have occurred;
- (ii) the shareholders' general meeting has resolved to dissolve the company;
- (iii) the company is dissolved by reason of merger or division;
- (iv) the business license of the company is revoked, or the company is ordered to close down or be dissolved; or
- (v) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders, on the grounds that the company suffers significant hardships in its operation and management that cannot be resolved through other means, and the ongoing existence of the company would bring significant losses for shareholders.

In the event of (i) above, the company may amend its articles of association to carry on its existence. Such amendment requires more than 2/3 of the voting rights of shareholders present at the shareholders' general meeting.

Where the company is dissolved for the reasons described in (i), (ii), (iv), or (v) above, a liquidation group shall be established and the liquidation process shall commence within 15 days after the occurrence of an event of dissolution.

The members of the company's liquidation group shall be composed of its directors or the personnel appointed by the shareholders' general meeting. If a liquidation group is not established within the stipulated period, creditors may apply to the people's court, requesting the court to appoint relevant personnel to form the liquidation group. The people's court should accept such application and form a liquidation group to conduct a liquidation in a timely manner.

The liquidation group shall exercise the following powers during the liquidation period:

- to dispose the company's assets and to prepare a balance sheet and an inventory of the assets;
- to notify creditors through notice or public announcement;

- to deal with the company's outstanding businesses related to liquidation;
- to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- to claim credits and pay off debts;
- to handle the company's remaining assets after its debts have been paid off; and
- to represent the company in civil lawsuits.

The liquidation group shall notify the company's creditors within 10 days after its establishment, and issue public notices in newspapers within 60 days. A creditor shall lodge his claim with the liquidation group within 30 days after the receipt of the notice, or within 45 days of the public notice if he did not receive any notice. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation group shall register such creditor rights. The liquidation group shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of properties and the preparation of the balance sheet and inventory of assets, the liquidation group shall draw up a liquidation plan to be submitted to the shareholders' general meeting or people's court for confirmation.

The company's remaining assets after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and debt shall be distributed to shareholders according to their shareholding proportion. It shall continue to exist during the liquidation period, although it can only engage in operating activities that are related to the liquidation. The company's properties shall not be distributed to the shareholders before payments are made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation group becomes aware that the company does not have sufficient assets to pay off its liabilities, it must apply to the people's court for a declaration of bankruptcy.

Following such declaration, the liquidation group shall hand over all matters relating to the liquidation to the people's court. Where a company is declared bankrupt, bankruptcy liquidation shall be carried out in accordance with the laws on enterprise bankruptcy.

Upon completion of the liquidation, the liquidation group shall submit a liquidation report to the shareholders' general meeting or the people's court for verification. Thereafter, the report shall be submitted to the registration authority of the company in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation group are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation group shall be prohibited from abuse of their powers to accept bribes or other unlawful income and from misappropriating

the company's properties. A member of the liquidation group is liable to indemnify the company or its creditors in respect of any loss arising from his intentional or gross negligence.

Overseas Listing

According to the Special Regulations, a company shall obtain the approval of the CSRC to list its shares overseas. A company's plan to issue overseas listed foreign shares and domestic shares which has been approved by the CSRC may be implemented by the board of directors of the company by way of separate issue within 15 months after obtaining the approval from the CSRC.

Loss of Share Certificates

If a registered share certificate is lost, stolen or destroyed, the respective shareholder may apply, in accordance with the relevant provisions set out in the Civil Procedure Law, to a people's court for a declaration that such certificate will no longer be valid. After the people's court declares the invalidity of such certificate, the shareholder may apply to the company for a replacement of share certificate.

A separate procedure regarding the loss of overseas listed and foreign invested share certificates is provided for in the Mandatory Provisions.

Merger and Division

Merger of companies may take place either through consolidation or incorporation. In the event of merger of companies, the parties thereto shall conclude a merger agreement, and prepare the balance sheet and inventory of assets. The company shall notify its creditors within 10 days following the resolution on merger is made, and issue public notices in newspapers within 30 days. A creditor shall request the company to pay off the debts or provide corresponding guarantees within 30 days after the receipt of the notice, or within 45 days of the public notice if he did not receive any notice. The credits and debts of the parties to the merger shall be assumed by the existing company or the newly-incorporated company after the merger.

The properties of the company shall be divided in the event of a division. The company shall prepare the balance sheet and inventory of assets. The company shall notify its creditors within 10 days following the resolution on division is made, and issue public notices in newspapers within 30 days. The debts incurred prior to the division shall be jointly and severally borne by the companies after the division, unless the written agreements in relation to the debt repayment entered into between the company and the creditors prior to the division otherwise stipulates.

In the event of merger or division, the formalities for change of registration shall be completed with the relevant company registration authority for changes of any registered item in accordance with the laws. The company deregistration formalities shall be completed in accordance with the laws if the company is dissolved; and the company establishment registration formalities shall be completed in accordance with the law if a new company is established.

Securities Law and Regulations

The PRC has promulgated a number of regulations relating 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 firms, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading the 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 Securities Law took effect on July 1, 1999 and was last revised on August 31, 2014. It is currently undergoing a new round of revisions. The Securities Law is the first national securities law in the PRC, and comprehensively regulates activities in the securities market. It is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities firms and the duties and responsibilities of the State Council's securities regulatory authorities. Article 238 of the Securities Law provides that a PRC enterprise shall obtain prior approval from the State Council's securities regulatory authorities to list its shares outside the PRC. Article 239 of the PRC Securities Law provides that specific provisions in respect of shares of companies in the PRC which are to be subscribed for 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 mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

Arbitration and Enforcement of Arbitral Awards

The *Arbitration Law of the People's Republic of China* (中華人民共和國仲裁法) (the "Arbitration Law") passed by the Standing Committee of the NPC on August 31, 1994, became effective on September 1, 1995 and was amended on August 27, 2009. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organizations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim 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 will refuse to handle the case except when the arbitration agreement is declared invalid.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of an issuer and, in the case of the Hong Kong Listing Rules, also in contracts between the issuer and each of its directors and supervisors, to the effect that any disputes or claims arising among the following parties will

be referred to arbitration (i) between holders of the H shares and the issuer; (ii) between holders of the H shares and the issuer's directors, supervisors or senior management; and (iii) among shareholders. Matters in arbitration include any disputes or claims in relation to the issuer's affairs or as a result of any rights or obligations arising under its articles of association, the Company Law or other relevant laws and administrative regulations.

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 the issuer or the shareholders, directors, supervisors, managers or other senior management of the issuer, must comply with the arbitration. Disputes in respect of the definition of shareholder and disputes in relation to the issuer's register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission ("CIETAC") in accordance with its rules or the Hong Kong International Arbitration Center ("HKIAC") in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC.

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. The CIETAC is located in Beijing and it has set up several branches and centers such as in Shenzhen, Shanghai, Tianjin, Chongqing and Hong Kong.

Under the Arbitration Law and Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party may apply to the people's court for enforcement. A people's court shall refuse to enforce an arbitral award if any of the following events was involved:

- the parties have no arbitration clause in their contract, nor have subsequently reached a written agreement on arbitration;
- the matters dealt with by the award fall outside the scope of the arbitration agreement or are matters which the arbitral tribunal has no power to arbitrate;
- the composition of the arbitration tribunal or the procedure for arbitration contradicts the procedure prescribed by the law;
- the evidences based on which the arbitral award was made is falsified;
- the other parties conceal the evidences from the arbitral tribunal which are sufficient to affect the impartiality of the arbitral award;

- the arbitrators have committed embezzlement, accepted bribes or done malpractice for personal benefits or perverted the law in the arbitration of the case; or
- the people's court determines that the execution of the arbitral award is against the social and public interest.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the *Convention on the Recognition and Enforcement of Foreign Arbitral Awards* (承認及執行外國仲裁裁決公約) (the “**New York Convention**”) adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the 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 all 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 that (i) the PRC will only apply the New York Convention to the recognition and enforcement of arbitral awards made in the territory of another contracting state on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

Agreement has been reached between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. On June 18, 1999, the Supreme People's Court of the PRC adopted the *Arrangement on Mutual Enforcement of Arbitral Awards between Mainland and Hong Kong SAR* (關於內地與香港特別行政區相互執行仲裁裁決的安排), which became effective on February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention. In accordance with this arrangement, awards made by PRC arbitral authorities acknowledged by Hong Kong arbitration rules can be enforced in Hong Kong, and Hong Kong arbitration awards are also enforceable in China.

Overseas Direct Investment Regulations

Pursuant to the *Regulations on the Administration of Overseas Investment* (境外投資管理辦法) promulgated by the MOFCOM which became effective on October 6, 2014, enterprises shall obtain approval from or register with the commerce authorities for conducting overseas investment according to such regulations.

Pursuant to *Regulations on Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions* (境內機構境外直接投資外匯管理規定) promulgated by the SAFE which became effective on August 1, 2009, upon obtaining approval for overseas investment, a PRC enterprise shall apply for foreign exchange registration for its overseas direct investments. According to the *Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment* (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知)

(“SAFE Notice”), which came into effect on June 1, 2015, the administrative approval for foreign exchange registration approval under overseas direct investment has been cancelled, and the banks are entitled to review and carry out foreign exchange registration under foreign exchange registration under overseas direct investment directly. SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks.

In accordance with the *Administrative Measures for Verification and Registration of Overseas Investment Projects* (境外投資項目核准和備案管理辦法) amended by the National Development and Reform Commission (“NDRC”) and took effect on December 27, 2014, outbound investment projects involving sensitive countries and regions or sensitive industries shall be examined and approved by the NDRC. In the event that the Chinese investors invest US\$2 billion or above in the foregoing projects, those projects are subject to the approval of the State Council after being examined by the NDRC. Other outbound investment projects shall be reported to the NDRC or its provincial counterparts for the record.

According to the Securities Law and the *Regulations on Supervision and Administration of Securities Firms* (證券公司監督管理條例), securities firms in the PRC shall make an application to the CSRC for approval for its establishment, acquisition or equity participation in securities institutions overseas.

According to the *Measures for the Supervision and Administration of Futures Companies* (期貨公司監督管理辦法), futures companies in the PRC shall make an application to the CSRC for approval for its establishment, acquisition or equity participation in futures operation institutions overseas.

According to the *CSRC Rules concerning the Establishment of Offices in Hong Kong by Securities and Investment Fund Management Companies* (中國證券監督管理委員會關於證券投資基金管理公司在香港設立機構的規定) promulgated by the CSRC and took effect on April 8, 2008, domestic securities and investment fund management companies in the PRC which establish offices in Hong Kong, purchase equity interest in asset management companies in Hong Kong region, establish offices or purchase equity interest in asset management companies located in other countries and regions that had entered into memorandum of regulatory cooperation with the CSRC, are required to make an application to the CSRC for approval.

HONG KONG LAWS AND REGULATIONS**Summary of Material Differences between Hong Kong and PRC Company Laws**

Hong Kong company law is primarily set out in the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and is supplemented by common law and rules of equity applicable in Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the Company Law and all other rules and regulations promulgated pursuant to the Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the Company Law applicable to a joint stock limited company incorporated and existing under the Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital is incorporated by the Registrar of Companies in Hong Kong 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 Hong Kong 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 preemptive provisions.

Under the Company Law, a joint stock limited company may be incorporated by promotion or subscription. The latest amended Company Law removed the general provisions on statutory minimum registered capital, except that laws, administrative regulations and the State Council decisions have separate provisions on paid-up registered capital and the minimum registered capital, in which case the company should follow such provisions.

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.

Under the Securities Law, a company which is authorized by the relevant securities regulatory authority to list its shares on a stock exchange shall have a total share capital of no less than RMB30 million.

Under the Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisal must be carried out to ensure no over-valuation or under-valuation of the assets.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons and other investment institutions as permitted by laws and regulations. Since April 2013, investors from Hong Kong, Macau and Taiwan may also open an A share account. 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. In addition, 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), qualified PRC investors could buy specified overseas listed shares through systems such as Shanghai-Hong Kong Stock Connect.

Under the Company Law, shares in a joint stock limited liability company held by its promoters are not allowed to be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Stock Exchange. Shares held by its directors, supervisors and senior management transferred each year during their term of office shall not exceed 25% of the total shares held by them, and the shares of the company held by such person cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after such person's resignation from the company. 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 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 for acquisition of shares similar to those under the Hong Kong company law.

Variation of Class Rights

The Company Law has no special provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be 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 the appendix entitled "Appendix V — Summary of Articles of Association" to this prospectus.

Under the Hong Kong Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the written consent of the holders of three-fourths in nominal value of the 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.

Directors

The 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 such as guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Company Law restricts any interested director of a listed joint stock limited company to vote in respect of any board resolutions involving any entities in which such director has an interest or a connected relationship. The Mandatory Provisions contain certain restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office. These provisions have been incorporated in the Articles of Association, which are summarized in the appendix entitled "Appendix V — Summary of Articles of Association" to this prospectus.

Supervisory Committee

Under the Company Law, a joint stock limited company's directors and managers are subject to the supervision of a supervisory committee. 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. There is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong.

Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders 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 shareholders' general meeting, thereby effectively preventing the company from suing the directors for breach of their duties in its own name.

The Company Law provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the supervisory committee to initiate proceedings in the people's court. In the event that the supervisory committee violates their fiduciary obligations to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the supervisory

committee or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company.

Protection of Minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his/her interests may petition to the court to either wind up the company or seek an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong.

The Mandatory Provisions contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

Notice of Shareholders' Meetings

Under the Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting, whereas notice a shareholder's special general meeting must be given not less than 15 days before the meeting. In the event the company issues bearer shares, notice of a shareholder's general meeting must be given at least 30 days before 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 shareholders' general meeting 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.

Quorum for Shareholders' Meetings

The Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter. Under Hong Kong law, the quorum for a

shareholders' general meeting is two members unless the articles of association of the company otherwise provide, but must be at least two members.

Voting

Under the Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting. 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 shareholders' 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 shareholders' general meeting.

Financial Information Disclosure

Under the Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its annual balance sheet, profit and loss account, statement of changes in financial position and other relevant annexure 20 days before its shareholders' annual general meeting. In addition, a company established by the public subscription method under the Company Law must publish its financial position. Hong Kong 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 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 Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at

reasonable charges) certain information on shareholders and on directors similar to that available to the shareholders of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the 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 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 overseas listed foreign 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 to another company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies Ordinance (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 Division 2 of Part 13 of the Hong Kong Companies Ordinance, which requires the sanction of the court.

Under PRC law, merger, division, dissolution or change the form of a joint stock limited liability company has to be approved by shareholders in general meeting.

Dispute Arbitration

In Hong Kong, disputes between shareholders and a company or its directors may be resolved through the courts. The Mandatory Provisions provide that disputes between shareholders on the one hand, and a company incorporated in the PRC seeking a listing on Hong Kong Stock Exchange, shall be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

Mandatory Deductions

Under the Company Law, a joint stock limited liability company is required to set aside 10% of its after-tax profits into a statutory reserve fund (except where the fund has reached 50% of its registered capital) when distributing each year's after-tax profits. After allocation of the statutory reserve fund from after-tax profits, it may, upon a resolution passed at the shareholders' general meeting, allocate discretionary reserve fund from after-tax profits. There are no such requirements under Hong Kong law.

Remedies of the Company

Under the Company Law, if a director, supervisor or senior management in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior

management should be responsible to the company for such damages. Such provisions are similar to those available under the Hong Kong law.

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 the PRC law, 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.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations, directors, supervisors and senior management shall undertake a fiduciary obligation to the company and are not permitted to engage in any activities which compete with or damage the interests of the company.

Closure of Register of Shareholders

The Hong Kong Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year. According to the Mandatory Provisions, share transfers shall not be registered within 30 days before the date of a shareholders' meeting or within five days before the base date set for the purpose of distribution of dividends.

Hong Kong Listing Rules

Hong Kong Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company.

Compliance Advisor

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its first full financial year's financial performance, to provide the company with professional advice on continuous compliance with the Hong Kong Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorized representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance advisor may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement. The compliance advisor must keep the company informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended laws, regulations or codes in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

Accountant's Report

An Accountant's report for a PRC issuer will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong or under international audit standards or PRC audit standards. Such report will normally be required to conform to Hong Kong or international accounting standards or China Accounting Standards for Business Enterprises. (For a PRC issuer that adopts China Accounting Standards for Business Enterprises for preparing annual financial statement).

Process Agent

The Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his/her appointment, the termination of his/her appointment and his/her contact particulars.

Public Shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares ("foreign shares") which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that the aggregate amount of such foreign shares and other issued securities held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalization at the time of listing of not less than HK\$50,000,000. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the Company has an expected market capitalization at the time of listing of over HK\$10,000,000,000.

Independent Non-Executive Directors and Supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their positions as supervisors.

Mandatory Provisions

With a view to strengthening the protection on investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the Supervisory Committee of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix V to this Prospectus.

Redeemable Shares

The Company shall not issue any redeemable shares, unless the Hong Kong Stock Exchange is satisfied that relative rights of the holders of foreign shares are adequately protected.

Pre-emptive rights

Except in the circumstances mentioned below, the Directors of the Company are required to obtain the approval by a special resolution of shareholders at a shareholders' meeting, and the approvals by special resolutions of the holders of domestic shares and foreign shares (each being otherwise entitled to vote at shareholders' meetings) at separate class meetings conducted in accordance with the Company's Articles of Association, prior to authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required, but only to the extent that, the existing shareholders of the company have by special resolution in shareholders' meeting given a mandate to the directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic shares and foreign shares as of the date of the passing of the relevant special resolution or of such shares that are part of the company's plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within 15 months from the date of approval by the CSRC or other securities regulatory authorities under the State Council.

Supervisors

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Hong Kong Listing Rules) issued by the Hong Kong Stock Exchange.

The Company is required to obtain the approval of its shareholders at a shareholders' meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to the Company or any of its subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of the Company or its subsidiary: (1) the term of the contract may exceed three years; or (2) the contract expressly requires the Company to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration of more than one year.

The Remuneration and Nomination Committee of the Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the Company and its Shareholders as a whole and advise Shareholders on how to vote.

Amendment to the Articles of Association

The Company shall not permit or cause any amendment to be made to its Articles of Association, which would cause the same to cease to comply with the provisions of the Hong Kong Listing Rules and the Mandatory Provisions or the Company Law.

Documents for Inspection

The Company is required to make available at a place in Hong Kong for inspection by the public and its Shareholders free of charge, and for copying by Shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last fiscal year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between domestic shares and H Shares);
- a copy of the latest annual return filed with State Administration for Industry and Commerce or other authorities of China; and
- for Shareholders only, copies of minutes of meetings of shareholders.

Receiving Agent(s)

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

Statements in Share Certificates

The Company is required to ensure that all of its listing documents and H share certificates include the statements stipulated below and to instruct and cause each of its share

registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with the Company and each Shareholder of the Company, and the Company agrees with each Shareholder of the Company, to observe and comply with the Company Law, the Special Regulations, and the Articles of Association;
- agrees with the Company, each Shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the Company and each Shareholder of the Company that the Shares are freely transferable by the holder thereof; and
- authorizes the Company to enter into a contract on his/her behalf with each Director and officer of the Company whereby each such Director and officer undertakes to observe and comply with his/her obligation to Shareholders as stipulated in the Articles of Association.

Compliance with the Provisions of the Company Law, the Special Regulations and the Company's Articles of Association

The Company is required to observe and comply with the Company Law, the Special Regulations and the Articles of Association.

Contract between the Company and its Directors, Officers and Supervisors

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Takeovers Code and the Share Repurchases Code and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his/her office is capable of assignment;
- an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his/her obligations to shareholders as stipulated in the Articles of Association;

- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and its Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto; and
- the disputes concerning the shareholder qualification and share registration can be resolved without resorting to arbitration.

The Company is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

ENGLISH TRANSLATION

All notices or other documents required under the Hong Kong Listing Rules to be sent by China issuer to the Hong Kong Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

GENERAL

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the H Shares of a PRC issuer subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of the listing.

Other Legal and Regulatory Provisions

Upon the Company's listing, the provisions of the Securities and Futures Ordinance, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the Company.

Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association, the Company Law and other applicable rules and regulations shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the 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 the arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

Set out herein is a summary of the Articles of Association, the principal objective of which is to provide potential investors with an overview of the Articles of Association. As the information contained herein is in summary form, it may not contain all the information that is important to potential investors.

SCOPE OF BUSINESS

The business scope of the Company is:

- securities brokerage;
- securities investment consulting;
- financial advisory business relating to securities trading and securities investment activities;
- securities underwriting and sponsorship;
- proprietary securities trading;
- securities asset management;
- agency sale of securities investment funds;
- provision of introducing brokerage business to future companies;
- margin financing and securities lending business;
- agency sale of financial products;
- ancillary agency of insurance;
- stock options market making;
- custodian for securities investment fund;
- sales of precious metals; and
- other business as approved by the relevant regulatory authorities.

SHARES

Issuance of Share

The shares of the Company shall take the form of stocks. The Company shall have ordinary shares. It may have other types of shares in accordance with its needs upon approval from the approving departments authorized by the State Council.

Shares of the Company shall be issued in accordance with the principles of open, fairness and impartiality. Shares of the same class shall rank pari passu with each other. For same class of shares issued in the same tranche, each share shall be issued at the same price and subject to the same conditions. For the shares subscribed by any entity or individual, the price payable for each of such shares shall be the same.

Subject to the approval of the securities regulatory authorities or other relevant regulatory authorities, the Company may issue shares to domestic and foreign investors. The shares issued to the domestic investors which are subscribed for in Renminbi are domestic shares. The shares issued to foreign investors which are subscribed for in foreign currencies are foreign shares. The foreign shares issued by the Company which are listed at the Hong Kong Stock Exchange are H shares.

For the Company's plans for issuing overseas-listed shares and domestic shares which have been approved by the securities regulatory authorities, the board of directors of the Company may arrange for implementation of such plan by separate issues. Where the Company issues overseas-listed foreign shares and domestic shares respectively within the total number of shares specified in the issue plan, the respective shares shall be fully subscribed for in one go. In the event that the respective shares are not fully subscribed for in one go under exceptional circumstances, the shares may be issued in several tranches subject to the approval of the securities regulatory authorities.

Increase and Decrease of Shares, Repurchase of Shares

The Company may, based on its business and development needs and in accordance with the requirement of laws, administrative regulations, normative documents, department rules and listing rules of the places where the shares of Company are listed, increase its capital in the following manners upon resolutions being adopted by the shareholders' general meetings:

- by public offering of shares;
- by non-public offering of shares;
- by placing shares to its existing shareholders;
- by issuing bonus shares to its existing shareholders;
- by capitalizing its capital common reserve;
- by any other means permitted by laws and administrative regulations and the competent governmental authorities.

The Company's increase of capital by issuing new shares shall, after being approved in accordance with the articles of the Articles of Association, be conducted in accordance with the procedures stipulated in the relevant laws, administrative regulations, department rules and normative documents of the PRC and the listing rules of the places where the shares of the Company are listed.

In the event of reduction of registered capital, the Company shall prepare a balance sheet and a list of properties. The Company shall notify its creditors, make public announcement, and repay the debts or provide corresponding collaterals upon the creditors' demands in accordance with the procedures as provided in the Company Law. The registered capital of Company after such reduction shall not be lower than the statutory minimum amount of registered capital.

Under the following circumstances, the Company may, after being adopted according to the procedures provided in the laws, regulations and Articles of Association and obtaining the approval from relevant national competent authorities, buy back its outstanding shares in accordance with statutory procedures:

- reducing the Company's registered capital;
- merging with companies which hold shares in the Company;
- awarding shares to employees of the Company;
- acquiring shares held by shareholders who vote against any resolution proposed in any shareholders' general meeting on the merger or division of the Company upon their request; and
- other circumstances as permitted by laws, administrative regulations, department rules, normative documents and listing rules of the places where the shares of the Company are listed.

The Company may buy back the Company's shares in one of the following manners with the approval from relevant national competent authorities:

- by making a pro rata general offer of buy-back to all shareholders;
- by repurchasing shares through public trading on a stock exchange;
- by repurchasing through an off-market agreement; and
- by other means as approved by laws and regulations and relevant regulatory authorities.

Where the Company buy-backs its shares through an off-market agreement, it shall seek prior approval of the shareholders' general meeting in accordance with the Articles of Association.

After the shares are bought back by the Company pursuant to the laws, it shall cancel such shares bought back within the period prescribed by laws and administrative regulations, and shall apply to the original company registration authority for registration of the change in the registered capital. The amount of the Company's registered capital shall be reduced by the aggregate par value of those cancelled shares.

Transfer of Shares

Unless otherwise provided in laws, administrative regulations, department rules, normative documents and requirements of securities regulatory authorities in the place where the Company's shares are listed, shares of the Company may be transferred in accordance with the laws with no lien attached. Transfer of overseas-listed foreign shares listed in Hong Kong requires registration by the share registrar appointed by the Company.

The Company shall not accept any pledge with its own shares as the subject matter.

Shares of the Company held by the promoters shall not be transferred within one (1) year from the date of the establishment of the Company. The shares of the Company issued prior to the Company's public offering of shares shall not be transferred within one (1) year from the date the shares of the Company being listed and traded on the stock exchange(s). The directors, supervisors and senior management of the Company shall report to the Company their shareholdings in the Company and changes therein and shall not transfer more than 25% per annum of the total number of the shares of the Company held by them during their term of office. The shares of the Company held by them shall not be transferred within one (1) year from the date the shares of the Company being listed and traded on the stock exchange(s). The aforementioned person(s) shall not transfer the shares of the Company held by them within six (6) months commencing from the termination of their service.

Financial Assistance for the Acquisition of Shares of the Company

The Company or its subsidiaries (including affiliated enterprises of the Company) shall not, by any means and at any time, provide any kind of financial assistance to a person who is acquiring or is proposing to acquire shares of the Company. The said acquirer of shares of the Company shall include a person who directly or indirectly assumes any obligations for the purpose of the acquisition of shares of the Company.

The Company or its subsidiaries (including affiliated enterprises of the Company) shall not, by any means and at any time, provide financial assistance to the said obligor for the purpose of reducing or discharging their obligations. The following activities are not deemed as the activities prohibited by the aforesaid requirements:

- the financial assistance by the Company is given in good faith and in the interest of the Company, and the principal purpose of the financial assistance is not for the acquisition of shares of the Company, or the financial assistance is an ancillary part of a master plan of the Company;
- the lawful distribution of the Company's assets by way of dividends;
- the allotment of shares as dividends;
- a reduction of registered capital, buy-back of shares or reorganization of the share capital structure of the Company, etc. in accordance with the Articles of Association;

- provision of a loan by the Company within its scope of business and in the ordinary course of its business (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are reduced, the financial assistance is paid out of the distributable profits of the Company);
- the provision of money by the Company for an employee stock ownership plan (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are reduced, the financial assistance is paid out of the distributable profits of the Company).

Share Certificates and Register of Shareholders

The Company's share certificates shall be in registered form. In addition to those required by the Company Law, other matters required to be specified by the stock exchange on which the shares of the Company are listed shall also be stated on the share certificate.

The Company may issue overseas-listed foreign shares in form of overseas depository receipts or other derivative means of shares in accordance with the laws and the practice of registration and depository of securities in the listing place.

The Company shall keep a register of shareholders based on the certificates provided by the share registrar, which shall contain the following particulars:

- the name, address or domicile, occupation or nature of each shareholder;
- the class and number of shares held by each shareholder;
- the amount paid-in or payable in respect of the shares held by each shareholder;
- the serial numbers of the shares held by each shareholder;
- the date on which each shareholder is registered as a shareholder;
- the date on which each shareholder ceases to be a shareholder.

The register of shareholders shall constitute sufficient evidence of the holding of the Company's shares by a shareholder's shareholding in the Company, unless there is evidence to the contrary.

The Company may, in accordance with mutual understanding and agreements made between the securities regulatory authorities and overseas securities regulatory authorities, keep the register of shareholders of overseas-listed foreign shares outside the PRC and appoint overseas agent(s) for management. The original register of holders of overseas-listed foreign shares listed on Hong Kong Stock Exchange shall be kept in Hong Kong.

The Company shall keep a duplicate of the register of holders of overseas-listed foreign shares at the Company's address; the appointed overseas agent(s) shall ensure the consistency between the original and the duplicate of the register of holders of overseas-listed foreign shares at all times.

If there is any inconsistency between the original and the duplicate of the register of holders of overseas-listed shares, the original version shall prevail.

The register of shareholders shall not be altered for the reason of share transfer within thirty (30) days prior to the date of a shareholders' general meeting or within five (5) days prior to the record date set by the Company for the purpose of distribution of dividends.

Any person who disputes the register of shareholders and requests to have his name entered in or removed from the register of shareholders may apply to a competent court for rectification of the register.

Any shareholder who is registered in, or any person who requests to have his name entered in, the register of shareholders may apply to the Company for issue of a replacement share certificate in respect of such shares if his share certificate is lost.

SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETING

Shareholders

A shareholder of the Company is a person who lawfully holds shares of the Company and whose name is registered in the register of shareholders. Shareholders shall enjoy rights and have obligations in accordance with the class and number of shares held by them. Shareholders holding the same class of shares shall be entitled to equal rights and have equal obligations.

If two or more persons are registered as joint holders of any of the shares, they shall be deemed as joint owners of relevant shares, but shall be subject to the following conditions:

- the Company does not need to register for more than four (4) persons as the joint holders of any shares;
- all the joint holders of any shares shall be jointly liable for all amounts payable for the relevant shares;
- if one of the joint shareholders is deceased, only the other surviving joint shareholders shall be deemed as the persons who have the ownership of the relevant shares. But the board of directors has the power to require the surviving joint shareholders to provide a death certificate of the relevant shareholder as necessary for the purpose of revising the relevant register of shareholders;

- in respect of the joint holders of any shares, only the joint shareholder ranked first in the register of shareholders has the right to receive certificates of the relevant shares from the Company or receive notices of the Company. Any notice which is delivered to the aforementioned shareholder shall be deemed to have been delivered to all the joint shareholders of the relevant shares.

The shareholders of ordinary shares of the Company shall be entitled to the following rights:

- the right to receive dividends and other forms of distribution in proportion to the number of shares held by them;
- the right to attend or appoint a proxy to attend shareholders' general meetings and exercise voting rights;
- the right to supervise the business activities of the Company and to put forward proposals and raise inquiries;
- the right to transfer, donate, or pledge shares held by them in accordance with laws, administrative regulations, normative documents, requirements of securities regulatory authorities in the place where the Company's shares are listed and the Articles of Association;
- the right to obtain relevant information in accordance with the articles of the Articles of Association, including:
 - (1) to obtain a copy of the Articles of Association upon payment of the cost of such copy;
 - (2) to inspect and photocopy upon payment of a reasonable charge: all parts of the register of shareholders; personal particulars of each of the Company's directors, supervisors and senior management; the status of the Company's share capital; special resolutions of the shareholders' general meetings of the Company; reports of the aggregate par value, number of shares, highest and lowest prices paid by the Company in respect of each class of shares bought back by the Company since the end of the last financial year and all the expenses paid by the Company; minutes of shareholders' general meetings; the latest audited financial statements of the Company; a copy of the latest annual return filed with the Administration for Industry and Commerce or other relevant authorities.
- in the event of the termination or liquidation of the Company, to participate in the distribution of remaining assets of the Company corresponding to the number of shares held;
- with respect to shareholders voting against any resolution adopted at the shareholders' general meeting on the merger or division of the Company, the right to demand the Company to acquire the shares held by them;

- other rights conferred by laws, administrative regulations, department rules, normative documents, listing rules of the places where the shares of the Company are listed and the Articles of Association.

If a resolution passed at the shareholders' general meeting or meeting of the board of directors of the Company violates the laws or administrative regulations, the shareholders shall have the right to submit a petition to the People's Court to render the same invalid (the stipulations of the rules for dispute resolution under the Articles of Association shall be applicable to holders of overseas-listed foreign shares).

If the procedures for convening, or the method of voting at, a shareholders' general meeting or meeting of the board of directors violate the laws, administrative regulations or the Articles of Association, or the contents of a resolution violate the Articles of Association, shareholders shall have the right to submit a petition to the People's Court to revoke such resolution within sixty (60) days from the date on which such resolution is adopted (the stipulations of the rules for dispute resolution under the Articles of Association shall be applicable to holders of overseas-listed foreign shares).

Where the Company incurs loss as a result of violation of the laws, administrative regulations or the Articles of Association by directors and senior management in the course of performing their duties, shareholders individually or jointly holding 1% or more of the Company's shares for one hundred and eighty (180) consecutive days or more shall have the right to request in writing the supervisory committee to initiate legal proceedings in the People's Court. Where the Company incurs loss as a result of violation of laws, administrative regulations or the Articles of Association by the supervisory committee in the course of performing its duties, the shareholders shall have the right to request in writing to the board of directors to initiate legal proceedings in the People's Court (the stipulations of the rules for dispute resolution under the Articles of Association shall be applicable to holders of overseas-listed foreign shares).

In the event that the supervisory committee or the board of directors refuses to initiate legal proceedings upon receipt of the written request of the aforesaid shareholders, or fails to initiate such legal proceedings within thirty (30) days from the date on which such request is received, or in case of emergency where failure to initiate such proceedings immediately will result in irreparable damage to the Company's interests, the aforesaid shareholders shall have the right to initiate legal proceedings in the People's Court directly in their own names in the interest of the Company (the stipulations of the rules for dispute resolution under the Articles of Association shall be applicable to holders of overseas-listed foreign shares).

If any person infringes the lawful rights and interests of the Company, thus causing any losses to the Company, the aforesaid shareholders may initiate legal proceedings in the People's Court in accordance with the aforesaid provisions.

If any director or senior management is in violation of laws, administrative regulations or the Articles of Association, thus causing any losses to the shareholders, the shareholders may initiate legal proceedings against such director or senior management in the People's Court (the stipulations of the rules for dispute resolution under the Articles of Association shall be applicable to holders of overseas-listed foreign shares).

The shareholders of ordinary shares of the Company shall have the following obligations:

- to abide by the laws, administrative regulations and Articles of Association;
- to pay for the shares in accordance with the shares subscribed for and the manners in which they became shareholders;
- not to surrender the shares unless required by law and regulations;
- not to bypass the shareholders' general meeting and the board of directors to appoint and remove directors, supervisors and senior management of the Company;
- not to violate laws, administrative regulations and the Articles of Association to intervene in the operations and management of the Company;
- not to abuse their shareholders' rights to jeopardize the interests of the Company or other shareholders; and not to abuse the status of the Company as an independent legal person and the limited liability of shareholders to jeopardize the interests of any creditors of the Company; where shareholders of the Company abuse their shareholders' rights and thereby causing loss to the Company or other shareholders, such shareholders shall be liable for indemnity in accordance with the law; where shareholders of the Company abuse the Company's status as an independent legal person and the limited liability of shareholders for the purposes of evading repayment of debts, thereby materially impairing the interests of the creditors of the Company, such shareholders shall be jointly and severally liable for the debts owed by the Company;
- if the shareholder may come to own shares that account for 5% or more of the registered capital of the Company by subscribing to or being assigned any shares of the Company, or by owning any shares in any other shareholder of the Company, or otherwise, he or she shall notify the Company in advance and obtain the approval from the securities regulatory authorities before he or she may formally own such shares. Where any shareholder that holds or actually controls 5% or more of the shares in the Company without first obtaining the approval of the securities regulatory authorities for his or her qualification to hold such shares, such shares shall not be attached any voting rights until the shareholder obtains the approval, and shall be transferred to others if the approval is not given within 12 months therefrom; and
- other obligations imposed by laws, administrative regulations and the Articles of Association.

A shareholder holding 5% or more of the shares of the Company shall give notice to the Company within five (5) business days upon the occurrence of the following events:

- adoption of litigation preservation or mandatory enforcement measures with respect to the shares of the Company held or controlled by him or it;

- pledge of shares of the Company held by him;
- change of controlling shareholder or actual controller;
- change of name;
- merger or division;
- imposition of regulatory measures such as suspension of business for rectification, appointment of trustee, takeover or revocation, or in the process of dissolution, bankruptcy or liquidation proceedings;
- imposition of administrative punishments or criminal liabilities due to material breach of laws and regulations;
- occurrence of other events that may result in transfer of shares of the Company held or controlled by him or may affect the operations of the Company.

The Company shall report to the branch office of the CSRC of its place of domicile within five (5) business days upon becoming aware of the aforesaid events.

The controlling shareholder and the actual controller of the Company shall not use their affiliation to act in detriment to the interests of the Company. If they violated the provisions and caused losses to the Company, they shall be liable for such losses.

The controlling shareholder and actual controller of the Company shall have fiduciary duties towards the Company and its public shareholders. The controlling shareholder shall exercise his rights as a contributor in strict compliance with the laws. The controlling shareholder shall not infringe the legitimate rights and interests of the Company and its public shareholders through profit distribution, asset restructuring, external investment, appropriation of capital, offering security for loans, etc. and shall not make use of his controlling status to jeopardize the interests of the Company and its public shareholders.

General Provisions for the Shareholders' General Meeting

The shareholders' general meeting is the body exercising the authority of the Company and shall exercise the following duties and powers in accordance with the law:

- to determine the business policies and investment plans of the Company;
- to elect and replace directors and supervisors who are not employee-supervisors, and determine matters relating to the remuneration of directors and supervisors;
- to consider and approve the board of directors' reports;
- to consider and approve the supervisors committee's reports;

- to consider and approve the Company's proposed annual preliminary financial budgets and final accounts proposals;
- to consider and approve the Company's plans of profit distribution and plans for loss recovery;
- to determine increases or reductions in the Company's registered capital, and issuance of any class of shares, warrants or other similar securities;
- to determine the issue of bonds by the Company;
- to determine matters such as merger, division, dissolution and liquidation of the Company or alteration of corporate form;
- to amend the Articles of Association;
- to consider and approve the material external investment projects of the Company, which are external investment projects the capital used by which in one accounting year exceeds 5% of the latest audited net assets of the Company and the accumulated capital used by which exceeds 10% of the latest audited net assets of the Company;
- to consider and approve matters relating to the purchases, disposals of material assets, which are more than 15% of the latest audited total assets, within one (1) year;
- to consider and approve the external guarantees to be provided by the Company;
- to consider and approve related-party transactions which shall be approved at the shareholders' general meeting in accordance with the laws, regulations, and the listing rules of the place where the Company's shares are listed;
- to determine the Company's appointments, dismissals or discontinuance of appointment of accountancy firms;
- to consider and approve the alteration of the use of proceeds raised;
- to consider and approve the share incentive scheme;
- to consider and approve the proposals submitted by shareholders individually or jointly holding 3% or more of the Company's voting shares;
- to consider and approve the external donations by the Company which accumulated a donation amount of RMB10,000,000 or above in one accounting year;

- to consider other matters required to be resolved by the shareholders' general meeting pursuant to laws, administrative regulations, department rules, normative documents, listing rules of the place where the Company's shares are listed and the Articles of Association.

Shareholders' general meetings include annual shareholders' general meetings and extraordinary shareholders' general meetings. The annual shareholders' general meeting shall be held once every year within six (6) months after the end of the previous accounting year.

The Company shall convene an extraordinary shareholders' general meeting within two (2) months upon the occurrence of the following events:

- the number of directors is less than the minimum number prescribed in the Company Law or two-thirds of the number required by the Articles of Association;
- the unrecovered losses of the Company amount to one-third of the Company's fully paid share capital;
- upon request of shareholders individually or jointly holding 10% or more of the Company's shares;
- the board of directors considers it necessary;
- the supervisory committee proposes to hold such a meeting;
- such other circumstances as required by the laws, administrative regulations, department rules or the Articles of Association.

Convening of Shareholders' General Meeting

The shareholders' general meetings shall be convened by the board of directors. The supervisory committee or shareholders may convene the shareholders' general meeting on their own initiative, subject to the relevant requirements specified in the Articles of Association.

More than half of the independent non-executive directors have the right to propose to the board of directors to convene extraordinary shareholders' general meetings. The board of directors shall reply in writing agreeing or disagreeing to convene an extraordinary shareholders' general meeting within ten (10) days upon receipt of such proposal in accordance with the laws, administrative regulations and the Articles of Association.

If the board of directors agrees to convene an extraordinary shareholders' general meeting, notice to convene such meeting shall be issued within five (5) days after the resolution to convene an extraordinary shareholders' general meeting is adopted by the board of directors. The board of directors shall provide reasons and make announcement if it decides not to convene an extraordinary shareholders' general meeting.

The supervisory committee has the right to propose to the board of directors to convene extraordinary shareholders' general meetings and such proposal shall be made by way of written request(s). The board of directors shall reply in writing agreeing or disagreeing to convene an extraordinary shareholders' general meeting within ten (10) days upon receipt of such proposal in accordance with the laws, administrative regulations and the Articles of Association.

If the board of directors agrees to convene an extraordinary shareholder's general meeting, notice to convene such meeting shall be issued within five (5) days after the resolution to convene an extraordinary shareholders' general meeting is adopted by the board of directors. Any changes to the original proposal in the notice require the consent of the supervisory committee.

If the board of directors decides not to convene an extraordinary shareholders' general meeting or does not reply within ten (10) days upon receipt of such proposal, the board of directors will be considered as unable or refusing to fulfill the obligation to convene shareholders' general meetings and the supervisory committee may convene and preside over the meeting on its own.

Shareholders individually or jointly holding 10% or more of the Company's shares may request the board of directors to convene an extraordinary shareholders' general meeting or shareholders' class meeting, and shall make such request in written form to the board of directors. The board of directors shall reply in writing agreeing or disagreeing to convene an extraordinary shareholders' general meeting or shareholders' class meeting within ten (10) days upon receipt of such request in accordance with laws, administrative regulations and the Articles of Association.

If the board of directors decides to convene an extraordinary shareholders' general meeting or shareholders' class meeting, a notice to convene such meeting shall be issued within five (5) days after the resolution to convene an extraordinary shareholders' general meeting or shareholders' class meeting is adopted by the board of directors. Any changes to the original request in the notice require the consent of the relevant shareholders.

If the board of directors decides not to convene an extraordinary shareholders' general meeting or shareholders' class meeting or does not reply within ten (10) days upon receipt of such request, the shareholders individually or jointly holding 10% or more of the Company's shares have the right to propose to the supervisory committee to convene an extraordinary shareholders' general meeting or shareholders' class meeting by way of written request(s).

If the supervisory committee decides to convene an extraordinary shareholders' general meeting or shareholders' class meeting, a notice to convene such meeting shall be issued within five (5) days upon receipt of such request. Any changes to the original proposal in the notice require the consent of the relevant shareholders.

If the supervisory committee does not issue the notice of the extraordinary shareholders' general meeting or shareholders' class meeting within the required period, it will be considered as a refusal to convene and preside over the shareholders' general meeting, and shareholders

individually or jointly holding 10% or more of the shares of the Company for ninety (90) consecutive days or more have the right to convene and preside over the meeting on their own.

The Convening Shareholder must hold no less than 10% of shares in the Company immediately before the resolution of such meeting is announced.

If the Supervisory Committee or shareholders convene and hold the meeting on their own initiatives in accordance with the requirements in this section, they shall give a written notice to the board of directors and file with the relevant securities regulatory authorities and relevant stock exchanges in accordance with the applicable requirements. The board of directors and the secretary of the board of directors shall provide assistance in respect of the meeting. The board of directors shall provide the register of shareholders as at the record date for the registration of shareholding. All reasonable expenses incurred in convening the meeting shall be borne by the Company and shall be deducted from the sums owed by the Company to the defaulting directors.

Proposals and Notices of Shareholders' General Meeting

The board of directors, supervisory committee and shareholders, individually or jointly, holding 3% or more of the shares of the Company shall have the right to submit proposals to the shareholders' general meeting to be convened.

Shareholders, individually or jointly, holding 3% or more of the Company's shares may submit a written proposal to the convener ten (10) days prior to the date of the shareholders' general meeting. The convener shall announce the content of the impromptu proposal within two (2) days upon receipt of the proposal by issuing a supplementary notice of the shareholders' general meeting.

Except as stipulated above, the convener shall not alter the proposals listed in the notice of general meeting or add new proposals after the notice of general meeting has been issued.

When the Company is to hold a shareholder's general meeting, it shall issue a written notice 45 days prior to the meeting informing all the registered shareholders of the matters to be considered at and the date and place of the meeting. Any shareholder that intends to attend such meeting shall, within 20 days before the day on which the meeting is to be held, give to the Company a written reply stating that he or she will attend the meeting.

Based on the written replies received 20 days before the shareholders' general meeting is to be held, the Company shall calculate the number of voting shares represented by the shareholders who intend to attend the meeting. Where the number of voting shares represented by the shareholders who intend to attend the meeting is greater than half of the voting shares in the Company, the Company may hold the shareholders' general meeting; where such number is less than half of the voting shares in the Company, the Company shall, within 5 days thereafter, notify the shareholders once again of the matters to be considered at and the date and place of the meeting in form of a public announcement. After such notification by public announcement, the Company may hold the shareholder's general meeting.

Holding of Shareholders' General Meeting

The shareholders registered in the register of shareholders on the shares registration date shall have the right to attend the shareholders' general meeting, and vote in accordance with the laws, administrative regulations, department rules, normative documents, the listing rules where the Company lists its shares and the Articles of Association.

The shareholders may attend the shareholders' general meeting in person, or appoint a proxy to attend the shareholders' general meeting and vote on its behalf.

All the directors and supervisors and the secretary to the board of directors shall attend the shareholders' general meeting, and the general manager and other senior management members shall attend the meeting as non-voting participants.

Where the shareholders' general meeting is convened by the board of directors, the chairman of the board of directors shall serve as the chairman and preside the meeting; if the chairman of the board of directors is unable to attend the meeting, the meeting shall be presided over by the vice chairman of the board of directors as the chairman of the meeting (if the company has two or more vice chairmen, then these duties will be carried out by the vice chairman nominated by more than half of the directors); if the vice chairman of the board of directors fails or is unable to perform the duty, a director elected by a majority vote of the directors shall be the chairman of and preside the meeting. If the chairman of the meeting is not designated, the shareholders who attend the meeting may elect a shareholder as the chairman of the meeting; if the shareholders fail to elect a chairman for any reason, the attending shareholder (or his or her proxy) that holds the most voting shares shall be the chairman of and preside the meeting.

If the board of directors is unable or fails to perform its duties of convening the general meeting, the supervisory committee shall convene and preside over the meeting in a timely manner. If the supervisory committee does not convene or preside over such meeting, the shareholder(s) individually or jointly holding more than 10% of the shares for more than 90 consecutive days may convene and preside over such meeting on their own.

The shareholders' general meeting convened by the supervisory committee shall be presided over by the chairman of the supervisory committee. If the chairman of the supervisory committee fails or is unable to perform the duty, the meeting shall be presided over by a supervisor elected by more than half of the supervisors.

The shareholders' general meeting that shareholders convene by themselves shall be presided over by a representative elected by the conveners.

Voting and Resolutions at Shareholders' General Meeting

Resolutions of shareholders' general meeting shall take the form of ordinary resolutions or special resolutions. Ordinary resolutions adopted by the shareholders' general meeting shall require more than half of the voting rights represented by the shareholders (including their proxies) actually attending the shareholders' general meeting. Special resolutions adopted by

the shareholders' general meeting shall require two-thirds or more of the voting rights represented by the shareholders (including their proxies) actually attending the shareholders' general meeting.

The following matters shall require the adoption of special resolutions by the shareholders' general meeting:

- the increase or reduction of the Company's registered capital and the issuance of any class of shares, warrants and other similar securities;
- the issuance of Company's bonds;
- the division, merger, dissolution and liquidation or change of corporate form of the Company;
- the external guarantees to be provided by the Company;
- the matters relating to the Company's purchases or disposals of material assets within one (1) year, which exceed 15% of the latest audited total assets of the Company;
- the amendment of the Articles of Association;
- the share incentive scheme;
- other matters specified by laws, administrative regulations, department rules, normative documents and listing rules of the places where shares of the Company are listed or the Articles of Association and matters specified by ordinary resolutions of the shareholders' general meeting that are considered to be significant to the Company and shall be approved by special resolutions.

The shareholders (including their proxies) shall exercise their voting rights as represented by the number of voting rights held by them, and each share shall have one vote. The Company shall have no voting rights for the shares held by itself, and such shares shall not be counted towards the total number of voting shares at a shareholders' general meeting.

When any shareholders' general meeting considers matters related to related-party transactions, the related shareholder shall not vote and the number of voting shares that he represents shall not be counted as part of the total number of valid votes.

All resolutions proposed at the shareholders' general meeting shall be voted separately, and for different motions on the same matter, voting will be conducted according to the time the motions are proposed. Other than special reasons such as force majeure, which results in the interruption and termination of the shareholders' general meeting or makes it impossible to adopt resolutions, the shareholders' general meeting shall not set aside the motions and shall vote on them.

When resolutions are to be voted at the shareholders' general meeting, a lawyer and two shareholder representatives shall be elected as vote counters and scrutinizers, and the voting result will be announced forthwith.

Special Procedures for Voting by Class Shareholders

Holders of different classes of shares are class shareholders. Apart from holders of other classes of shares, holders of domestic shares and overseas-listed foreign shares are deemed as shareholders of different classes.

Rights conferred on any class of shareholders may not be varied or abrogated without the approval of a special resolution by a shareholders' general meeting, and by the affected shareholders of that class at a separate shareholders' general meeting convened in accordance with the Articles of Association.

The rights of shareholders of a certain class shall be deemed to have been changed or abrogated in the following circumstances:

- an increase or decrease in the number of shares of such class or an increase or decrease in the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;
- a change of all or part of the shares of such class into shares of another class, a conversion of all or part of the shares of another class into shares of such class or the grant of the right to such change;
- a removal or reduction of rights to accrued dividends or cumulative dividends attached to shares of such class;
- a reduction or removal of preferential rights to receive dividends attached to shares of that class or the distribution of properties during liquidation of the Company;
- an addition, removal or reduction of share conversion rights, options, voting rights, transfer rights, pre-emptive rights or rights to acquire securities of the Company attached to shares of such class;
- a removal or reduction of rights to receive amounts payable by the Company in particular currency attached to shares of such class;
- a creation of a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of that class;
- an imposition or addition of restrictions on the transfer or ownership of shares of such class;
- an issuance of rights to subscribe for, or to convert into, shares of such class or another class;

- an increase in the rights and privileges of shares of another class;
- restructuring of the Company in such a way resulting in the disproportionate distribution of obligations among various classes of shareholders; and
- an amendment or abrogation of the provisions in relevant chapters of the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at the shareholders' general meetings, shall have the right to vote at shareholders' class meetings in respect of matters referred to in items 2 to 8, 11 and 12 above, except that interested shareholder(s) shall not have the right to vote at such shareholders' class meetings.

Resolutions of a shareholders' class meeting may be passed only by two-thirds or more of the voting rights of that class represented at the meeting in accordance with relevant requirements.

The special voting procedures for shareholders of different classes shall not apply to the following circumstances:

- where the Company issues, upon approval of a special resolution by a shareholders' general meeting, either separately or concurrently once every twelve (12) months, domestic shares and overseas-listed foreign shares, and each of the domestic shares and overseas-listed foreign shares to be issued are not more than 20% of the issued shares of the respective categories;
- where the plan for issuance of domestic shares and overseas-listed foreign shares upon the establishment of the Company is completed within fifteen (15) months from the date when such plan is approved by the securities regulatory authorities;
- Where unlisted shares held by the Company's shareholders are listed and traded on overseas stock exchanges upon approval of the securities regulatory authorities.

BOARD OF DIRECTORS

Directors

The directors shall be elected or replaced by the shareholders' general meeting; the term of office of each director is three (3) years. The director may, after the expiration of the term of office, serve consecutive terms if re-elected.

It is not necessary for directors to hold shares of the Company.

Where a new election is not held in a timely manner upon expiry of the term of office of a director, or where the total number of members of the board of directors is lower than the minimum quorum required in the Articles of Association due to the resignation of any

director, the former director(s) shall continue to perform the director's duties in accordance with the relevant regulations, and the Articles of Association until the newly-elected director(s) take(s) office.

The directors may, before the expiration of the term of office, tender their resignations. The directors shall submit their resignation report in writing to the board of directors. Except the circumstances specified in this article that the resignation of a director resulted in the number of members of the board of directors fall below the statutory number and except when a later resignation effective date is specified in the resignation report, the resignation of each director shall come into effect when it is submitted to the board of directors.

A Director shall complete all of the handover procedures with the Board once his/her resignation becomes effective or his/her term of office expires. The fiduciary duties to our Company and the shareholders shall remain effective within a reasonable period upon expiry of his/her term of office. Such duties may continue for such a period as fairness may require and depending on the time which has elapsed between the termination and the act concerned and the circumstances under which the relationship with the Company is terminated. The directors' obligations to keep the Company's trade secrets confidential shall remain effective within two (2) years after the expiration of their terms of office.

The directors shall abide by laws, administrative regulations, department rules, normative documents, listing rules where the shares of the Company are listed and the Articles of Association; they shall perform the following fiduciary duties to the Company:

- Not to abuse their powers, take any bribe or other illegal gains, or encroach on the properties of the Company or the clients;
- Not to misappropriate the Company's or the clients' funds;
- Not to open an account in their own name or in the name of any other individual to deposit the Company's assets or funds;
- Not to loan the funds of the Company to others or use the Company's properties to provide guarantee for others in violation of the Articles of Association without the consent of the shareholder's general meeting or the board of directors;
- Not to lend the money of any customer to others, or use the assets of any customer to provide guarantee for any debt of the Company, any shareholder of the Company, or any other institution or individual;
- Not to conclude contracts or deal with the Company in violation of the Articles of Association or without the consent of the shareholders' general meeting;
- Not to seek, for the benefit of their own or others, any business opportunity of the Company by taking advantage of their powers, and operate for their own or for others any business that is of the same type as the Company without the consent of the shareholders' general meeting;

- Not to accept, and keep in their possession, commissions for the transactions with the Company;
- Not to disclose the Company's secrets without authorization;
- Not to prejudice the interests of the Company by making use of their affiliation;
- To fulfill other fiduciary duties stipulated by laws, administrative regulations, department rules, normative documents, listing rules of the place where the shares of the Company are listed and Articles of Association.

The Company shall be entitled to the income gained by the director from any of the acts listed above; the director shall be liable for compensation if any loss is caused to the Company.

The directors shall abide by laws, administrative regulations, department rules, normative documents, listing rules where the shares of the Company are listed and the Articles of Association, and bear the following obligations to the Company:

- exercise prudently, gravely and diligently the rights authorized by the Company in order to ensure the commercial operation of the Company is in compliance with national laws, administrative regulations as well as the various requirements of the national economic policies, not beyond the business scope specified in the business license of the Company;
- treat all the shareholders equally;
- timely investigate the operation and management of the Company;
- 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;
- provide true and accurate information and material to the supervisory committee, and not impede the supervisory committee or supervisors from exercising its/their functions and powers; and
- other obligations prescribed in relevant laws, administrative regulations, department rules, normative documents, listing rules of the place where the shares of the Company are listed and the Articles of Association.

Independent Non-Executive Directors

The Company's board of directors shall have independent non-executive directors. There shall be no less than three (3) independent non-executive directors and they shall constitute no less than one-third of the board of directors, and at least one of whom shall possess appropriate professional qualifications or accounting or related financial management expertise, and one of the independent non-executive directors shall reside in Hong Kong.

Apart from the post-holding qualifications and obligations of directors provided in the Articles of Association, an independent non-executive director shall also meet the following requirements:

- shall have five (5) years or more of experience in the work of securities, finance, law or accounting;
- shall have a university diploma at or above the undergraduate level, and a bachelor's degree or above degree;
- shall have the time and capacity necessary for the performance of his duties;
- shall have the basic knowledge of the operation of a financial company and be familiar with the relevant laws, regulations and rules, and with a good reputation;
- shall meet the independence requirements provided in the relevant provisions required by the securities regulatory authorities of the State Council and the securities regulatory rules of the place where the Company's shares are listed.

An Independent Director's term of office is same as that of other Directors. Independent Directors may be re-elected for consecutive terms, however, the consecutive terms shall not be more than six (6) years.

Board of Directors

The Company shall have a board of directors; the board of directors shall be accountable to the shareholders' general meeting. The board of directors shall comprise fourteen (14) directors, including five (5) independent non-executive directors. Internal directors, in total, shall not be more than half of all the Company's directors.

The board of directors shall exercise the following functions and powers:

- convening the shareholders' general meeting and reporting its work thereto;
- implementing resolutions adopted at the shareholders' general meeting;
- deciding the business plans and investment programs of the Company;
- formulating the annual financial budget plan and final accounting plan of the Company;
- formulating profit distribution and loss recovery plans;
- formulating plans for increasing or reducing the registered capital of the Company, for corporate bond issuance or other securities, and for public offering;
- formulating plans for merger, division, dissolution or change of company form;

- formulating plans for the Company's material acquisitions or buy-back of its shares;
- deciding on the appointment or dismissal of the Company's general manager, chief compliance officer, chief risk officer, secretary of the board of directors according to the chairman's nomination, and deciding their remuneration, award and punishment; appointing or dismissing the person in charge of finance, the members of the executive committee and other senior management according to the chairman's or the general manager's nomination, and deciding their remuneration, award and punishment;
- deciding the composition of the Company's internal management bodies;
- deciding the composition of the special committees of the board of directors and the chairperson (convener) of those special committees of the board of directors;
- formulating the basic management system of the Company;
- formulating the plan for amendment to the Articles of Association;
- filing the application of bankruptcy on behalf of the Company;
- formulating the plans for the Company's material external investments, acquisitions and disposals of material assets, material guarantees and material related-party transactions;
- considering and approving the external investment matters which do not require the approval of the shareholders' general meeting as required by the Articles of Association;
- considering and approving the acquisition and disposal of assets which do not require the approval of the shareholders' general meeting as required by the Articles of Association;
- considering and approving the related-party transactions which require the approval of the board of directors in accordance with the laws, regulations, and the listing rules where the Company's shares are listed;
- considering and approving the external donations by the Company which accumulated a donation amount not exceeding RMB10,000,000 in one accounting year;
- deciding the Company's external investments, acquisition and sale of assets, pledges of assets, external guarantees, entrusted financial management, relate-party transactions, etc. which fall within the authorization from the shareholders' general meeting;
- deciding the merger, division, establishment or deregistration of domestic branches;

- managing the information disclosure matters of the Company;
- proposing to the shareholders' general meeting for the appointment or replacement of an accountancy firm to conduct an audit for the Company;
- hearing the work report from the general manager of the Company and inspect the general manager's work;
- other functions and powers prescribed by the relevant laws, administrative regulations, department rules, normative documents, listing rules where the Company's shares are listed or the Articles of Association.

The approval of matters referred to in items 6, 7 and 13 above requires the consents from more than 2/3 of all the directors by voting, and the approval of matters referred to in the remaining items requires the consents from more than 1/2 of all the directors by voting.

The board of directors shall formulate the rules of procedures of the board of directors, so as to ensure the board of directors implements the resolutions adopted at the shareholders' general meeting, improves work efficiency and ensures logical decision-making. The rules of procedures of the board of directors formulated by the board of directors shall be approved at the shareholders' general meeting.

The Company shall have one (1) chairman and two (2) vice chairmen of the board of directors, who shall be elected and removed with the consent of more than half of all the directors.

The chairman of the board of directors shall exercise the following functions and powers:

- presiding over the shareholders' general meetings, and convening and presiding over the meetings of the board of directors;
- supervising and examining the implementation of resolutions of the board of directors;
- signing the securities issued by the Company;
- signing important documents of the board of directors;
- exercising the functions and powers as the legal representative of the Company;
- other functions and powers as authorized by the board of directors;
- other functions and powers as provided in laws, administrative regulations, department rules, normative documents, listing rules where the Company's shares are listed and the Articles and Association.

The regular meetings of the board of directors shall be held at least four (4) times each year, which shall be convened by the chairman of the board of directors, by serving a notice in

writing to all directors and supervisors at least fourteen (14) days before the meeting is convened. The required period of notice of regular meetings of the board of directors may be waived upon unanimous consent of directors in writing.

Notice of an extraordinary meeting of the board of directors shall be given in writing to all directors five (5) days before the meeting. The requirement of period of notice in advance may be waived upon unanimous consent of directors.

No board of directors meeting may be held unless more than half of the directors are present. Each director shall have one vote when voting on the resolution of the board of directors.

Directors shall attend the board of directors meetings in person. Where a director is unable to attend for certain reasons, the director is entitled to appoint another director, by a notice in writing (proxy notice) to attend the meeting on his behalf.

The board of directors shall prepare minutes of the meetings of the board of directors and such minutes shall be signed by the directors present at the meeting and the recorder. Minutes of the meetings of board of directors shall be kept as the file of the Company for at least twenty (20) years.

The directors shall be responsible for resolutions adopted by the board of directors. The directors adopting a resolution that contravenes laws, administrative regulations or Articles of Association and results in severe losses to the Company, shall be liable to the Company for compensation. However, a director may be exempt from such liability with the proof that he has expressed a disagreement and such disagreement has been recorded in the minutes of meeting.

Board Committees of the Board of Directors

The board of directors shall establish the Development and Strategic Committee, the Risk Management Committee, the Audit Committee, the Remuneration and Nomination Committee, etc.

The person in charge of the Audit Committee and the Remuneration and Nomination Committee shall be independent non-executive directors. The Audit Committee shall have at least three (3) members, all of which shall be non-executive directors. The independent non-executive directors therein shall be no less than half, and at least one of the independent non-executive directors shall have more than 5 years' experience in accounting. No less than half of the members of the Remuneration and Nomination Committee shall be independent non-executive directors. The person in charge of the Audit Committee and the Remuneration and Nomination Committee shall be independent non-executive directors.

Secretary of the Board of Directors

The board of directors shall appoint a secretary of the board of directors. The secretary of the board of directors shall be a senior management of the Company, and shall be accountable to the board of directors.

The secretary of the board of directors shall perform the following duties:

- to ensure the Company has complete organizational documents and records;
- to ensure the Company prepares and submits the reports and documents required by the competent authorities in accordance with laws;
- to ensure proper establishment of the register of shareholders of the Company, and persons entitled to obtain relevant records and documents of the Company timely obtain such records and documents;
- to perform other duties stipulated in laws, administrative regulations, department rules, normative documents, listing rules where the Company's shares are listed or Articles of Association.

BUSINESS MANAGEMENT ORGANIZATION OF THE COMPANY

Executive Committee

The Company shall set up the executive committee to exercises its discretion on operation management, which shall consist of the chairman, vice chairman (the vice chairman served by an executive director) of the board of directors, the general manager, secretary of the board of director, person in charge of finance and other senior management.

The executive committee of the Company shall perform the following duties in accordance with the resolutions or relevant requirements of the board of directors:

- carry out the operational guidelines of the Company, and determine major matters in relation to the operation and management of the Company;
- draft the financial budget plan of the Company, and submit the same to the board of directors for formulation;
- draft the final accounting plan, the profit distribution plan, and plans for losses recovery of the Company, and submit the same to the board of directors for formulation;
- draft the plan to change the registered capital, and the plan to issue bonds, of the Company, and submit the same to the board of directors for formulation;
- draft the plan for the merger, division, alteration or dissolution of the Company, and submit the same to the board of directors for formulation;
- draft the plan for the operation, investment, financing or assets disposition of the Company, and submit the same to the board of directors for approval;
- draft the plan for the internal management organization of the Company, and submit the same to the board of directors for approval;

- decide the appointment and dismissal of the management (other than the directors and senior management of the Company);
- draft and approve the remuneration plan and the award and punishment plan for employees (other than directors and senior management of the Company); and
- exercise other powers granted by the board of directors.

The Company drafts the rules of procedure of the Executive Committee, which shall be approved by the board of directors of the Company.

General Manager and other Senior Management

The Company shall set a general manager post, which shall be engaged or dismissed by the board of directors.

Persons who hold positions other than Directors in any entity of the controlling shareholder or beneficial controller shall not be appointed as senior management of the Company. Members of senior management of the Company may at most hold the office of director or supervisor concurrently in two companies where the Company is holding any interests, but shall not hold any office other than director or supervisor. They shall not engage concurrently in any other profit-making organizations or other business activities.

The general manager shall be accountable to the board of directors and shall perform the following functions and powers:

- to take charge of the operation and management of the Company, organize the implementation of resolutions of the board of directors and report to the board of directors;
- to organize the implementation of the annual business plan and investment scheme of the Company;
- to carry out the financial budget of the Company;
- to draft the Company's basic management system;
- to formulate specific rules and regulations of the Company;
- to propose to the board of directors for the appointment or dismissal of other senior management other than those that shall be nominated by the chairman of the board of directors;
- to propose to convene extraordinary meetings of the board of directors;
- to carry out the Company's risk control system, and to ensure the Company complies with the risk control index prescribed by the securities regulatory authorities;

- to perform other powers and duties authorized by the Articles of Association or the board of directors.

Chief Compliance Officer

The Company shall formulate the basic system of compliance management, which shall be implemented upon the consideration and approval of the board of directors.

The Company shall set a chief compliance officer post, which shall be engaged or dismissed by the board of directors. The chief compliance officer appointed by the Company shall be subject to the approval of the securities regulatory authorities. The Company shall not dismiss the chief compliance officer without proper reasons. Written report on the dismissal and the reason thereof shall be submitted to the securities regulatory authorities within three business days from the date of dismissal.

The chief compliance officer shall perform the following duties:

- to conduct compliance examinations on the Company in respect of its internal management system, major decisions, new products and new business schemes, and issue written compliance examination opinions; and conduct compliance examinations and sign his express opinions on application materials or reports submitted by the Company in accordance with the requirements of the relevant regulatory authorities;
- to supervise the Company and its staff in respect of the compliance of their operation, management and practice, and make regular or occasional examinations in accordance with the requirement of the securities regulatory authorities and the Company;

to arrange the implementation of the anti-money laundering system and information firewall system, provide compliance advice and organize compliance training to the senior management, each department and branch in accordance with the requirements of the Company, and deal with the reports and complaints regarding the Company and its staff in respect of their behaviors in violation of laws and regulations;

- to monitor and examine the compliance of the Company in order to identify the violation of laws and regulations or compliance risk in a timely manner, and report the same to the board of directors in a timely manner and to the local branch of CSRC at the domicile of the Company at the same time. The chief compliance officer shall also report to relevant self-disciplinary organizations in the event of violation of industrial standards and self-disciplinary rules;

for such act in violation of laws and regulations or such hidden risk of compliance, opinions on suspension and handling shall be timely delivered to the Company's relevant departments and such departments shall be urged to make such rectifications. It shall assist the Company in reporting such rectification results to

the local branch of CSRC at the domicile of the Company. If it is necessary, such shall be copied to the relevant self-disciplinary organization;

- if law, regulation, standard or the listing rules where the Company's shares are listed is changed, to timely advise the Company's board of directors or senior management and monitor the Company's relevant departments, to evaluate the impact produced on the Company's compliance management, to amend and improve the relevant management system and business procedures;
- to keep in touch and maintain communication with the securities regulatory authority and the self-disciplinary organization, and actively cooperate with the securities regulatory authority and the self-disciplinary organization in their work;

to timely deal with the matters on which the securities regulatory authority and the self-disciplinary organization requires investigation, cooperate with the securities regulatory authority and the self-disciplinary organization in their inspection or investigation on the Company, and follow up and evaluate the implementation of the supervisory opinions and requirements;

in the event that the provisions of laws, regulations and standard are not expressly stated and it is difficult to judge about the compliance of the operational management and practice of the Company and its working staff, he or she may seek advice from the securities regulatory authority or the self-disciplinary organization;

- to perform other duties stipulated by the relevant laws, administrative regulations and the Articles of Association.

SUPERVISORY COMMITTEE

Supervisors

Directors, general manager and other senior management and their immediate relatives and major social contacts shall not act as supervisors.

The term of office of a supervisor shall be three (3) years and he may serve consecutive terms if re-elected upon expiry of his terms. Where no new appointment is made upon expiration of the term of office of a supervisor or a supervisor tenders his resignation during his term of office resulting in the number of members of the supervisory committee being less than a quorum, the original supervisor shall continue to perform his duties as a supervisor in accordance with laws, administrative regulations and the Articles of Association until the new supervisor is appointed.

Supervisors may attend meetings of the board of directors and query resolutions of the board of directors or give suggestions.

Supervisory Committee

The Company shall establish the supervisory committee. The supervisory committee shall comprise six (6) supervisors, among which four shall be shareholder representative supervisors and two shall be employee representative supervisors, and the ratio of employee representative supervisors therein shall not be less than one-third. The supervisory committee shall appoint a chairman of the supervisory committee, and appointment or removal of whom shall be approved by two-thirds or more of all the supervisors.

The supervisory committee shall exercise the following functions and powers in accordance with the law:

- to examine the financial affairs of the Company;
- to supervise the performance of directors and senior management of their duties and propose the removal of directors or senior management who violate relevant laws, administrative regulations and the Articles of Association or the resolutions of the shareholders' general meetings;
- to urge directors and senior management members to correct their acts which have impaired the interests of the Company, and report to shareholders' meeting or relevant national competent authorities when necessary;
- to propose to convene an extraordinary shareholders' general meeting, convene and preside over shareholders' general meeting when the board of directors fails to convene and preside over such a meeting as required by the Company Law;
- to submit proposals to the shareholders' general meetings;
- to attend meetings of the board of directors and query or advise on resolutions of the board of directors;
- to organize audit on senior management's resignation;
- to initiate legal proceedings against any director or senior management in accordance with the Company Law;
- to verify the financial reports, business operation reports, profits distribution plan and other financial materials to be submitted by the board of directors at the shareholders' general meeting, if in doubt, to be able to appoint, in the name of the Company, a certified accountant or practising auditor to assist in reviewing such information;
- to perform other powers and duties as required by relevant laws, administrative regulations, department rules, normative documents, listing rules where the Company's shares are listed and the Articles of Association.

Meetings of the supervisory committee shall be held at least once every six (6) months. Notice of regular meetings of the supervisory committee shall be given in writing to each supervisor ten (10) days before the meeting is convened, and notice of extraordinary meetings of the supervisory committee shall be given in writing to each supervisor five (5) days before the meeting is convened. The required period of notice may be waived upon unanimous consent of all the supervisors in writing.

Supervisors shall attend the meetings of the supervisory committee in person. Where a supervisor is unable to attend, the supervisor may authorize another supervisor in writing to attend the meeting on his behalf. Such proxy notice shall state the scope of authorization.

No meeting of the supervisory committee may be held unless more than half of the supervisors are present. Each supervisor shall have one vote. A resolution of the supervisory committee shall be passed by two-thirds or more of all the supervisors.

The supervisory committee shall formulate the rules of procedures of the supervisory committee to specify the rules of procedures and voting procedures, so as to ensure the working efficiency and ensure logical decision-making of the supervisory committee. The rules of procedures of the supervisory committee shall be formulated by the supervisory committee and approved by the shareholders' general meeting of the Company.

The supervisory committee shall file resolutions passed at the meeting as minutes, which shall be signed by the attending supervisors and the recorder. Supervisors are entitled to require a particular explanatory records of their comments made at that meeting in the minutes. Minutes of the meetings of the supervisory committee shall be kept as the file of the Company for at least twenty (20) years.

QUALIFICATIONS AND DUTIES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Other than the qualifications contained in other articles of the Articles of Association, none of the following persons may serve as directors, supervisors or senior management of the Company:

- persons without capacity or with limited capacity for civil acts;
- persons who were sentenced for corruption, bribery, encroachment or embezzlement of properties or disruption of the social or economic order, or persons who were deprived of their political rights for committing a crime, and in each case, where five (5) years have not lapsed following the serving of the sentence;
- directors, or factory heads or managers who bear individual responsibility for the bankruptcy or liquidation of their companies or enterprises due to mismanagement where three (3) years have not lapsed following the date of completion of such bankruptcy or liquidation;

- the legal representatives of companies or enterprises that had their business licenses revoked for violation of the law, where such representatives bear individual responsibility and three (3) years have not lapsed following the date of revocation of such business licenses;
- persons with relatively significant individual debts that have not been settled upon maturity;
- persons currently subject to restriction from entering into the securities market by securities regulatory authorities;
- a person-in-charge of a stock exchange or securities registration and clearing institution or a director, supervisor or senior management of a securities firm who has been removed from his position due to his irregularity or disciplinary breach, and it has been within five(5) years of the date of removal;
- persons adjudged by the relevant competent authorities of violations of securities-related regulations, where such violation involves fraudulent or dishonest acts and five (5) years have not lapsed following the date of the ruling;
- persons who are lawyers, certified public accountants or professionals of an investment advisory institution, financial consultancy institution, credit rating institution, assets appraisal institution or asset verification institution, have been disqualified for irregularity or disciplinary breach and five (5) years have not lapsed following the date of revocation;
- government personnel and other personnel prohibited by laws and administrative regulations to take up concurrent posts at companies;
- persons subject to administrative penalties imposed by the financial regulatory authorities for material violation of law or disciplinary breach and three (3) years have not lapsed following the date of completion of the penalties;
- persons whose post-holding qualification is revoked by the securities regulatory authorities of the State Council and three (3) years have not lapsed following the date when the post-holding qualification is revoked;
- persons who are declared unfit by the securities regulatory authorities of the State Council and two (2) years have not lapsed following the date of the declaration;
- persons who may not serve as management of enterprises by virtue of laws or administrative regulations;
- non-natural person;
- persons who are under investigation for alleged disciplinary breach, or whose cases have been established for investigation by the judicial authorities as a result of violation of the criminal law, and such cases have not been closed;

- other circumstances decided by the securities regulatory authorities;
- other circumstances required by laws, administrative regulations, department rules, normative documents or relevant requirements of the securities regulatory authorities of the place where the Company's shares are listed.

If an election, appointment or engagement of a director, supervisor, general manager or other senior management takes place in contravention of the aforesaid provisions, such election, appointment or engagement shall be invalid. If a director, supervisor, general manager or other senior management falls into any of the circumstances provided in this Article during his term of office, the Company shall terminate his office.

The validity of an act of a director, general manager or other senior management of the Company on its behalf, towards a bona fide third party, shall not be affected by any irregularity in his office, election or qualification.

Each of the Company's directors, supervisors, general manager and other senior management shall exercise his power or perform his duties in accordance with fiduciary principles and shall not place himself in a position where his duties and personal interests may conflict. These principles include but not limited to:

- to act honestly in the best interests of the Company;
- to act within the scope of its powers and not to act beyond such scope;
- to personally exercise his discretion granted to him, not to allow himself to be manipulated by another person, not to delegate the exercise of his discretion to another person unless permitted by laws or administrative regulations or with the approval of an informed shareholders' general meeting;
- to be impartial to shareholders of the same category and of different categories;
- not to enter into contracts or transactions or make arrangements with the Company unless otherwise provided in the Articles of Association or with the approval of an informed shareholders' general meeting;
- not to use the Company's assets in any way for his own benefit without the approval of an informed shareholders' general meeting;
- not to accept any bribery or other illegal income by abusing his powers and positions, and appropriate the assets of the Company in any manner, including but not limited to any opportunities that are favorable to the Company;
- not to accept commissions in connection with the transactions of the Company without the approval of an informed shareholders' general meeting;

- to abide by the Articles of Association, perform his duties faithfully, protect the interests of the Company, and not to pursue his personal gain by abusing his powers and positions at the Company;
- not to compete with the Company in any way without the approval of an informed shareholders' general meeting;
- not to embezzle the funds of the Company or lend them to others, not to deposit Company's assets in accounts opened in his own name or in another's name, not to use Company's assets as security for the debts of the Company's shareholders or other individuals;
- not to divulge confidential information relating to the Company that was acquired by him during his office without the approval of an informed shareholders' general meeting, and not to use such information unless for the purpose of the Company's interests; however, such information may be disclosed to the court or other government authorities under the following circumstances:
 - (1) provided by law;
 - (2) required for the purpose of public interest;
 - (3) required for the purpose of the own interests of such director, supervisor, general manager or other senior management.

The fiduciary duty of a director, supervisor, general manager and other senior management of the Company may not necessarily cease upon the termination of his term of office and his obligations to keep the trade secrets of the Company confidential shall survive after the termination of his term of office. The duration of the other obligations shall be determined in accordance with the principle of fairness, taking into account the lapse of the time between termination and the occurrence of the matter as well as the circumstances and conditions under which the relationship with the Company terminates.

If a director, supervisor, general manager or other senior management of the Company has direct or indirect material interest in a contract, transaction or arrangement concluded or proposed by the Company (except for his employment contract with the Company), he shall disclose to the board of directors the nature and extent of his interests at the earliest opportunity, whether or not the matter ordinarily requires the approval of the board of directors.

The Company shall not directly or indirectly provide a loan to or provide a guarantee in connection with the advance of a loan to a director, supervisor, general manager and other senior management of the Company or of the Company's holding company or any of their respective Connected Persons. The foregoing shall not apply in certain circumstances.

A loan provided by the Company in violation of the above-mentioned provisions shall be immediately repayable by the recipient of the loan, regardless of the terms of the loan.

If a director, supervisor, general manager or other senior management of the Company breaches his obligations to the Company, the Company shall, in addition to any rights and remedies provided by laws and regulations, have a right to:

- require the relevant director, supervisor, general manager or other senior management to compensate for the losses sustained by the Company as a consequence of his dereliction of duty;
- rescind any contract or transaction concluded by the Company with the relevant director, supervisor, general manager and other senior management and contracts or transactions with a third party (where such third party is aware or ought to be aware that the director, supervisor, general manager and other senior management representing the Company was in breach of his obligations to the Company);
- require the relevant director, supervisor, general manager and other senior management to surrender the gains derived from the breach of his obligations;
- recover any funds received by the relevant director, supervisor, general manager and other senior management that should have been received by the Company, including but not limited to commissions; and
- require the relevant director, supervisor, general manager and other senior management to surrender the interest earned or possibly earned on the funds that should have been given to the Company.

FINANCIAL AND ACCOUNTING SYSTEMS, PROFIT DISTRIBUTION AND AUDITING

Financial and Accounting Systems

The Company shall formulate its own financial and accounting systems, profit distribution and auditing system in accordance with laws, administrative regulations and requirements of the relevant national authorities.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and laws and regulations, be prepared in accordance with either international accounting standards, or the accounting standards of the place outside the PRC where the Company's shares are listed. If there is any material difference between the financial statements prepared in accordance with these two sets of accounting standards, such difference shall be stated in the notes appended to the financial statements. For purposes of the Company's distribution of after-tax profits in a given financial year, the lower of the two amounts shown in the aforementioned two sets of financial statements shall be adopted.

Interim results or financial information published or disclosed by the Company shall be prepared in accordance with PRC's accounting standards and laws and regulations as well as international accounting standards or the accounting standards of the place outside the PRC where the Company's shares are listed.

The Company shall publish its financial report twice in each financial year, i.e. to publish its interim financial report within sixty (60) days after the end of the first six (6) months of each financial year, and publish the annual financial report within one hundred and twenty (120) days after the end of each financial year. Where the listing rules of the places where the Company's shares are listed stipulates otherwise, such stipulations shall prevail.

Profit Distribution

The after-tax profit of the Company shall be distributed in the following proportion and order:

- to make up for the losses;
- to allocate as statutory reserve fund (as 10% of the profit after tax for the year);
- to allocate as risk reserves in accordance with the PRC's relevant stipulations;
- to allocate as discretionary reserve fund according to resolutions of the shareholders' general meeting;
- to distribute dividends to shareholders.

No further allocation is required when the accumulated amount of the statutory reserve funds of the Company reaches 50% or more of its registered capital. The shareholders' general meeting shall determine whether to allocate the discretionary reserve after allocating the statutory reserve and the risk reserve and the proportion of allocation.

Where the shareholders' general meeting distributes profits to shareholders in violation of the foregoing provision, the shareholders concerned shall refund to the Company the profits distributed in violation of the foregoing provision. After losses have been covered and the statutory reserve and risk reserve have been allocated in accordance with the Articles of Association, any remaining after-tax profits shall be distributed to the shareholders in proportion to their shareholdings, unless otherwise stipulated in the Articles of Association.

Shares held by the Company itself shall not be entitled to the distribution of profits.

The reserve funds of the Company shall be used to cover losses of the Company, expand its production and business, or increase its registered capital. However, capital reserves shall not be used to cover losses of the Company. When the statutory common reserve fund is converted into capital, the remaining reserve shall be no less than 25% of the Company's registered capital prior to the conversion.

The capital common reserve fund includes the following funds:

- the premiums obtained from the issue of shares in excess of the par value; and
- other revenue required to be included in the capital common reserve fund by the finance authorities of the State Council.

The Company may distribute dividend by way of cash or shares.

The Company is entitled to forfeit unclaimed dividends, but such right to forfeit shall only be exercised after the expiration of applicable limitation period after the declaration of dividends, provided that the Company is in compliance with the relevant laws and regulations of the PRC and the requirements of the Hong Kong Stock Exchange.

The Company shall have the right to cease sending dividend warrants to holders of the overseas-listed foreign shares by post, but it may exercise this right only if such warrants have been left uncashed on two consecutive occasions. However, the Company may exercise this right after the first occasion on which such a warrant is returned undelivered.

The Company shall have the right to sell shares of the holder of the overseas-listed shares that is untraceable in the manner deemed to be appropriate by the board of directors but the following conditions must be observed:

- during a period of twelve (12) years, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed;
- on expiry of the twelve (12) years, the Company gives notice of its intention to sell the shares by way of making an announcement on one or more newspapers of the place where the Company's shares are listed, and gives notice to the securities regulatory authorities of the place where the Company's shares are listed.

The Company shall appoint receiving agents for the holders of the overseas-listed shares to collect on behalf of the relevant shareholders the dividends distributed and other funds payable in respect of the overseas-listed foreign shares.

The receiving agents appointed for holders of overseas-listed foreign shares listed in Hong Kong shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

Engagement of an Accountancy Firm

The Company shall engage an independent accountancy firm which is qualified under the relevant regulations of the PRC to audit the Company's annual financial report and other financial reports, and provide auditing of financial statements, verification of net assets and other related consultancy services.

The term of engagement of the accountancy firm shall be one year commence from the conclusion of the annual shareholders' general meeting until the conclusion of the next annual shareholders' general meeting.

The accountancy firm engaged by the Company shall be entitled to the following rights:

- to inspect the financial statements, records and vouchers of the Company, and to require the directors, general manager or other senior management of the Company to provide relevant information and explanations;
- to require the Company to take all reasonable steps to obtain from its subsidiaries such information and explanations as are necessary for the accountancy firm to discharge its duties;
- to attend shareholders' general meetings and to receive all notices of the shareholders' meeting and other information relating to the shareholders' meeting, and to be heard at any shareholders' general meeting in relation to matters concerning its role as the accountancy firm engaged by the Company.

The remuneration of an accountancy firm or the method in determining the remuneration shall be determined by the shareholders' general meeting. The remuneration of an accountancy firm engaged by the board of directors shall be determined by the board of directors.

The Company's engagement, removal or discontinuance of engagement of an accountancy firm shall be determined at the shareholders' general meeting, which shall be filed with the securities regulatory authorities. If the Company intends to remove or discontinue to engage an accountancy firm, the Company shall give notice to such accountancy firm in advance, and such accountancy firm shall have the right to make representations at the shareholders' general meeting. Where the accountancy firm proposes to quit, it shall state to the shareholders' general meeting whether or not there is anything improper in the Company.

The accountancy firm may resign by depositing its written notice of resignation to the legal address of the Company. Any such notice shall terminate its office on the date on which it is deposited or on such later date as may be specified therein (whichever is later). Such notice shall include the following representations:

- a statement to the effect that there are no circumstances connected with its resignation which it considers shall be brought to the notice of the shareholders or creditors of the Company; and
- a statement of any such circumstances.

The accountancy firm may require the board of directors to convene an extraordinary shareholders' general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

NOTICES AND ANNOUNCEMENTS

Notices of the Company shall be sent by the following means:

- by hand;
- by mail;
- by fax or email;
- by making an announcement on the Company's website or websites designated by stock exchanges in compliance with laws, regulations and listing rules of the place where the Company's shares are listed;
- by other means recognized by the Company, or agreed upon by the recipient in advance or recognized by the recipient after receiving such notice;
- by other means approved by laws, regulations and regulatory authorities of the place where the Company's shares are listed and other means stated in the Articles of Association.

Unless otherwise stipulated in the Articles of Association, for notice issued by the Company to H shareholders by way of announcement, the Company shall on the same day submit an electronic version to the Hong Kong Stock Exchange through the Hong Kong Stock Exchange EPS for immediate release on the website of the Hong Kong Stock Exchange in accordance with the Listing Rules. The announcement shall also be published on the Company's website at the same time.

MERGER, DIVISION, DISSOLUTION AND LIQUIDATION**Merger, Division**

In the event of a merger or division of the Company, a plan shall be presented by the Company's board of directors. Upon approval in accordance with the procedures stipulated in the Articles of Association, the Company shall arrange to obtain the relevant approval. A shareholder who objects to the plan of merger or division shall have the right to demand the Company or the shareholders who consented to the plan of merger or division to acquire his shares at a fair price.

In the event of a merger of the Company, the parties to the merger shall execute a merger agreement and prepare a balance sheet and a list of properties. The Company shall give notice to its creditors in accordance with the Company Law, make a public announcement on a newspaper recognized by the stock exchange of the place where the Company's shares are listed, and settle its debts or to provide a corresponding guarantee for such debt as required by the creditors in accordance with relevant laws.

In the event of a division of the Company, its assets shall be divided accordingly. In the event of a division of the Company, a balance sheet and a list of properties shall be prepared.

The Company shall give notice to its creditors in accordance with the Company Law and make a public announcement on a newspaper recognized by the stock exchange of the place where the Company's shares are listed.

Where a merger or division of the Company involves any changes to any registration, an application for modification of registration shall be made to the registration authority pursuant to the law; if the Company is dissolved, cancellation of registration of the Company shall be carried out pursuant to the law; where a new company is established, the registration of the establishment of the company shall be carried out in accordance with the law.

Dissolution and Liquidation

The Company may be dissolved for the following reasons:

- the occurrence of certain dissolution events provide in the Articles of Association;
- dissolution as resolved by the shareholders' general meeting;
- dissolution as a result of merger or division of the Company;
- the business license of the Company is revoked or it is ordered to close down its business or its business license is cancelled in accordance with the law;
- where the Company is declared bankrupt in accordance with the law due to its inability to settle debts that are due;
- where the operation and management of the Company falls into serious difficulties and its continued existence would cause significant losses to shareholders, the shareholders holding 10% or more of the total voting rights of the Company may apply to the People's Court to dissolve the Company if there are no other solutions.

Where the Company is dissolved in accordance with items 1, 2, 4 and 6 above, a liquidation team shall be established within fifteen (15) days from the approval of the securities regulatory authorities, and the members of which shall be determined by the shareholders' general meeting by ordinary resolution. In case no liquidation team is established within the specified period to commence liquidation, the creditor(s) may apply to the People's Court to designate relevant persons to form a liquidation team and commence liquidation.

Upon the adoption of the resolution to liquidate the Company at the shareholders' general meeting, the functions and powers of the board of directors shall cease immediately.

During the liquidation period, the liquidation team shall exercise the following powers:

- thoroughly examine the properties of the Company and prepare a balance sheet and a list of properties respectively;
- to give notice to the creditor(s) or to publish announcements;

- to dispose of and liquidate relevant ongoing businesses of the Company;
- to settle outstanding taxes and taxes incurred in the process of liquidation;
- to settle claims and debts;
- to deal with the surplus assets remaining after the Company's debts are settled;
- to represent the Company in any civil proceedings.

The liquidation team shall, within ten (10) days of its establishment, give notice to creditors and shall, within sixty (60) days of its establishment, make an announcement in the newspaper. A creditor shall, within thirty (30) days of receipt of notice, or within forty-five (45) days of the date of the announcement if notice is not received, claim his rights to the debt to the liquidation committee.

In claiming his rights, the creditor shall provide proof of his rights to the debt and matters relating to the debt. The liquidation committee shall register the creditor's rights.

In the course of claiming of creditors' rights, the liquidation team shall not settle its debts with creditors.

After the liquidation team has thoroughly examined the Company's properties and prepared a balance sheet and a list of properties, it shall formulate a plan of liquidation for submission to the shareholders' general meeting or to the People's Court for confirmation.

The assets of the Company shall be distributed in the following order:

- Payment of liquidation costs;
- Payment of employees' wages, social insurance and statutory compensation;
- Payment of taxes payable;
- Repayment of the debts of the Company;
- Distribution to shareholders based on their respective proportion of capital contributions.

No distribution to shareholders shall be made before the assets of the Company have been used for items (1) to (4) above.

During the liquidation period, the Company remains in existence; however, it shall not commence any business activity that is unrelated to liquidation. The Company's assets shall not be distributed to shareholders prior to settling debts pursuant to the foregoing provision.

After liquidating the properties of the Company and preparation of a balance sheet and a list of properties, if the liquidation team finds the assets of the Company to be insufficient

for the settlement of its debts, the liquidation team shall apply to the People's Court for a declaration of bankruptcy in accordance with the law.

After the declaration of bankruptcy of the Company by the People's Court, the liquidation team shall hand over matters in relation to liquidation of the Company to the People's Court.

Following the completion of the liquidation of the Company, the liquidation team shall prepare a liquidation report, a revenue and expenditure statement and financial account books in respect of the liquidation period and, after verification thereof by an accountant registered in China, submit the same to the shareholders' general meeting or the relevant authorities in charge for confirmation. Within thirty (30) days from the date of confirmation of the aforementioned documents by the shareholders' general meeting or the relevant authorities in charge, the liquidation team shall deliver the same to the company registry, apply for cancellation of the Company's registration and publicly announce the Company's dissolution.

AMENDMENT OF THE ARTICLES OF ASSOCIATION

Under any of the following circumstances, the Company shall amend the Articles of Association:

- the Articles of Association is contradictory to any provision of the amended laws, administrative regulations, department rules, normative documents or the listing rules of the place where the Company's shares are listed;
- changes to the Company's situation which leads to inconsistency with matters recorded in the Articles of Association;
- a shareholders' general meeting adopts a resolution to amend the Articles of Association.

Where the amendments approved by the shareholders' general meeting shall be subject to the approval of the relevant regulatory authorities, such amendments shall be submitted to the relevant regulatory authorities for approval; if any registration is concerned, the Company shall apply for registration of the changes in accordance with the law.

DISPUTE RESOLUTION

The Company shall abide by the following principles of dispute resolution:

- whenever any disputes or claims arise from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company between the Company and its directors, supervisors or senior management; a holder of overseas-listed foreign shares and the Company; a holder of overseas-listed foreign shares and directors, supervisors, general managers or other senior management of

the Company; a holder of overseas-listed foreign shares and a holder of domestic shares, the parties concerned shall resolve such disputes and claims through arbitration.

Where a dispute or claim described above is referred to arbitration, the entire dispute or claim shall be resolved through arbitration; all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, directors, supervisors, general managers or other senior management of the Company or the Company, shall submit to arbitration.

Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

- the party seeking arbitration may elect to have the dispute or claim arbitrated either by the CIETAC in accordance with its arbitration rules or by the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules. Once the party seeking arbitration submits a dispute or claim to arbitration, the other party must submit to the arbitral body selected by the party seeking the arbitration.

If the party seeking arbitration elects to arbitrate the dispute or claim at the Hong Kong International Arbitration Centre, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the Hong Kong International Arbitration Centre.

- the laws of the PRC shall govern the arbitration of disputes or claims described in item 1 above, unless otherwise provided by law or administrative regulations.
- the award of the arbitral body is final and shall be binding on all parties.

FURTHER INFORMATION ABOUT OUR COMPANY**Incorporation**

The predecessor of our Company, China Securities Finance Limited (中信建投証券有限公司), was established in the PRC on November 2, 2005 as a limited liability company under the laws of the PRC with a registered capital of RMB2.7 billion. On September 28, 2011, we were converted into a joint stock limited liability company and renamed China Securities Finance Co., Ltd. (中信建投証券股份有限公司). On October 20, 2016, the Company further changed its English name to CSC Financial Co., Ltd..

Our Company has established a place of business in Hong Kong at 18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong and has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on July 28, 2016. Mr. Sun Ge has been appointed as 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 our principal place of business in Hong Kong as set out above.

As we are established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix V to this prospectus. A summary of certain relevant aspects of the laws and regulations of the PRC are set out in Appendix IV to this prospectus.

Changes in Share Capital

At our establishment, our initial registered capital was RMB2.7 billion.

On September 28, 2011, our Company was converted into a joint stock limited liability company. Upon the conversion, our registered share capital was increased to RMB6.1 billion.

For further details, see “History, Development and Corporate Structure — Our History and Development” in this prospectus.

Save as disclosed in this prospectus, there has been no alterations in our share capital within two years immediately preceding the date of this prospectus.

Resolutions of our Shareholders

Pursuant to the resolutions passed on July 26, 2016, our Shareholders resolved that, among other things:

- (a) the issue by our Company of H Shares and A Shares representing no more than 23% of the total issued share capital of our Company following the issue of H Shares and A Shares (including the shares to be issued pursuant to the Over-allotment Option), of which the number of H Shares to be issued shall represent no more than 15% of the total issued share capital of the Company following the Global Offering (excluding the shares to be issued pursuant to the Over-allotment Option);

- (b) subject to the completion of the Global Offering, the adoption of the Articles of Association, which shall become effective on the Listing Date, and authorizing the Board to amend the Articles of Association in accordance with the requirements of the relevant laws and regulations, requirement of the relevant authorities; and
- (c) authorization of the Board and its authorized persons to deal with matters in connection with the Global Offering and Listing.

Our Subsidiaries

The list of our principal subsidiaries as of June 30, 2016, is set out in the Accountant's Report set out 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.

- (a) On September 21, 2016, China Securities Funds increased its registered capital to RMB300,000,000.
- (b) On May 10, 2016, China Futures increased its registered capital to RMB700,000,000.
- (c) On June 19, 2015, China Securities Capital increased its registered capital to RMB650,000,000.
- (d) On April 14, 2015, China Securities International increased its share capital to HK\$1,000,000,000.

Restriction on Share Repurchase

Please refer to the section headed "Appendix IV — Summary of Principal Legal and Regulatory Provisions — The Company Law, Special Regulations and Mandatory Provisions — Repurchase of Shares" in this prospectus for details.

FURTHER INFORMATION ABOUT OUR BUSINESS

Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years immediately preceding the date of this prospectus that are or may be material:

- (a) the Hong Kong Underwriting Agreement;
- (b) a cornerstone investment agreement dated November 18, 2016, entered into between the Company, Glasslake Holdings Limited (鏡湖控股有限公司) and China Securities (International) Corporate Finance Company Limited, pursuant to which Glasslake Holdings Limited (鏡湖控股有限公司) agreed to subscribe for our 351,647,000 H Shares;
- (c) a cornerstone investment agreement dated November 24, 2016, entered into between the Company, China Structural Reform Fund Co., Ltd. (中國國有企業結構調整基金股份有限公司) and China Securities (International) Corporate Finance Company

Limited, pursuant to which China Structural Reform Fund Co., Ltd. (中國國有企業結構調整基金股份有限公司) agreed to subscribe for our H Shares in the amount of US\$100 million (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee);

- (d) a cornerstone investment agreement dated November 24, 2016, entered into between the Company, Taiping Life Insurance Co., Ltd. (太平人壽保險有限公司) and China Securities (International) Corporate Finance Company Limited, pursuant to which Taiping Life Insurance Co., Ltd. (太平人壽保險有限公司) agreed to subscribe for our H Shares in the amount of US\$50 million;
- (e) a cornerstone investment agreement dated November 24, 2016, entered into between the Company, Daiwa Securities Group Inc. and China Securities (International) Corporate Finance Company Limited, pursuant to which Daiwa Securities Group Inc. agreed to subscribe for our H Shares in the amount of US\$20 million;
- (f) a cornerstone investment agreement dated November 24, 2016, entered into between the Company, China Huadian Capital Holdings Company Limited (中國華電集團資本控股有限公司) and China Securities (International) Corporate Finance Company Limited, pursuant to which China Huadian Capital Holdings Company Limited (中國華電集團資本控股有限公司) agreed to subscribe for our H Shares in the amount of US\$20 million (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee);
- (g) a cornerstone investment agreement dated November 24, 2016, entered into between the Company, Beijing Shunlong Investment and Development Fund (Limited Partnership) (北京順隆投資發展基金(有限合夥)) and China Securities (International) Corporate Finance Company Limited, pursuant to which Beijing Shunlong Investment and Development Fund (Limited Partnership) (北京順隆投資發展基金(有限合夥)) agreed to subscribe for our H Shares in the amount of US\$20 million (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee);
- (h) a cornerstone investment agreement dated November 24, 2016, entered into between the Company, Beijing Xianglong Assets Management Co., Ltd. (北京祥龍資產經營有限責任公司) and China Securities (International) Corporate Finance Company Limited, pursuant to which Beijing Xianglong Assets Management Co., Ltd. (北京祥龍資產經營有限責任公司) agreed to subscribe for our H Shares in the amount of US\$20 million (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee);
- (i) a cornerstone investment agreement dated November 24, 2016, entered into between the Company, Beijing Urban Construction Investment & Development Co., Ltd. (北京城建投資發展股份有限公司) and China Securities (International) Corporate Finance Company Limited, pursuant to which Beijing Urban Construction Investment & Development Co., Ltd. (北京城建投資發展股份有限公司) agreed to subscribe for our H Shares in the amount of US\$20 million (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee);
- (j) a cornerstone investment agreement dated November 24, 2016, entered into between the Company, Beijing Capital Development Asset Management Co., Ltd (北京首開資產管理有限公司) and China Securities (International) Corporate Finance Company Limited, pursuant to which Beijing Capital Development Asset

Management Co., Ltd (北京首開資產管理有限公司) agreed to subscribe for our H Shares in the amount of US\$20 million (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee); and

- (k) a cornerstone investment agreement dated November 24, 2016, entered into between the Company, Guangdong Province Railway Development Fund Co., Ltd. (廣東省鐵路發展基金有限責任公司) and China Securities (International) Corporate Finance Company Limited, pursuant to which Guangdong Province Railway Development Fund Co., Ltd. (廣東省鐵路發展基金有限責任公司) agreed to subscribe for our H Shares in the amount of US\$20 million (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee).

Intellectual Property Rights




As at the Latest Practicable Date, we have registered or have applied for the registration of the following material intellectual property rights.



Trademarks

As at the Latest Practicable Date, we did not own any registered trademarks in the PRC.

Trademarks licensed to our Company by CITIC Group

CITIC Group has licensed the following trademarks to our Company for a period of three years, from May 1, 2016 to April 30, 2019.

No.	Trademark	Place of Registration	Class	Registration Number
1.		Hong Kong	35, 36	300495810
2.	CITIC	Hong Kong	35, 36	300495856
3.	中信 中信	Hong Kong	35, 36	300495838
4.	中信	PRC	35	841822
5.	中信	PRC	35	7792814
6.		PRC	35	777052
7.		PRC	35	7792776
8.	CITIC	PRC	35	3491385
9.	中信	PRC	36	847836

No.	Trademark	Place of Registration	Class	Registration Number
10.	中信	PRC	36	7792807
11.		PRC	36	769135
12.		PRC	36	7792777
13.	CITIC	PRC	36	3491384

Domain Names

As at the Latest Practicable Date, we have registered the following material Internet domain names in the PRC:

Domain Name	Expiry Date
cfc108.com	August 27, 2018
cfund108.com	April 25, 2021
csc.com.cn	July 1, 2022
csc108.com	August 23, 2022

FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS, STAFF, MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS

Disclosure of Interests of Directors and Supervisors

Immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised, none of our Directors or Supervisors has any 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) which will be required to be notified to our Company and the 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 which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or 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, once the Shares are listed on the Hong Kong Stock Exchange.

Up to the Latest Practicable Date, none of the Directors or Supervisors or their respective spouses and children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

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, see the section headed “Substantial Shareholders.”

Interests of substantial shareholders in members of our Group (excluding our Company)

Our subsidiaries	Registered capital	Parties with 10% or more equity interest	Approximate percentage of shareholding (%)
China Securities Funds (中信建投基金)	RMB300,000,000	Hangtian Science and Technology Finance Co., Ltd. (航天科技財務有限責任公司)	25%
		Jiangsu Broadcast Media Ltd. (江蘇廣傳廣播傳媒有限公司)	20%
CSC M&A Investment Management Ltd. (中信建投併購投資管理有限公司)	RMB50,000,000	Zhonghang Emerging Industry Investment Co., Ltd. (中航新興產業投資有限公司)	20%
Jiangsu Zhongmao Venture Capital Management Co., Ltd. (江蘇中茂創業投資管理有限公司)	RMB10,000,000	Jiangsu Jinmao Venture Capital Management Co., Ltd. (江蘇金茂創業投資管理有限公司)	44%
Beijing Water Fund Management Co., Ltd. (北京水務基金管理有限公司)	RMB30,000,000	Beijing Water Development Center (北京水務投資中心)	25%
Beijing Runxin Zhongan Investment Management Ltd. (北京潤信中安投資管理有限公司)	RMB5,000,000	Anhui Railway Investment Management Ltd. (安徽省皖投鐵路投資管理有限公司)	20%
Jingde Changnan Runxin Investment Management Ltd. (景德鎮昌南潤信投資管理有限公司)	RMB250,000	Jingde Hesheng Optical Investment Development Co., Ltd. (景德鎮合盛光電產業投資發展有限公司)	20%

Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance of relevant laws and regulations, observation of the Articles of Association and provisions on arbitration.

Each of the Directors entered into a contract with our Company in November 2016. The principal particulars of these service contracts are: (a) each of the contracts is for a term of three years following each Director's respective appointment date; and (b) each of the contracts is subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable rules.

Each of the Supervisors entered into a contract with our Company in November 2016, in respect of, among other things, compliance with relevant laws, regulations, the Articles of Association and applicable provisions on arbitration.

Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

Directors' and Supervisors' Remuneration

Save as disclosed in the section headed "Directors, Supervisors and Senior Management" of this prospectus and under "Appendix I — Accountant's Report — II Notes to Financial Information — 12 Directors' and Supervisors' Remuneration" in the Accountant's Report set out in Appendix I to this prospectus, no Director or Supervisor received other remuneration or benefits in kind from our Company in respect of each of the three financial years ended December 31, 2015 and the six months ended June 30, 2016.

Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or Supervisors and any of the parties listed in the paragraph headed "Qualification of Experts" of this Appendix is interested in our promotion, or in any assets which, within the two years immediately preceding the date of this prospectus, have been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to us;
- (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 our business; and
- (c) none of our Directors or Supervisors is a director or employee that has an interest or short position in the shares and underlying shares of our Company which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO.

OTHER INFORMATION**Estate Duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

Litigation

As at the Latest Practicable Date, save as disclosed in the prospectus, our Company is not involved in any litigation, arbitration or administrative proceedings of material importance which could have a material adverse effect on our financial condition or results of operations, and, so far as we are aware, no litigation, arbitration or administrative proceedings of material importance is pending or threatened against us.

Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, our H Shares. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

China Securities (International) Corporate Finance Company Limited is a wholly-owned subsidiary of our Company and therefore is not independent from our Company under Rule 3A.07 of the Listing Rules. UBS Securities Hong Kong Limited and ABCI Capital Limited are independent from our Company under Rule 3A.07 of the Listing Rules.

A fee of US\$500,000 is payable by our Company to each of the Joint Sponsors to act as a sponsor to our Company in connection with the Listing.

Preliminary Expenses

We have not incurred any material preliminary expense.

Qualification of Experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

Name	Qualification
China Securities (International) Corporate Finance Company Limited	Licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
UBS Securities Hong Kong Limited	Licensed to conduct type 1 (dealing in securities), type 6 (advising on corporate finance), and type 7 (providing automated trading services) regulated activities under the SFO

<u>Name</u>	<u>Qualification</u>
ABCI Capital Limited	Licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Tian Yuan Law Firm	PRC legal advisors

Consents of Experts

Each of the experts referred to in the paragraph headed “Qualification of Experts” in this Appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or opinions and/or the references to their names included herein in the form and context in which they are respectively included.

Save for China Securities (International) Corporate Finance Company Limited, a subsidiary of our Company, none of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

Joint Compliance Advisors

Our Company has appointed China Securities (International) Corporate Finance Company Limited and ABCI Capital Limited to act as our joint compliance advisors upon Listing in compliance with Rule 3A.19 of the Listing Rules.

Taxation of Holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty. The current rate charged on each of the seller and purchaser is HK\$1.00 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.

No Material Adverse Change

Except as disclosed in “Summary — Recent Developments” and “Financial Information — Directors’ Confirmation of No Material Adverse Change,” our Directors have confirmed, after performing all the due diligence work which the Directors consider appropriate, that, as of the date of this prospectus, there has been no other material adverse change in our financial position or prospects since June 30, 2016 and there has been no other event since June 30, 2016 which would have material adverse effect on the information presented in the Accountant’s Report in Appendix I to this prospectus.

Binding Effect

This prospectus shall have the effect, if any application is made pursuant hereto, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years preceding the date of this prospectus: (i) we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash; and (ii) no commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any capital of our Group;
- (b) no share or loan capital of our Group is under option or is agreed conditionally or unconditionally to be put under option;
- (c) our Company has not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (d) there are no arrangements under which future dividends are waived or agreed to be waived;
- (e) there are no procedures for the exercise of any right of pre-emption or transferability of subscription rights;
- (f) there are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business;
- (g) there have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months;
- (h) there are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong;
- (i) no part of the equity or debt securities of our Company, if any, is currently listed on or dealt in on any stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought;
- (j) our Company has no outstanding convertible debt securities or debentures; and
- (k) our 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.

Our Company has adopted a code of conduct regarding Directors' and Supervisors' securities transactions on terms as required under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules with effect from the Listing Date.

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 Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

Promoters

The promoters were BSCOMC, Central Huijin, Century Jinyuan and CITIC Securities. Save as disclosed in this prospectus, within the two years immediately preceding the Latest Practicable Date, no cash, security or benefit has been paid, allotted or given, or is proposed to be paid, allotted or given to the promoters named above in connection with the Global Offering or the related transactions described in this prospectus.

Particulars of the Selling Shareholders

Certain particulars of the Selling Shareholders are set out as follows:

- (a) Beijing State-owned Capital Operation and Management Center (北京國有資本經營管理中心), a company established in the PRC whose registered office is at No. 2 Huaibaishu Street, Xicheng District, Beijing, PRC (中國北京市西城區槐柏樹街2號). The number of Sale Shares to be sold by BSCOMC will not be more than 32,769,000 (assuming full exercise of the Over-allotment Option); and
- (b) Central Huijin Investment Ltd. (中央匯金投資有限責任公司), a company established in the PRC whose registered office is at New Poly Plaza, 1 North Chaoyangmen Street, Dongcheng District, Beijing, PRC (中國北京市東城區朝陽門北大街1號新保利大廈). The number of Sale Shares to be sold by Central Huijin will not be more than 29,128,000 (assuming full exercise of the Over-allotment Option).

APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the paragraph headed “Other Information — Consents of Experts” in “Appendix VI — Statutory and General Information” to this prospectus;
- (c) a copy of each of the material contracts referred to in the section headed “Further Information about Our Business — Summary of Material Contracts” in “Appendix VI — Statutory and General Information” to this prospectus; and
- (d) the statement of particulars of the Selling Shareholders.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Davis Polk & Wardwell at 18th Floor, The Hong Kong Club Building, 3A Chater Road, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association;
- (b) the accountant’s report from PricewaterhouseCoopers in relation to historical financial information, the text of which is set out in Appendix I to this prospectus;
- (c) the audited financial statements of the Group for the three years ended December 31, 2015 and the six months ended June 30, 2016;
- (d) the report from PricewaterhouseCoopers in relation to 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 entitled “Further Information about Our Business — Summary of Material Contracts” in Appendix VI to this prospectus;
- (f) the service contracts with Directors and Supervisors referred to in “Further Information about Our Directors, Supervisors, Staff, Management and Substantial Shareholders — Service Contracts” in Appendix VI to this prospectus;

**APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

- (g) the written consents referred to in “Other Information — Consents of Experts” in Appendix VI to this prospectus;
- (h) the legal opinions prepared by Tian Yuan Law Firm, our legal advisor as to PRC law, in respect of the general matters and property interests of our Group;
- (i) the Company Law, the Securities Law, the Mandatory Provisions and the Special Regulations together with their unofficial English translations; and
- (j) the statement of particulars of the Selling Shareholders.



中信建投证券股份有限公司
CSC Financial Co., Ltd.