

恒投证券

HENGTUO SECURITIES

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

Stock Code: 1476

2018

Annual Report

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Important Notice

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

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

The financial report for 2018 prepared by the Company, in accordance with the International Financial Reporting Standards and China's Accounting Standard for Business Enterprises, has been audited by RSM Hong Kong and Ruihua Certified Public Accountants LLP, respectively, each of whom had issued a standard unqualified audit report. All amounts set out in this report are stated in RMB unless otherwise stated.

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

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

Chairman's Statement

In 2018, China maintained the trend of “strengthening financial regulation and fully enhancing the capacity of preventing and dissolving risks” on industry regulation since the “19th CPC National Congress”. Regulatory authorities have released various new policies. The implementation of new regulations on the asset management business and the introduction of the Chinese Depositary Receipts (CDR) will have profound influence on the market and industry. In 2018, as a result of the trade conflict, the downward pressures on economic growth and other uncertainties, the overall performance of the domestic stock market was sluggish. The Shanghai Composite Index and the Shenzhen Component Index closed 24.59% and 34.42% lower in 2018 as compared with the end of the previous year. The turnover of stocks and funds in the Shanghai and Shenzhen stock markets recorded a year-on-year decrease of 17.98%. In 2018, as affected by the market conditions, the operating results of domestic securities companies declined to different extent. The profit contribution of the brokerage, investment banking and other traditional businesses of the Company plunged while proprietary businesses recorded losses to a relatively high extent. Facing the adverse situation, the Company strived to adjust the structure and consolidate the foundation of various businesses, deeply advanced business transformation and adhered to regulatory-compliant operation to enhance the overall capacity of preventing and controlling risks.

The Company will face both opportunities and challenges in 2019. The Central Economic Work Conference convened at the end of 2018 proposed that a slight movement in the capital market will affect the operation of the whole financial sector. China will deepen reform to build a standardized, transparent, open, vibrant and tough capital market. Further deepening the reform of the capital market will drive a new round of development of securities companies. The Company should follow the development pace of times, keep firm beliefs and work harder to actively advance various work. The Company will continue to adhere to regulatory-compliant operation, enhance the awareness on risk prevention and control and continue to improve the compliance and risk control system. It will speed up in promoting business transformation and upgrading and consolidate business foundation to ensure the stable and rapid development of all operation businesses and fully improve the profitability of businesses. It will also strengthen back-office capacity in providing support to make progress in all businesses of the Company.

Pang Jiemin
Chairman

Beijing, the PRC
22 March 2019

Section 1 Definitions

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

APP	application, which generally refers to mobile applications
Articles of Association	the articles of association of the Company, as amended from time to time
Asset securitisation	an act of converting less liquid assets into securities that can be traded freely in the financial market to have them become liquid and a direct way of financing through issuing securities in capital market and monetary market
Baotou Huazi	Baotou Huazi Industry Co., Ltd. (包頭華資實業股份有限公司), listed on the Shanghai Stock Exchange (stock code: 600191), a substantial shareholder of the Company
Board	the board of directors of the Company
Company or Hengtou Securities	a company established as a limited liability company in the PRC on 28 December 1998 and converted into a joint stock company with limited liability under the PRC laws on 3 November 2008 under the corporate name “恒泰证券股份有限公司” (Hengtai Securities Co., Ltd), and carrying on business in Hong Kong as “恒投證券” (in Chinese) and “HENGTOU SECURITIES” (in English) as approved by and registered with the Registrar of Companies in Hong Kong on 27 April 2015, and whose H shares are listed on the Main Board of the Hong Kong Stock Exchange
Corporate Governance Code	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
CSRC	the China Securities Regulatory Commission (中國證券監督管理委員會)
Director(s)	director(s) of the Company
Domestic Share(s)	ordinary share(s) issued by the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid-up in RMB
end of Reporting Period	31 December 2018

Section 1 Definitions (Continued)

Finance Street Capital	Beijing Finance Street Capital Management Centre (北京金融街資本運營中心), which holds 100% equity interest in Huarong Infrastructure
Finance Street Investment	Beijing Finance Street Investment (Group) Co., Ltd. (北京金融街投資(集團)有限公司), formerly known as Beijing Finance Street Construction Group Co., Ltd. (北京金融街建設集團), a subsidiary of SASAC Xicheng District and a shareholder of the Company
Finance Street Xihuan Properties	Beijing Finance Street Xihuan Properties Co., Ltd. (北京金融街西環置業有限公司), formerly known as Beijing Xihuan Properties Co., Ltd. (北京西環置業有限公司), a subsidiary of SASAC Xicheng District and a shareholder of the Company
FOF	Fund of Fund, a fund which specially invests in other securities investment funds
GDP	gross domestic product
Group	the Company and its subsidiaries
H Share(s)	overseas listed foreign ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Main Board of the Hong Kong Stock Exchange
Hangzhou Ruisi	Hangzhou Ruisi Industrial Co., Ltd. (杭州瑞思實業有限公司), which holds 98.67% equity interest in Shaanxi Tianchen
Hengtai Capital	Hengtai Capital Investment Co., Ltd. (恒泰資本投資有限責任公司), 100% equity interest of which is held by the Company
Hengtai Changcai	Hengtai Changcai Securities Co., Ltd. (恒泰長財證券有限責任公司), 100% equity interest of which is held by the Company
Hengtai Futures	Hengtai Futures Co., Ltd. (恒泰期貨股份有限公司), 80% and 20% equity interest of which is held by the Company and Hengtai Capital, respectively
Hengtai Pioneer	Hengtai Pioneer Investment Co., Ltd. (恒泰先鋒投資有限公司), 100% equity interest of which is held by the Company
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	the Hong Kong Special Administrative Region of the PRC

Section 1 Definitions (Continued)

Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Hongzhi Huitong	Beijing Hongzhi Huitong Industrial Co., Ltd. (北京鴻智慧通實業有限公司), a shareholder of the Company
Huarong Infrastructure	Beijing Huarong Infrastructure Investment Co., Ltd. (北京華融基礎設施投資有限責任公司), a subsidiary of SASAC Xicheng District and a shareholder of the Company
Huarong Investment	Beijing Huarong Comprehensive Investment Company (北京華融綜合投資公司), which holds 90% equity interest in Finance Street Xihuan Properties
Huifa Investment	Tibet Dazi Huifa Investment Co., Ltd. (西藏達孜匯發投資有限公司), formerly known as Shenzhen City Huifa Investment Co., Ltd. (深圳市匯發投資有限公司), a shareholder of the Company
Huijin Jiaye	Beijing Huijin Jiaye Investment Co., Ltd. (北京匯金嘉業投資有限公司), a shareholder of the Company
IPO	Initial Public Offering
Listing	the listing of the H Shares on the Main Board of the Hong Kong Stock Exchange on 15 October 2015
Listing Date	15 October 2015
Listing Rules	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
Margin financing and securities lending	a collateral-backed operating activity in which securities firms provide clients with monies to buy listed securities or with listed securities for sale
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
MOM	Manager of Managers, which is a fund type whereby a manager chooses managers for an investment program
NEEQ	National Equities Exchange and Quotations

Section 1 Definitions (Continued)

New China Fund	New China Fund Management Co., Ltd. (新華基金管理股份有限公司), 58.62% equity interest of which is held by the Company
Ningbo Shike	Ningbo Shike Trading Co., Ltd. (寧波實科商貿有限公司), which holds 70% equity interest in Qingyun Intercontinental
P2P	Peer to Peer lending platforms
PRC or China	for the purpose of this report, the People's Republic of China (excluding Hong Kong, Macau Special Administration Region of the PRC and Taiwan)
Prospectus	the H Shares prospectus of the Company dated 30 September 2015
Qingyun Intercontinental	Beijing Qingyun Intercontinental Technology Co., Ltd. (北京慶雲洲際科技有限公司), a substantial shareholder of the Company
Reporting Period	the year ended 31 December 2018
RMB	Renminbi, the lawful currency of China, the basic unit of which is Yuan
SASAC Xicheng District	The State-owned Assets Supervision and Administration Commission of Xicheng District People's Government of Beijing Municipality (北京市西城區人民政府國有資產監督管理委員會), which holds 100% equity interest in each of Huarong Investment, Finance Street Capital and Finance Street Investment, respectively
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shaanxi Hongya	Shaanxi Hongya Ruijiu Trading Co., Ltd. (陝西弘雅瑞久商貿有限公司), which holds 99.60% equity interest in Ningbo Shike
Shaanxi Tianchen	Shaanxi Tianchen Technology Trading Co., Ltd. (陝西天宸科貿有限公司), which holds 97.08% equity interest in Hongzhi Huitong
Shanghai Julu	Shanghai Julu Information Technology Co., Ltd. (上海巨祿信息科技有限公司), which holds 99.47% equity interest in Shenzhen Zhongxin
Shanghai Xishida	Shanghai Xishida Electronic Technology Co., Ltd. (上海喜仕達電子技術有限公司), which holds 99.99% equity interest in Huijin Jiaye

Section 1 Definitions (Continued)

Shanghai Yida	Shanghai Yida Technology Investment Co., Ltd. (上海怡達科技投資有限責任公司), a substantial shareholder of the Company
Shenzhen Zhongxin	Shenzhen Zhongxin Tuoye Technology Co., Ltd. (深圳中新拓業科技有限公司), which holds 95% equity interest in Shanghai Xishida
stock pledged repurchase transaction	a transaction in which eligible funds receivers get financing from eligible funds givers by pledging the stocks or other securities they hold and agree to return the funds and cancel the pledge some day in the future
substantial shareholder(s)	has the meaning ascribed thereto under the Listing Rules
Supervisor(s)	supervisor(s) of the Company
Supervisory Committee	the supervisory committee of the Company
Suzhou Bingtai	Suzhou Bingtai Trading Co., Ltd. (蘇州秉泰貿易有限公司), which holds 94% equity interest in Hangzhou Ruisi
this report	the 2018 annual report of the Company
Tomorrow Holding	Tomorrow Holding Limited Company (明天控股有限公司), which holds approximately 54% equity interest in Baotou Huazi, one of the substantial shareholders of the Company
Wind Info	Wind Info Co., Ltd. (上海萬得信息技術股份有限公司), a joint stock company incorporated in the PRC with limited liability and a service provider of financial data, information and software, being an independent third party of the Company
Zhongchang Hengyuan	Zhongchang Hengyuan Holdings Limited (中昌恒遠控股有限公司), a substantial shareholder of the Company

Section 2 Material Risks

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

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

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

Section 3 Company Profile

I. BASIC INFORMATION ABOUT THE COMPANY

1. Name of Company

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

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

2. Board of Directors

Executive Directors

Mr. Pang Jiemin (*Chairman*)

Mr. Wu Yigang (*Vice chairman*)

Non-executive Directors

Mr. Zhang Tao

Mr. Sun Chao

Ms. Dong Hong

Ms. Gao Liang

Independent Non-executive Directors

Ms. Zhou Jianjun

Dr. Lam Sek Kong

Mr. Lv Wendong

Special Committees of the Board

Strategy and Investment Committee

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

Mr. Sun Chao

Dr. Lam Sek Kong

Risk Control and Supervisory Committee

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

Mr. Wu Yigang

Mr. Zhang Tao

Section 3 Company Profile (Continued)

Audit Committee

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

Mr. Zhang Tao

Dr. Lam Sek Kong

Remuneration and Nomination Committee

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

Mr. Pang Jiemin

Dr. Lam Sek Kong

3. Supervisory Committee

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

Ms. Pei Jingjing

Mr. Wang Hui

4. Legal Representative: Mr. Pang Jiemin

President: Mr. Niu Zhuang

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

Net capital: RMB6,104,858,301.23

6. Qualifications for Businesses in China

The Company is qualified for: securities and futures business operation, financial advice business on activities related to security investment, proprietary securities business, foreign exchange business, access to national inter-bank funding business, online securities commission business, entrusted investment management business, proxy sale of open-end investment funds, chief agency broker in the agency system, provision of intermediary services for futures companies, margin financing and securities lending business, chief agency broker on the NEEQ, distribution of financial products, refinancing business, stock pledged repurchase transaction business, online account opening business, stock option brokerage and proprietary business, market-making activities on the NEEQ, lending business for margin and securities refinancing, Southbound Trading under the Shanghai-Hong Kong Stock Connect, pilot over-the-counter ("OTC") trading, administration of overseas securities investment of qualified domestic institutional investors, trial Internet-based securities services, custodian business for securities investment funds and Southbound Trading under the Shenzhen-Hong Kong Stock Connect.

Section 3 Company Profile (Continued)

7. Head Office in China

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

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

Website: www.cnht.com.cn

Email: dongban@cnht.com.cn

8. Place of Business in Hong Kong

40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong

9. Secretary of the Board

Mr. Zhang Wei

Tel: +86 10 5667 3898

Fax: +86 10 5667 3777

Email: zhangwei@cnht.com.cn

Address: Room 509, Block C, Tongtai Building, No. 33 Finance Street, Xicheng District, Beijing, the PRC (post code: 100033)

10. Chief Compliance Officer

Mr. Pang Jiemin (acting)

Tel: +86 10 8327 0999

Fax: +86 10 8327 0998

Email: pangjiemin@cnht.com.cn

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

11. Chief Risk Officer

Ms. Yu Fang

Tel: +86 10 8327 0999

Fax: +86 10 8327 0998

Email: yufang@cnht.com.cn

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

Section 3 Company Profile (Continued)

12. Joint Company Secretaries

Mr. Zhang Wei, Ms. Leung Wing Han Sharon

13. Authorised Representatives

Mr. Pang Jiemin, Ms. Leung Wing Han Sharon

14. Auditors

International accounting firm: RSM Hong Kong (in November 2018, its Chinese name was changed from "中瑞岳華(香港)會計師事務所" to "羅申美會計師事務所", while there is no change of its English name)

Domestic accounting firm: Ruihua Certified Public Accountants LLP

15. Hong Kong Legal Advisor

Luk & Partners
In Association with
Morgan, Lewis & Bockius

16. Principal Bankers

China Minsheng Bank, Hohhot Branch
Industrial Bank Co., Ltd. Hohhot Branch
China Construction Bank Corporation, Hulun South Road Branch of Hohhot

17. H Share Registrar

Computershare Hong Kong Investor Services Limited

18. Stock Code (H Shares)

01476

Section 3 Company Profile (Continued)

II. DEVELOPMENT HISTORY

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

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

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

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

Section 3 Company Profile (Continued)

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

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

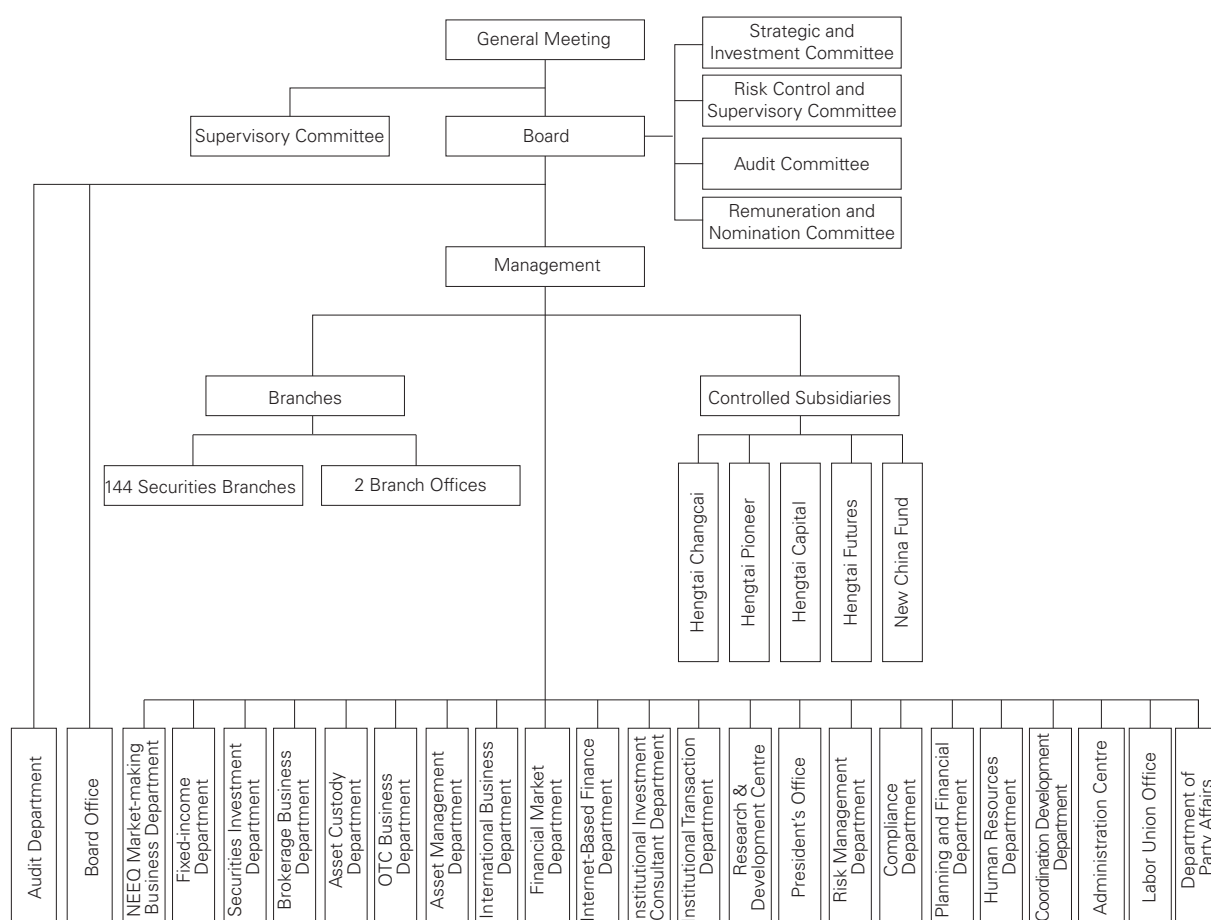
On 3 June 2013, the Company established Hengtai Capital Investment Co., Ltd. (恒泰資本投資有限責任公司) in Shenzhen as a wholly-owned subsidiary of the Company, with a registered capital of RMB200 million. On 29 January 2016, Hengtai Capital increased its registered capital from RMB0.2 billion to RMB1 billion in order to supplement working capital. On 10 November 2016, Hengtai Capital further increased its registered capital from RMB1 billion to RMB1.5 billion in order to supplement working capital. On 22 August 2018, Hengtai Capital changed its registered capital from RMB1.5 billion to RMB1.2 billion. On 11 March 2019, Hengtai Capital changed its registered capital from RMB1.2 billion to RMB0.8 billion.

On 30 October 2013, upon approval by the CSRC with the Reply on the Approval of Change in Equity Interest in New China Fund Management Co., Ltd. (Zheng Jian Xu Ke [2013] No. 1376) (《關於核准新華基金管理有限公司變更股權的批覆》(證監許可[2013]1376號)), the Company acquired 43.75% equity interest in New China Fund Management Co., Ltd. and became the second largest shareholder of New China Fund. On 29 July 2015, upon approval by the CSRC with the Reply on the Approval of Change in Equity Interest in New China Fund Management Co., Ltd. (Zheng Jian Xu Ke [2015] No. 1669) (《關於核准新華基金管理有限公司變更股權的批覆》(證監許可[2015]1669號)), the Company completed the subscription for additional 57,500,000 shares (representing 14.87% equity interest in New China Fund) at a consideration of RMB97,750,000. Upon completion of the capital increase, New China Fund was held by the Company as to 58.62% and became a non-wholly-owned subsidiary of the Company. On 28 September 2015, New China Fund Management Co., Ltd. was converted into a joint stock company with limited liability as a whole by converting its original net asset value into shares.

Section 3 Company Profile (Continued)

On 9 September 2015, the Company received the Reply on the Approval of Issue of Overseas-Listed Foreign-Invested Shares by Hengtai Securities Co., Ltd (Zheng Jian Xu Ke [2015] No. 2089) (《關於核准恒泰證券股份有限公司發行境外上市外資股的批覆》(證監許可[2015]2089號)) from CSRC, which approved the Company to publicly issue the overseas listed foreign-invested shares (H Shares) and the listing of such shares on the Main Board of the Hong Kong Stock Exchange. On 15 October 2015, the overseas-listed shares of the Company were officially listed on the Hong Kong Stock Exchange (stock code: 01476). The Company issued an aggregate of 450,846,000 H Shares (including the portion of reduced state-owned shares) (all being ordinary shares) with a nominal value of RMB1 each. The total share capital of Company was 2,604,567,412 shares upon completion of the issue.

III. ORGANIZATION STRUCTURE



Section 3 Company Profile (Continued)

IV. SUBSIDIARIES

As at 31 December 2018, major subsidiaries of the Company are as follows:

(I) Controlled Subsidiaries

No.	Name	Address (in China)	Principal business	Date of establishment	Registered Capital (RMB0'000)	Shareholding percentage	Legal representative	Telephone (+86)
1	Hengtai Changcai Securities Co., Ltd. (恒泰長財證券有限責任公司)	Section 479, 5/F, No. 57 Changjiang Road, Changjiang Road Economic Development Zone, Chang Chun, Jilin Province (吉林省長春市長江路經濟開發區長江路57號五層479段)	Securities underwriting business, securities investment and fund distribution business and securities sponsoring business	10 January 2002	20,000	100%	Zhang Wei (張偉)	010-56673702
2	Hengtai Pioneer Investment Co., Ltd. (恒泰先鋒投資有限公司)	Building 5, No. 25 Shuntong Road, Shunyi District, Beijing (北京市順義區順通路25號5幢)	Investment of equity and financial products other than those stated in the List of Securities Investment Products for the Proprietary Trading of Securities Companies (《證券公司證券自營投資品種清單》) with its own funds	25 January 2013	10,000	100%	Wu Lihui (武麗輝)	010-83270868
3	Hengtai Capital Investment Co., Ltd. (恒泰資本投資有限責任公司)	Room 201, Block A, 1 Qianwan First Road, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen, Guangdong Province (廣東省深圳市前海深港合作區前灣一路1號A棟201室)	Equity investment; equity-related debt investment; funds management; financial information consultation	3 June 2013	120,000 ¹	100%	Niu Zhuang (牛壯)	0755-83700311
4	Hengtai Futures Co., Ltd. (恒泰期貨股份有限公司)	Unit 201, 2/F, No. 120 Block 91, E'shan Road, China (Shanghai) Pilot Free Trade Zone (中國(上海)自由貿易試驗區峨山路91弄120號2層201單元)	Commodity futures brokerage; financial futures brokerage; advisory services related to futures investment and asset management	20 December 1992	12,500	80% ²	Fu Lixin (付立新)	021-68405668
5	New China Fund Management Co., Ltd. (新華基金管理股份有限公司)	19/F, Building 2, Lifan Centre, No. 6 Juxianyan Square, Jiangbei District, Chongqing (重慶市江北區聚賢巖廣場6號力帆中心2號辦公樓第19層)	Fund raising, fund distribution, asset management and other business as permitted by the CSRC	9 December 2004	21,750	58.62%	Chen Zhong (陳重)	010-68779666

Notes:

- On 11 March 2019, Hengtai Capital completed the industrial and commercial registration for the change of registered capital from RMB1.2 billion to RMB0.8 billion.
- The Company's shareholding percentage in such company is presented as direct shareholding percentage.

Section 3 Company Profile (Continued)

(II) Major Subsidiaries of Hengtai Capital

No.	Name	Address (in China)	Principal business	Date of establishment	Registered capital (RMB'000)	Shareholding percentage	Legal representative	Telephone (+86)
1	Shanghai Yingwo Investment Management Co., Ltd. (上海盈沃投資管理有限公司)	Room 358, Building 3, No.806 Fengzhen Road, Hongkou District, Shanghai (上海市虹口區豐鎮路806號3幢358室)	Investment management, asset management, investment consultation, industrial investment	2 July 2013	2,000	100%	Niu Zhuang (牛壯)	021-68506779
2	Shenzhen Hengtai Capital Equity Investment Fund Management Co., Ltd. (深圳恒泰資本股權投資基金管理有限責任公司)	Room 201, Building A, 1 Qianwan Yi Road, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen, Guangdong Province (廣東省深圳市前海深港合作區前灣一路1號A棟201室)	Entrusted management of equity investment funds, equity investment, funds management and investment consultation	9 September 2013	2,000	100%	Xin Benhua (辛本華)	0755-83700311
3	Beijing Hengtai Hongze Investment Co., Ltd. (北京恒泰弘澤投資有限公司)	F2-1(B)701-2,7/F, No.2 and 4 Wudinghou Street, Xicheng District, Beijing (北京市西城區武定侯街2號·4號7層 F2-1(B)701-2)	Project investment; investment management; asset management; investment consultation; corporate management consulting	8 April 2015	1,000	100%	Xin Benhua (辛本華)	010-57649363
4	Shanghai Hongdian Investment Management Co., Ltd. (上海泓典投資管理有限公司)	Room 2506, No.99 Huangpu Road, Hongkou District, Shanghai (上海市虹口區黃浦路99號2506室)	Investment management, industrial investment, asset management, business consulting, corporate management consulting	4 May 2015	10,000	100%	Huang Weiguo (黃偉國)	021-33821309
5	Inner Mongolia Hengtai Shengda Investment Management Co., Ltd. (內蒙古恒泰盛達投資管理有限公司)	6/F, Region 2, Block A, Jindi Business Building, Xincheng District, Chifeng, Inner Mongolia Autonomous Region (內蒙古自治區赤峰市新城區金帝商務大廈A座2區6層)	Asset management, investment management, investment advisory services	2 November 2015	3,000	51%	Niu Zhuang (牛壯)	010-53621186

Section 3 Company Profile (Continued)

(III) Major Subsidiary of Hengtai Futures

No.	Name	Address (in China)	Principal business	Date of establishment	Registered capital (RMB'000)	Shareholding percentage	Legal representative	Telephone (+86)
1	Hengtai Yingwo Asset Management Co., Ltd. (恒泰盈沃資產管理有限公司)	Room 915, No. 857 Laolu Road, Shuyuan Town, Pudong New District, Shanghai (上海市浦東新區書院鎮老蘆公路857號915室)	Asset management, investment management, industrial investment, venture capital investment, investment consulting, corporate management services, financial consulting, planning of corporate asset reorganisation and merger and acquisition, marketing planning, etc.	5 February 2016	5,000	100%	Fu Lixin (付立新)	021-60212780

(IV) Major Subsidiary of New China Fund

No.	Name	Address (in China)	Principal business	Date of establishment	Registered Capital (RMB'000)	Shareholding percentage	Legal representative	Telephone (+86)
1	Beijing New China Fushi Asset Management Co., Ltd. (北京新華富時資產管理有限公司)	Room 3-01 Building 6, Ronghuiyuan, Airport Economic Core Zone, Shunyi District, Beijing (北京市順義區臨空經濟核心區融慧園6號樓3-01)	Asset management for specific customers and other businesses as approved by CSRC	10 April 2013	30,800	76.62%	Lin Yanfang (林豔芳)	010-58010865

V. BRANCH OFFICES

As at 31 December 2018, the Company had two branch offices in Shenzhen and Changchun, respectively, details of which are as follows:

No.	Name	Address (in China)	Date of establishment	Working capital (RMB'000)	Person in charge	Telephone (+86)
1	Hengtai Securities Co., Ltd, Shenzhen Branch Office (恒泰證券股份有限公司深圳分公司)	Rooms 2001-2020, Shenzhen Central Business Building, No. 88 Fuhua First Road, Futian District, Shenzhen (深圳市福田區福華一路88號深圳中心商務大廈2001-2020室)	17 August 2009	500	Hu Sanming (胡三明)	0755-82033486
2	Hengtai Securities Co., Ltd, Changchun Branch Office (恒泰證券股份有限公司長春分公司)	Rooms 2501 and 2502, Office Building 11, Weifeng New Ecological City, Jingyue Development Zone, Changchun City, Jilin Province (吉林省長春市淨月開發區偉峰生態新城11#辦公樓2501、2502號房)	27 May 2014	300	Cao Yalou (曹亞樓)	0431-82970822

Section 3 Company Profile (Continued)

VI. DISTRIBUTION OF SECURITIES BRANCHES

As at 31 December 2018, the Company had a total of 144 securities branches (please refer to Appendix to this report). Number and distribution of securities branches of the Company are as follows:

Location (PRC)	Number of securities branches	Location (PRC)	Number of securities branches
Inner Mongolia Autonomous Region	27	Hubei Province	2
Guangdong Province	23	Guangxi Zhuang Autonomous Region	2
Shanghai	20	Shanxi Province	1
Beijing	19	Hebei Province	1
Jilin Province	14	Chongqing	1
Zhejiang Province	13	Shaanxi Province	1
Shandong Province	8	Henan Province	1
Liaoning Province	4	Hunan Province	1
Fujian Province	2	Tianjin	1
Jiangsu Province	2	Sichuan Province	1

Section 4 Summary of Accounting and Business Data

I. PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDEXES

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

(I) Principal Accounting Data and Financial Indexes for the Recent Three Years

Item	2018	2017	Increase/ (decrease) from last period	2016
Operating results (RMB'000)				
Revenue and other income	2,099,654	4,234,363	(50.41%)	3,541,155
(Loss)/profit before tax	(820,420)	1,012,905	(181.00%)	642,577
(Loss)/profit for the year-attributable to ordinary shareholders of the Company	(673,446)	706,202	(195.36%)	454,723
Net cash generated from/(used in) operating activities	7,315	(1,970,096)	100.37%	1,384,606
Earnings per share (RMB/share)				
Basic (loss)/earnings per share ¹	(0.30)	0.23	(230.43%)	0.14
Diluted (loss)/earnings per share ¹	(0.30)	0.23	(230.43%)	0.14
Profitability index				
Weighted average rate of return on net assets (%) ²	(9.10)	7.06	Decreased by 16.16 percentage points	4.38

Section 4 Summary of Accounting and Business Data (Continued)

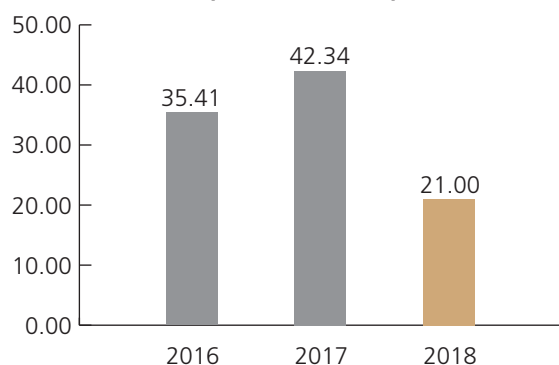
Item	31 December 2018	31 December 2017	Increase/ (decrease) from the end of last period	31 December 2016
Scale indicators (RMB'000)				
Total assets	29,915,079	36,416,987	(17.85%)	37,148,596
Total liabilities	19,970,258	25,474,555	(21.61%)	27,212,391
Accounts payable to brokerage clients	7,691,497	10,028,333	(23.30%)	12,201,337
Equity attributable to ordinary shareholders and holders of perpetual capital securities	9,536,409	10,571,277	(9.79%)	9,660,960
Total share capital ('000 shares)	2,604,567	2,604,567	0.00%	2,604,567
Net assets per share attributable to ordinary shareholders ³ (RMB/share)	3.09	3.48	(11.21%)	3.13
Gearing ratio (%) ⁴	55.25	58.53	Decreased by 3.28 percentage points	60.17

Notes:

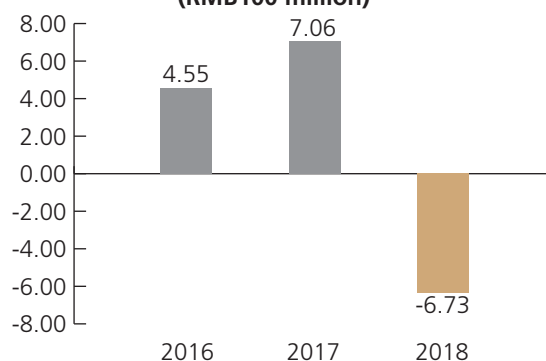
- The index is calculated based on the assumption of deducting the dividends of the holders of cumulative perpetual capital securities.
- Weighted average rate of return on net assets (%) = $P / (E_o + P \div 2 + E_i \times M_i \div M_o - E_j \times M_j \div M_o)$, in which P represents net profit attributable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

Section 4 Summary of Accounting and Business Data (Continued)

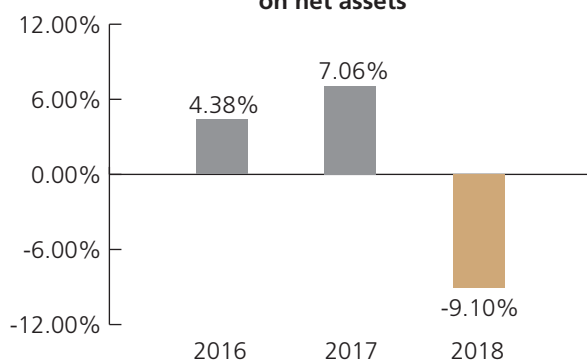
**Revenue and other income
(RMB100 million)**



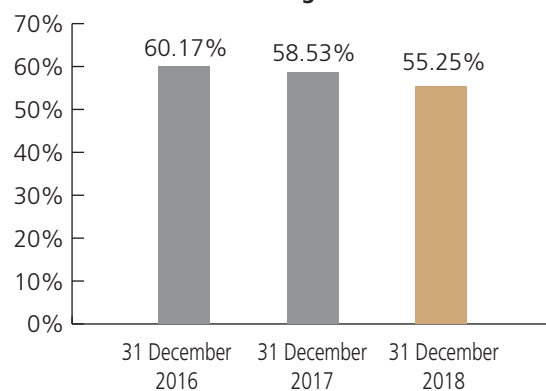
**(Loss)/profit for the year attributable to
ordinary shareholders of the Company
(RMB100 million)**



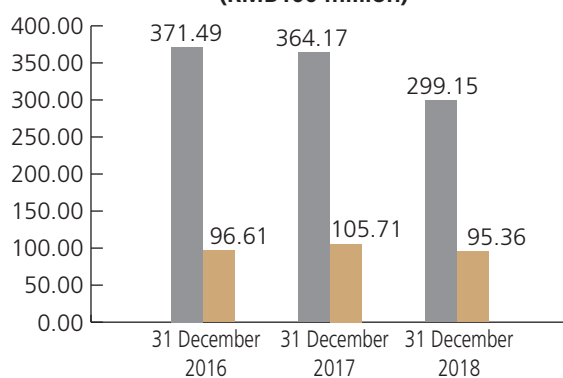
**Weighted average return
on net assets**



Gearing ratio



**Scale indicators
(RMB100 million)**



- Total assets
- Equity attributable to ordinary shareholders of the Company and holders of perpetual capital securities

Section 4 Summary of Accounting and Business Data (Continued)

(II) Principal Accounting Data and Financial Indexes for the Recent Five Years

Earnings (RMB'000)

Item	2018	2017	2016	2015	2014
Revenue and other income	2,099,654	4,234,363	3,541,155	5,676,190	2,269,453
Total operating expenses	(2,918,406)	(3,219,772)	(2,897,455)	(3,493,386)	(1,447,271)
(Loss)/profit before tax	(820,420)	1,012,905	642,577	2,195,270	837,334
(Loss)/profit for the year – attributable to ordinary shareholders of the Company	(673,446)	706,202	454,723	1,700,772	654,105

Assets, liabilities and equity (RMB'000)

Item	31 December 2018	31 December 2017	31 December 2016	31 December 2015	31 December 2014
Total assets	29,915,079	36,416,987	37,148,596	39,167,673	21,817,518
Total liabilities	19,970,258	25,474,555	27,212,391	29,434,641	16,542,521
Accounts payable to brokerage clients	7,691,497	10,028,333	12,201,337	13,977,558	7,555,457
Equity attributable to ordinary shareholders and holders of perpetual capital securities	9,536,409	10,571,277	9,660,960	9,531,668	5,274,997
Total share capital ('000 shares)	2,604,567	2,604,567	2,604,567	2,604,567	2,194,707

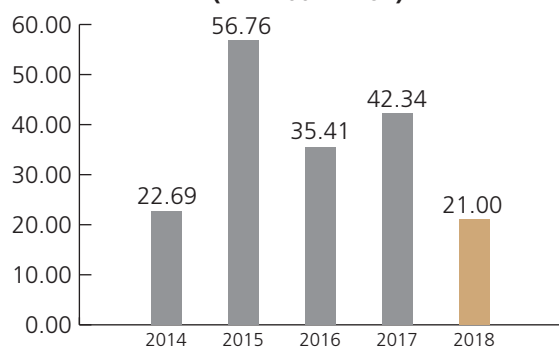
Section 4 Summary of Accounting and Business Data (Continued)

Key financial indexes

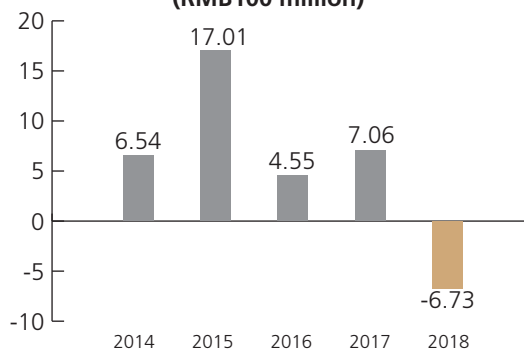
Item	2018	2017	2016	2015	2014
Basic (loss)/earnings per share <i>(RMB/share)</i>	(0.30)	0.23	0.14	0.72	0.30
Diluted (loss)/earnings per share <i>(RMB/share)</i>	(0.30)	0.23	0.14	0.72	0.30
Weighted average rate of return on net assets (%)	(9.10)	7.06	4.38	26.62	13.22
	31 December	31 December	31 December	31 December	31 December
	2018	2017	2016	2015	2014
Gearing ratio (%)	55.25	58.53	60.17	61.36	63.01
Net assets per share attributable to ordinary shareholders <i>(RMB/share)</i>	3.09	3.48	3.13	3.08	2.40

Section 4 Summary of Accounting and Business Data (Continued)

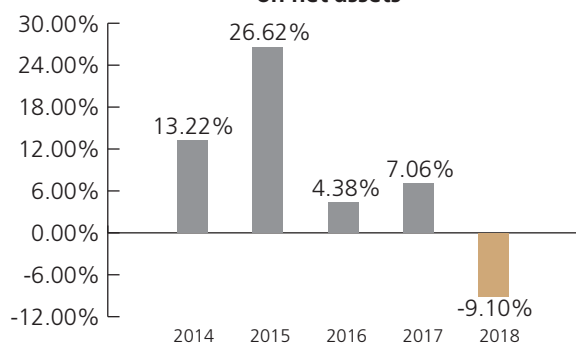
**Revenue and other income
(RMB100 million)**



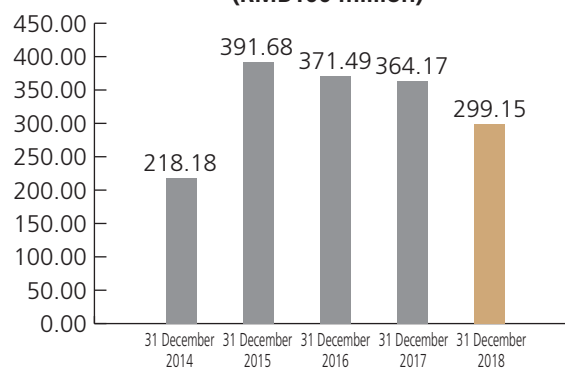
**(Loss)/profit for the year attributable to
ordinary shareholders of the Company
(RMB100 million)**



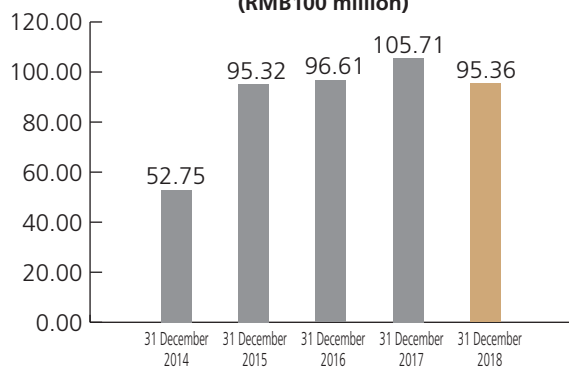
**Weighted average return
on net assets**



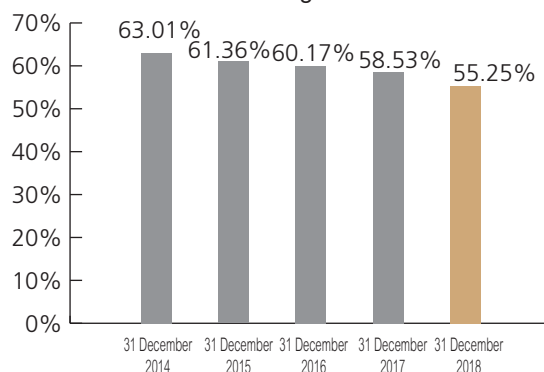
**Total assets
(RMB100 million)**



**Equity attributable to
ordinary shareholders of
the Company and holders of
perpetual capital securities
(RMB100 million)**



Gearing ratio



Section 4 Summary of Accounting and Business Data (Continued)

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

There is no material difference as to Company's net profit for 2018 and 2017 and net assets as at 31 December 2018 and 31 December 2017 shown on the consolidated financial statements prepared under the International Financial Reporting Standards and those shown on the consolidated financial statements prepared under China's Accounting Standards for Business Enterprises.

III. THE COMPANY'S NET CAPITAL AND RELATED RISK CONTROL INDEXES

As at 31 December 2018, the Company's net capital amounted to RMB6,104.86 million, representing a decrease of RMB1,729.38 million as compared with RMB7,834.24 million at the end of 2017. During the Reporting Period, related risk control indexes including the Company's net capital met the regulatory requirements.

Unit: in RMB'000

Item	31 December 2018	31 December 2017	Regulatory standard
Net capital	6,104,858	7,834,239	N/A
Including: Net core capital	4,604,858	5,734,239	N/A
Net supplement capital	1,500,000	2,100,000	N/A
Net assets	9,008,517	9,939,416	N/A
Total risk capital provision	2,389,348	3,844,433	N/A
Total assets on and off statement of financial position	19,804,395	21,841,596	N/A
Risk coverage ratio	255.50%	203.78%	≥100%
Capital leverage ratio	23.25%	26.25%	≥8%
Liquidity coverage ratio	244.24%	520.72%	≥100%
Net stable funding ratio	162.58%	154.83%	≥100%
Net capital/net assets	67.77%	78.82%	≥20%
Net capital/liabilities	57.62%	71.19%	≥8%
Net assets/liabilities	85.02%	90.32%	≥10%
Proprietary equity securities and securities derivatives/net capital	42.61%	33.28%	≤100%
Proprietary non-equity securities and securities derivatives/net capital	112.80%	86.58%	≤500%

Section 5 Management Discussion and Analysis

I. ECONOMIC AND MARKET ENVIRONMENT DURING THE REPORTING PERIOD

During the Reporting Period, China's macro economy has seen changes amid overall stability with increased downward pressure against the backdrop of complex and severe external environment. In the year of 2018, China's GDP grew by 6.6% year-on-year, 0.3 percentage points lower than that of 2017. The People's Bank of China continued to follow a prudent and neutral monetary policy to maintain liquidity in the banking system at a reasonably sufficient level, and increased financial support for key economic field like private enterprises and small and minor enterprises amid a complex international economic and political environment like the Sino-US trade friction, and the gradual withdrawal of the United States, the European Union and other major developed economies from unconventional monetary policy. Monetary loans and social financings witnessed moderate growth, interest rates stayed at an appropriate level and the RMB exchange rate remained basically stable at a reasonable and balanced level. In the year, newly-added social financings totaled RMB19.26 trillion, representing a decrease of RMB3.14 trillion compared to 2017, with growth of broad money and narrow money by 8.1% and 1.5% year-on-year, respectively.

During the Reporting Period, major Chinese stock indices saw significant drop, and the trading volumes declined dramatically as compared with 2017. In 2018, the Shanghai Composite Index opened at 3,314.03 points, and then fell to as low as 2,449.20 points and closed at 2,493.90 points at the end of the year, representing a decrease of 24.59% for the year; the Shenzhen Component Index opened at 11,079.76 points at the beginning of the year, and then fell to as low as 7,084.44 points and closed at 7,239.79 points at the end of the year, representing a decrease of 34.42% for the year; the GEM Index opened at 1,759.02 points, and then fell to as low as 1,184.91 points and closed at 1,250.53 points at the end of the year, representing a decrease of 28.65% for the year. In 2018, the turnover of stocks and funds on Shanghai Stock Exchange amounted to RMB47,483.587 billion, the turnover of stocks and funds on Shenzhen Stock Exchange amounted to RMB53,082.752 billion, and the total turnover of stock and funds in the Shanghai and Shenzhen stock markets amounted to RMB100,566.339 billion, representing a year-on-year decrease of 17.98%. (data source: websites of State Statistics Bureau, People's Bank of China, Shanghai Stock Exchange, Shenzhen Stock Exchange and Wind Info)

Section 5 Management Discussion and Analysis (Continued)

II. ANALYSIS OF PRINCIPAL BUSINESS

During the Reporting Period, the Group recorded revenue and other income of RMB2,099.65 million and a loss of RMB635.98 million, representing a decrease of 50.41% and 182.69% as compared with 2017, respectively.

(I) Brokerage and Wealth Management Business

During the Reporting Period, the revenue and other income from brokerage and wealth management business amounted to RMB1,326.64 million, representing a decrease of 32.77% as compared with 2017.

1. Securities brokerage

During the Reporting Period, the Company has always adhered to the “client-centric” service concept. On one hand, the Company reinforced its awareness of client service and improved client service standards with steady steps to actively broadened institutional cooperation channels. It also hosted the “Hengtai Yangzheng” Public Welfare Private Placement Contest (“恒泰央證盃”私募公益實盤大賽) in association with the Finance Research Institute of China Central Television Finance. While greatly improving its influence in the industry, the Company continued to optimize the service functions of “Toupai (頭派)” and “Jinyu Manager (金玉管家)” APPs to improve client services in every detail. On the other hand, the Company has been perfecting the network layout of the branches and further sparking the operating vitality of the light branches through intensified assessment, supervision and training system, which resulted in considerable progress in its business development. However, as major indexes and trade volume in the market declined under the overall downturn shock in China’s stock market in 2018, the growth of the securities brokerage business of the Company slowed down as compared with that in 2017.

During the Reporting Period, the number of new accounts opened reached 60,500, and the total number of clients reached 2,338,900, representing an increase of 2.66% as compared with the end of 2017. The total assets under custody for clients reached RMB108,153.31 million, representing a decrease of 29.75% as compared with the end of 2017. The turnover of stocks and funds reached RMB1,211,633.30 million, representing a decrease of 20.48% as compared with 2017, while the market share of stocks and funds was 0.61%, representing a decrease of 1.61% as compared with that in 2017.

Section 5 Management Discussion and Analysis (Continued)

Prospects for 2019

The Company will continue to seek new development of securities brokerage business through innovation, to further advance the transformation of revenue model. The Company will continue to develop share option and other innovative businesses, and seize market opportunities to enhance the proportion of share option business. It will also advance the development of information system to establish an integrated service system of trading, custody and clearing centering on the needs of institutional clients, so as to improve its capability to serve institutional clients. By doing so, the Company could develop more institutional clients to rapidly increase the proportion of the assets of institutional clients, and thus further improve the Company's market share.

2. Futures brokerage

During the Reporting Period, guided by the principles of "institution-orientation, production development and professional operation" in business transformation, Hengtai Futures has established a full-fledged derivative platform systems based on its futures brokerage business as the main body, by virtue of assets management business and risk management business as the two wings, and as complemented by the outbound business. Hengtai Futures has seen a steady increase in the size of customer deposits, a significant increase in the proportion of institutional clients and a further improved customer structure. Three new branches were established in Jinan, Qingdao and Shenyang in China. While improving the mechanism and enriching the business system, Hengtai Futures further strengthened its ability to prevent and mitigate risks. At the 16th China Financial Billboard (財經風雲榜) in 2018, Hengtai Futures was awarded the Growth Futures Company of the Year Award (年度成長性期貨公司) and the Gold Medal Industrial Research of the Year Award (年度金牌產業研究獎). During the Reporting Period, the number of new-added clients of Hengtai Futures was 2,634.

Prospects for 2019

Based on the geographical characteristics, Hengtai Futures will consolidate its advantages in research and development, management, compliance, information technology and other aspects. While focusing on the futures brokerage business, Hengtai Futures will promote the transformation of assets management business and develop the risk management business into a new driver of profit growth and, in combination with the international business, improve its service quality and work efficiency. Hengtai Futures will further strengthen its comprehensive strategic synergy with other intra-group members so as to strengthen its ability to serve financial institutions and physical enterprises and to create its core competitiveness.

Section 5 Management Discussion and Analysis (Continued)

3. Wealth management

During the Reporting Period, the Company adapted to the market change and took the opportunity arising from the transformation of the wealth management business to promote the upgrade and development of the wealth management business from various aspects including performance assessment system, organizational structure, staffing of the wealth management business, aiming at developing the asset end, assessment end, sales end and after-sales end. Under the customer-centric principle, the Company made market-oriented entry at the asset end in a standardized manner, made scientific assessment on a multi-dimensional and multi-index basis, marketed its products under the concept of asset allocation and provided customer services on the basis of timely and effective communication. Through the guidance and education of investors' asset allocation concept, the Company strengthened risk control and enhanced risk awareness on the basis of suitability of sales and allocated funds to public funds, private equity funds, bank wealth management and assets management products and other large-scale assets. Throughout the year, the Company sold 123 financial products and recorded sales of RMB8,049.34 million, representing a decrease of 8.21% as compared with that of 2017.

Prospects for 2019

It will continue to replenish product supply, and introduce more core assets and excellent managers in the market; it will continue to refine product category and review the product pool for product segmentation and sales positioning; and it will continue to develop new products and meet the specific requirements of investors through the application of various financial instruments and innovative product designs. Moreover, it will further strengthen management of compliance operation, enhance the compliance consciousness of its employees, spend more efforts on education of risk consciousness of the investors and undertake work in relation to the suitability of investors. Moreover, the Company will solidify its investment and consultation efforts, so as to improve its investment and consultation service standard. Meanwhile, it will also establish an online investment and consultation platform that integrates the basic elements such as clients, staff and products so as to facilitate seamless communication between staff and client, thus further improving its investment and consultation service capability.

Section 5 Management Discussion and Analysis (Continued)

4. Capital-based intermediary business

During the Reporting Period, the Company continued to improve the quality of customer services, increase the efficiency of capital utilisation and strengthen risk management while maintaining strict control over business risks. As a result of increasingly stringent regulatory environment and a downward trend in the securities market, the size of capital-based intermediary business narrowed. As at the end of the Reporting Period, the size of stock-pledged repurchase amounted to RMB753.16 million, representing a decrease of 11.30% as compared with the end of 2017; the balance of the margin financing and securities lending business amounted to RMB3,248.68 million, representing a decrease of 39.30% as compared with that by the end of 2017.

Prospects for 2019

The Company will level up the client service standards so as to attract prime client resources, promote the scaling up of financing business and stabilize the interest rate of margin financing and securities lending by way of providing the clients with professional investment advice. Meanwhile, it will intensify capital management and control capital costs within a reasonable scope so as to further increase the profit margin of margin financing and securities lending. Moreover, it will improve risk management by reasonable control over risks, intensified efforts on education of investors and client suitability management and proactive management of risk management and control mechanism.

5. Asset custody business

During the Reporting Period, the Company continued updating the business systems, optimized customer service processes and strengthened market development efforts based on customer needs, thereby achieving steady growth in asset custody business. As at the end of the Reporting Period, the Company provided custody services for 867 funds, fund services for 452 funds and fund raising supervision services for 199 funds. The total size of asset custody, fund services and fund raising supervision increased to RMB120,030 million, representing an increase of RMB8,170 million as compared with that by the end of 2017.

Prospects for 2019

For the asset custody business, the Company will further strengthen in-depth cooperation with various financial institutions, expand business cooperation channels, further develop financial institutions and other institutional clients, and proactively develop large fund managers. In addition, it will continue to devote efforts to team building, consummate business processes, and improve the quality of client services.

Section 5 Management Discussion and Analysis (Continued)

(II) Investment Banking Business

During the Reporting Period, the revenue and other income from investment banking business amounted to RMB191.65 million, representing a decrease of 35.72% as compared to that of 2017.

China's security market slumped sharply in 2018 as affected by macro economic trend and a number of market factors, and the investment banking business was largely impacted. Under such heavy operating pressure, Hengtai Changcai, in the business course of its investment banking business, adapted to the changes in the market while actively capitalizing on the opportunities arising from such changes in close adherence to the regulatory requirements, held fast to the three defense lines for internal control and carried out prudent operations, thereby achieving stable development in debt financing.

1. Equity financing

During the Reporting Period, Hengtai Changcai proactively implemented the Guidelines for Internal Control of Investment Banking Business of Securities Companies (《證券公司投資銀行類業務內部控制指引》) to strengthen the internal quality control for the investment banking business. It also set up an investment banking business quality control department to improve the business approval procedures and exert overall control over the business quality within the greater investment banking system. Meanwhile, it also vigorously pressed ahead such reserve projects as merger and reorganization and issuance of convertible bonds, and devoted intensive efforts to quality customers to level up its comprehensive service capacity.

2. Debt financing

In 2018, in the face of regulatory policies, sluggish security market, tightening liquidity, frequent occurrence of default and other factors, during the Reporting Period, while solidifying its own strength in respect of enterprise bond, Hengtai Changcai strengthened its ability of bond sales and made proactive attempts on new business directions. As a result, it completed 13 enterprise bonds projects and 3 corporate bonds projects, achieving a total financing amount of RMB10,340 million.

Section 5 Management Discussion and Analysis (Continued)

Prospects for 2019

In the progress of continuous development, Hengtai Changcai will follow with the requirements of the Guidelines for Internal Control of Investment Banking Business of Securities Companies, strictly control various risks and adapt to changes in the market when proactively developing innovation-based business and expanding its business channels on condition of continuous enhancement of its own strengths. Meanwhile, it will constantly intensify cooperation with the existing partners and tap into high quality enterprises and projects so as to pave the way for its future development. Holding fast to the mission of serving the real economy, it will constantly increase input in direct financing businesses such as IPO, refinancing, merger and reorganization, as well as direct debt financing and improve its competitive edges.

3. Business of listing on the NEEQ

During the Reporting Period, the securities industry continued the regulatory framework of strict supervision, intensive compliance and quality improvement. Under such fierce competition circumstances, the Company adhered to the principles of risk control, system improvement, and enhancement of quality and efficiency for the NEEQ listing business, followed the policy preference of serving the real economy with finance, and actively served the capital market demands of the NEEQ listing companies. During the Reporting Period, the Company completed 21 listing projects, ranking the 3rd in the listing recommendation market (data source: 2018 Market Statistic Bulletin of NEEQ (《全國中小企業股份轉讓系統2018年市場統計快報》)), 6 targeted capital increase projects, 1 preference share issuance project and 1 merger and reorganization project. As at the end of the Reporting Period, it provided continuous steering services for 125 listed companies, ranking the 29th in the market (data source: choice finance terminal of Eastmoney).

Prospects for 2019

The Company will continue to replenish its business types, accelerate the implementation of the existing projects and carry forward the development of businesses such as targeted capital increase and merger and reorganization of listed companies. It will also continue to accelerate the contract signing of new projects and consolidate the foundation for its subsequent development in a consistent manner. It will prolong the business value chain and create benefits synergistically in active cooperation with other departments of the Company. In addition, it will strictly follow the regulatory and guidance requirements, ameliorate the kernel internal control mechanism and improve the capability to comprehend and control risks so as to guarantee the effective completion of business projects at high quality.

Section 5 Management Discussion and Analysis (Continued)

(III) Investment Management Business

During the Reporting Period, the revenue and other income from investment management business amounted to RMB807.40 million, representing a decrease of 18.61% as compared to that of 2017.

1. Assets management

During the Reporting Period, China's securities market fluctuated downwards. Due to the market fluctuations, the issuance of new active management products and the investment income therefrom under the assets management business were significantly impacted. In the meantime, with the increasingly stringent regulation, the first half of 2018 witnessed the implementation of the harshest-ever asset management standards, and, as a consequence, the passive management products in the existing asset management business scaled down sharply. As affected by the tightening regulatory policies and market volatility, product issuance within the industry was generally downbeat. Notwithstanding, the Company proactively expanded the market of active management business, adhered to its consistent strategy of balanced layout to improve its capability of investment research in an ongoing manner, so as to improve operating results and boost sales growth. As a result, 4 collective asset management schemes were established during the Reporting Period, the open products under which would continue to be on sale within the subsisting period. In particular, Wenjian Huifu series products with fixed income have received continuous attention of the investors, and the subsisting active management products had a midstream performance in the market.

As at the end of the Reporting Period, the total size of asset management business was RMB58,056.36 million, of which the size of collective schemes amounted to RMB1,833.98 million; the size of targeted schemes amounted to RMB28,229.74 million; the size of the asset-backed securities special schemes amounted to RMB27,992.64 million.

As at the end of the Reporting Period, the numbers of subsisting products of the collective, targeted asset management schemes and the asset-backed securities special schemes were 32, 37 and 18, respectively.

Section 5 Management Discussion and Analysis (Continued)

Prospects for 2019

In respect of the assets management, the Company will prioritize the fixed income investment business, forge characteristic advantages out of its equity investment business, and establish kernel competitiveness of asset management business based on the FOF and MOM businesses so as to provide customers with diversified products. The construction of investment research system will be consummated so as to ripen the fruits of investment research. In addition, it will replenish the asset management product lines, enhance its creativity in products and stress the layout with regard to equity-based and fixed income investment products. In respect of asset securitisation, the Company will continue to proactively store up projects and embrace manifold development opportunities in the trading markets. Meanwhile, it will continue to develop thorough cooperation with banks and insurance setups, conduct innovation on the business mode in combination of investment and financing and purchase and sales and further meliorate the business systems, reinforce compliance consciousness and comprehend and control operation risks, whereby the smooth development of its businesses can be ensured.

2. Fund management

During the Reporting Period, in the depressed security market, the stocks and bond funds both underperformed, issuance and operation of new products were facing headwinds, and non-monetary funds scaled down substantially; New China Fund adjusted the organizational structure of special accounts business and expanded such relevant business in a positive stance, to seek for new business growth drivers through multiple channels, having thus resulted in a rapid growth in the special accounts business.

As at the end of the Reporting Period, New China Fund had 45 publicly-raised funds with management size of RMB40,051 million, representing a year-on-year decrease of RMB3,964 million or 9.01%. The size of asset management with special accounts reached RMB50,744 million, representing a year-on-year increase of RMB32,535 million or 178.68%.

Section 5 Management Discussion and Analysis (Continued)

Prospects for 2019

While regaining the stable performance of bond-based funds, New China Fund will be devoted to leveling up the performance of investment in equity-based fund. It will reinforce the construction of the investment research team so as to maintain its core competitiveness in respect of investment research; strive to capitalize on opportunities in the market to sell funds and facilitate the increase in the size of fund management; set new records in respect of special accounts business while consolidating the existing achievements and spending more efforts on developing active management products; give the reign to the support effects of the mid and back end, intensify standardized management and improve work efficiency and quality to advance business development; devote more efforts to work concerning auditing, supervision and information disclosure, carry out procedural and information-based risk control and keep abreast of the development trend; speed up the business transformation of subsidiaries in line with the times; and continue to facilitate poverty-alleviation work.

3. Private equity investment

During the Reporting Period, as required by the Management Standards for Private Investment Fund Subsidiary of Securities Company (《證券公司私募投資基金子公司管理規範》) promulgated by the Securities Association of China, Hengtai Capital principally carried out comprehensive rectification in respect of the business scope, fund products and subordinate organs and phased out its existing projects directly invested by it in an orderly fashion. As at the end of the Reporting Period, Hengtai Capital managed a total of 9 private equity funds in an aggregate amount of RMB9,697 million. Moreover, Hengtai Capital strengthened the post-investment management of the existing business on the one hand and reserved a number of new projects on the other hands.

Prospects for 2019

Hengtai Capital will continue to emphasize the expansion in the private equity segment, further invest in and make presence in more industries, enhance the investment fund raising abilities of the teams and expand the management scale of private equity funds. Meanwhile, it will proceed with the post-investment management of the existing businesses in an attempt to maximize customers' interests, and continue to level up compliance operation standards and improve the risk control capacity. Besides, Hengtai Capital will uphold the corporate development concept featuring openness and inclusiveness to attract more preeminent brains and tirelessly promote the corporate culture construction, thereby improving cohesiveness and cooperative effects and establishing professional private equity management teams.

Section 5 Management Discussion and Analysis (Continued)

4. Alternative investment

During the Reporting Period, Hengtai Pioneer completed its rectification according to the rectification plan as approved by the Securities Association of China and obtained the business license for the business operations after the changes. While continuously reinforcing the post-investment management of the existing projects, Hengtai Pioneer proactively conducted new investment business. During the Reporting Period, Hengtai Pioneer maintained steady operation and implemented each system in an effective manner.

As at the end of the Reporting Period, Hengtai Pioneer invested in 10 direct investment projects with its own funds for an investment size of RMB114 million.

Prospects for 2019

Hengtai Pioneer will put further efforts into the management of investment projects financed by self-own capital, intensify internal control and improve team building. In respect of business investment, it will pay consistent attention to the investment in film funds, strengthen researches and analyses in the film industry and funds, and identify quality projects for further investment.

(IV) Proprietary Trading Business

During the Reporting Period, the revenue and other income from the proprietary trading business amounted to RMB-303.05 million, representing a decrease of 134.14% as compared to 2017.

During the Reporting Period, as affected by the economic de-leveraging and increasingly stringent financial regulations in China, the international trade frictions and other domestic and overseas factors, China's stock market were under adjustment amongst downward shock. In response, the Company adopted such measures as lightening up optimizing the position portfolio in a timely manner to control the overall risks for its stock investment business. The domestic bond market showed a divergent trend, low-risk bonds such as interest rate bonds and high-grade credit bonds kept rising, while low-grade bonds, convertible bonds and exchangeable bonds continued to decline. Against such backdrop, the Company made timely adjustments to the position structure of its bonds and managed to achieve certain investment returns in respect of its fixed income business. During the Reporting Period, the Company recorded certain losses from its proprietary trading business, owing to the overall downwardness in the equity market. In 2019, the Company will strengthen the forward-looking research of listed companies and the industries in which it is engaged, dynamically adjust the position structure, and optimize the position portfolio, so as to effectively improve the overall profitability.

Section 5 Management Discussion and Analysis (Continued)

In terms of stock investment, in adherence to the principle of stable operation and the physiology of value investment, the Company gave priority to allocation of the blue-chip stocks with low valuations and high-quality stocks with relatively affirmative earnings, and thereby avoided non-systemic risks of the market in a relatively effective way. Nonetheless, losses still incurred to some extent due to the substantial drawdown in the entire stock market.

In terms of fixed income business, faced with the complicated and unpredictable economic fundamentals, the Company strengthened the forward-looking research, made timely adjustments to bond holding structure and increased the placement of long-term interest rate bonds and high-grade bonds with great efforts, having thus resulted in investment returns. As to the innovative business, the Company rolled out the securities lending business, applied for pledged bond repurchase from the third parties and was approved for filing, and completed the preparatory work for interest rate swap business.

In terms of the share transfer market-making business, as affected by the inadequate liquidity in the NEEQ market, the overall market remained sluggish. The Company, temporising with the changes in the market, adopted prudent investment strategies and reduced its position size of equities held for market making.

Prospects for 2019

In terms of stock investment business, the Company will continue to handpick stocks, increase investment in convertible bonds, and proactively expand new investment methods, such as quantitative investment, Hong Kong Stock Connect program and commodity, to create more profit channels. As for fixed income business, the Company will reinforce its forward-looking research on macro-economy and policy, adopt prudent interest arbitrage strategies with low interest rate of funds and hedge duration risks by employing bond futures, securities lending and other instruments in a flexible manner. Moreover, it will continue to promote the development of interest rate swap, credit default swap and other derivatives business in this regard. In terms of the share transfer market-making business, the Company will make timely adjustment to the market making strategies in close adherence to the development status of enterprises under market making, scale up the holding proportion of shares of high-quality enterprises, and continue to explore and improve the automated market-making trading system.

Section 5 Management Discussion and Analysis (Continued)

(V) International Business

During the Reporting Period, the Company continued to push ahead its international business by proactively contacting the potential cooperative institutions and establishing communications and cooperation with them. Meanwhile, it explored the overseas business opportunities, understood the demand of its clients for the overseas market and carried out relevant matching work, while providing assistance in relationship maintenance and communication for the Company's overseas exhibition business. Further, it selected and reserved talents in foreign affairs, worked out overseas training program for the senior management, and maintained communication and contacts with the regulatory authorities.

Prospects for 2019

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

III. FINANCIAL STATEMENTS ANALYSIS

(I) Analysis on the Profitability during the Reporting Period

During the Reporting Period, the Group recorded revenue and other income of RMB2,099.65 million in aggregate, representing a year-on-year decrease of 50.41%. Net profit attributable to shareholders of the Company amounted to RMB-673.45 million, representing a year-on-year decrease of 195.36%. Earnings per share amounted to RMB-0.30, representing a year-on-year decrease of 230.43%. Weighted average return on net assets was -9.10%, representing a year-on-year decrease of 16.16 percentage points.

(II) Asset Structure and Asset Quality

As at the end of the Reporting Period, total assets of the Group amounted to RMB29,915.08 million, down by 17.85% as compared to RMB36,416.99 million as at the end of 2017. Total liabilities amounted to RMB19,970.26 million, down by 21.61% as compared to RMB25,474.56 million as at the end of 2017. Equity attributable to shareholders of the Company amounted to RMB9,536.41 million, down by 9.79% as compared to RMB10,571.28 million as at the end of 2017.

Section 5 Management Discussion and Analysis (Continued)

The Group's asset structure remained stable with sound asset quality and liquidity. As at the end of the Reporting Period, the total assets of the Group comprised of: cash assets, which primarily included cash and bank balances (including cash held on behalf of brokerage clients), clearing settlement funds and refundable deposits, amounted to RMB12,051.67 million, representing 40.29% of the Group's total assets; margin assets, which primarily included margin accounts receivable and financial asset held under resale agreements, amounted to RMB4,399.91 million, representing 14.71% of the Group's total assets; financial investment assets, which primarily included investment in associates and investment in financial assets, amounted to RMB11,908.58 million, representing 39.81% of the Group's total assets; save for the above items, assets of other categories amounted to RMB1,554.92 million, representing 5.19% of the Group's total assets.

The Group's gearing ratio and operating leverage ratio remained relatively stable. As at the end of the Reporting Period, liabilities after deducting accounts payable to brokerage clients amounted to RMB12,278.76 million, representing a year-on-year decrease of RMB3,167.46 million or 20.51%. The gearing ratio of the Group was 55.25%, down by 3.28 percentage points from 58.53% as at the end of 2017 (Note: gearing ratio = (total liabilities – accounts payable to brokerage clients)/(total assets – accounts payable to brokerage clients)). Operating leverage ratio was 2.33 folds, down by 6.80% from 2.50 folds as at the end of 2017 (Note: operating leverage ratio = (total assets – accounts payable to brokerage clients)/equity attributable to shareholders of the Company).

(III) Financing Channels and Financing Ability

During the Reporting Period, the Company met its operating capital requirement through debt financing. Debt financing of the Company included margin and securities refinancing and beneficiary certificates and transfer of income right of margin financing and securities lending. During the Reporting Period, accumulated placements from China Securities Finance Corporation Limited amounted to RMB4,100 million and accumulated capital inflow from beneficiary certificates amounted to RMB2,946 million. Meanwhile, the Company received comprehensive credit line with greater limit granted by several banks.

(IV) Liquidity Management of the Company

The Company focuses on its liquidity management. It has established a specific department responsible for liquidity management. The Company's liquidity management focused on the organic combination of the security, liquidity and profitability of capital. As requested by the CSRC, the Company established sound management system and contingency measure for liquidity risk. The Company has prepared monthly liquidity monitor statement. The liquidity monitor index of the Company in each month throughout the Reporting Period complied with the regulatory requirements.

Section 5 Management Discussion and Analysis (Continued)

(V) Cash Flow

Net cash flow of the Group arising from operating activities for 2018 amounted to RMB7.32 million, up by RMB1,977.41 million from RMB-1,970.10 million in the corresponding period in 2017. Net cash flow arising from investment activities for 2018 amounted to RMB-243.45 million, down by RMB3,032.40 million from RMB2,788.95 million in the corresponding period in 2017. Net cash flow arising from financing activities for 2018 amounted to RMB603.04 million, up by RMB2,326.78 million from RMB-1,723.74 million in the corresponding period in 2017. Net increase in cash and cash equivalents for 2018 amounted to RMB366.90 million, up by RMB1,271.80 million from RMB-904.90 million in the corresponding period in 2017.

(VI) Changes in Significant Accounting Policies and Estimates

During the Reporting Period, changes in the accounting policies have been made due to the adoption of new Accounting Standards for Business Enterprises by the Company.

The Ministry of Finance of the PRC promulgated the “Accounting Standards for Business Enterprises No. 22 –Recognition and Measurement of Financial Instruments (revised in 2017)” (Cai Kuai [2017] No.7), “Accounting Standards for Business Enterprises No. 23 –Transfer of Financial Assets (revised in 2017)” (Cai Kuai [2017] No. 8), and “Accounting Standards for Business Enterprises No. 24 –Hedge Accounting (revised in 2017)” (Cai Kuai [2017] No. 9) on 31 March 2017, “Accounting Standards for Business Enterprises No. 37 –Presentation and Reporting of Financial Instrument (revised in 2017)” (Cai Kuai [2017] No. 14) on 2 May 2017 (together the “New Financial Instrument Standards”), and “Accounting Standards for Business Enterprises No. 14 –Revenue (revised in 2017)” (Cai Kuai [2017] No. 22) (the “New Revenue Standards”) on 5 July 2017, respectively, requiring companies that are listed on both domestic and overseas stock markets, and those that are listed on overseas stock markets and adopt the International Financial Reporting Standards or Accounting Standards for Business Enterprises for statement preparation to adopt the New Financial Instrument Standards and the New Revenue Standards from 1 January 2018. The Company has started adopting the aforesaid Accounting Standards for Business Enterprises since the time prescribed by the Ministry of Finance of the PRC.

On 7 December 2018, the Ministry of Finance of the PRC promulgated the “Accounting Standards for Business Enterprises No. 21 –Leasing (revised in 2018)” (Cai Kuai [2018] No. 35), requiring companies that are listed on both domestic and overseas stock markets, and those that are listed on overseas stock markets and adopt the International Financial Reporting Standards or Accounting Standards for Business Enterprises for statement preparation to adopt the aforesaid standards from 1 January 2019. The Company has started adopting the aforesaid Accounting Standards for Business Enterprises since the time prescribed by the Ministry of Finance of the PRC.

Section 5 Management Discussion and Analysis (Continued)

(VII) Analysis on Operating Revenue and Profit

1. Items under statement of profit or loss

During the Reporting Period, the Group's loss before tax amounted to RMB820.42 million, representing a year-on-year decrease of 181.00%. The key financial results are as follows:

Unit: in RMB million

Items	2018	2017	Increase/ (decrease) from last period	Increase/ (decrease) from last period (%)
Revenue				
Fees and commission income	1,475.73	1,945.06	(469.33)	(24.13%)
Interest income	790.04	862.42	(72.38)	(8.39%)
Net investment (loss)/income	(180.42)	1,313.64	(1,494.06)	(113.73%)
Other income and gains	14.30	113.24	(98.94)	(87.37%)
Total revenue and other income	2,099.65	4,234.36	(2,134.71)	(50.41%)
Total operating expenses	(2,918.41)	(3,219.77)	301.36	9.36%
(Loss)/profit before tax	(820.42)	1,012.91	(1,833.33)	(181.00%)
Income tax (credit)/expense	(184.44)	243.83	(428.27)	(175.64%)
(Loss)/profit for the year	(635.98)	769.07	(1,405.05)	(182.69%)
Net (loss)/profit attributable to shareholders of the Company	(673.45)	706.20	(1,379.65)	(195.36%)

Section 5 Management Discussion and Analysis (Continued)

Revenue structure

During the Reporting Period, total revenue and other income of the Group amounted to RMB2,099.65 million, representing a year-on-year decrease of 50.41%. Among which, the proportion of commission and fee income was 70.28%, representing a year-on-year increase of 24.34 percentage points. The proportion of interest income was 37.63%, representing a year-on-year increase of 17.26 percentage points. The proportion of net investment gains was -8.59%, representing a year-on-year decrease of 39.61 percentage points. The revenue structures of the Group in the past five years are as follow:

Items	2018	2017	2016	2015	2014
Fees and commission income	70.28%	45.94%	64.42%	57.17%	48.76%
Interest income	37.63%	20.37%	23.14%	16.19%	15.03%
Net investment (loss)/income	(8.59%)	31.02%	11.88%	25.38%	35.27%
Other income and gains	0.68%	2.67%	0.56%	1.26%	0.94%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Section 5 Management Discussion and Analysis (Continued)

Fees and commission income

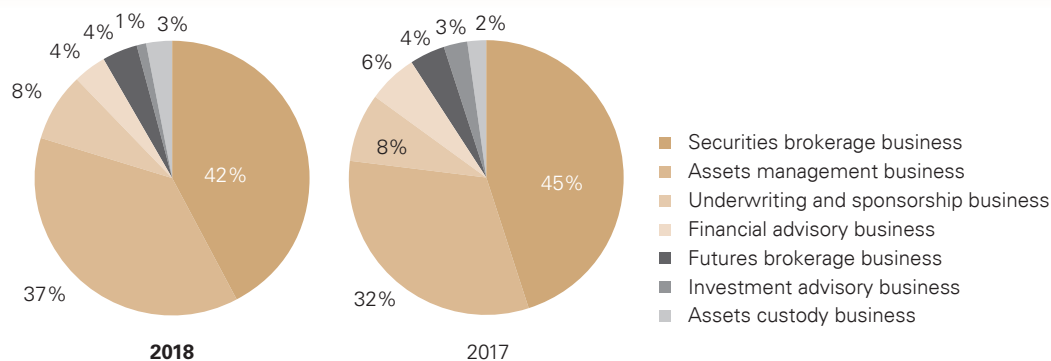
During the Reporting Period, the Group's fees and commission income consists of the following:

Unit: in RMB million

Items	2018	2017	Increase/ (decrease) from last period	Increase/ (decrease) from last period (%)
Fees and commission income				
Securities brokerage business	624.22	868.10	(243.88)	(28.09%)
Assets management business	548.78	619.25	(70.47)	(11.38%)
Underwriting and sponsorship business	115.11	162.91	(47.80)	(29.34%)
Financial advisory business	58.23	115.54	(57.31)	(49.60%)
Futures brokerage business	61.28	70.67	(9.39)	(13.29%)
Investment advisory business	17.22	62.72	(45.50)	(72.54%)
Assets custody business	50.89	45.87	5.02	10.94%
Total fees and commission income	1,475.73	1,945.06	(469.33)	(24.13%)
Fees and commission expenses	147.34	156.59	(9.25)	(5.91%)
Net fees and commission income	1,328.39	1,788.47	(460.08)	(25.72%)

Section 5 Management Discussion and Analysis (Continued)

The Group's fees and commission income consists of:



During the Reporting Period, net fees and commission income of the Group amounted to RMB1,328.39 million, representing a year-on-year decrease of 25.72%. The decrease was primarily attributable to the significant decrease in fees and commission generated from securities brokerage business, assets management business, underwriting and sponsorship business, financial advisory business, futures brokerage business and investment advisory business.

Fees and commission income generated from securities brokerage business decreased by RMB243.88 million or 28.09% year-on-year, primarily attributable to the upheaval in A share market for the year 2018 and the significant decrease in fees and commission income generated from securities brokerage business.

Fees income generated from assets management business decreased by RMB70.47 million, or 11.38% year-on-year, primarily attributable to decrease in income generated from collective assets management business, targeted assets management business, and special assets management business.

Underwriting and sponsorship income generated from investment banking business decreased by RMB47.80 million or 29.34% year-on-year, mainly because of a substantial decrease in underwriting and sponsorship income generated from investment banking business of subsidiaries.

Income generated from assets custody business increased by RMB5.02 million or 10.94% year-on-year, mainly because the Company took full advantage of the opportunities brought by fast development of the market and adjusted its business structure in a timely manner, recording an increase in the income generated from such business as compared with last year.

Section 5 Management Discussion and Analysis (Continued)

Interest income

During the Reporting Period, net interest income of the Group amounted to RMB254.35 million, representing a year-on-year increase of 113.18%. The Group's net interest income for 2018 consists of the following:

Unit: in RMB million

Items	2018	2017	Increase/ (decrease) from last period	Increase/ (decrease) from last period (%)
Interest income				
Deposit in financial institutions	318.95	376.18	(57.23)	(15.21%)
Margin financing and securities lending	370.80	396.77	(25.97)	(6.55%)
Financial assets held under resale agreements	85.79	88.94	(3.15)	(3.54%)
Others	14.50	0.53	13.97	2,635.85%
Total interest income	790.04	862.42	(72.38)	(8.39%)
Interest expense	535.69	743.11	(207.42)	(27.91%)
Net interest income	254.35	119.31	135.04	113.18%

Interest income from deposits in financial institutions decreased by RMB57.23 million or 15.21% year-on-year, primarily attributable to the decrease in client deposits.

Interest income from financial assets held under resale agreements decreased by RMB3.15 million or 3.54% year-on-year, primarily attributable to the decrease in size of stock-pledged repurchase business of the Company.

Interest income from margin financing and securities lending decreased by RMB25.97 million or 6.55% year-on-year, primarily attributable to the monthly average decrease in size of margin financing and securities lending business.

Interest expenses decreased by RMB207.42 million or 27.91% year-on-year, primarily attributable to the decrease in the interest expenses arising from other investors under the assets management schemes and limited partners under limited partnerships.

Section 5 Management Discussion and Analysis (Continued)

Net investment income

During the Reporting Period, net investment income of the Group amounted to RMB-180.42 million, representing a year-on-year decrease of 113.73%. The Group's net investment income for 2018 consists of the following:

Unit: in RMB million

Items	2018	2017	Increase/ (decrease) from last period	Increase/ (decrease) from last period (%)
Net investment income				
Net realised gains from disposal of available-for-sale financial assets	0.00	320.09	(320.09)	(100.00%)
Dividends income and interest income from available-for-sale financial assets	0.00	1.24	(1.24)	(100.00%)
Net gain on disposal of financial assets at fair value through other comprehensive income	0.90	0.00	0.90	N/A
Dividends income from financial instruments and derivative financial instruments at fair value through profit or loss	474.05	707.94	(233.89)	(33.04%)
Net realised (losses)/ gains from disposal of financial instruments and derivative financial instruments at fair value through profit or loss	(656.18)	271.19	(927.37)	(341.96%)
Gain on disposal of an associate	0.02	0.00	0.02	N/A
Gain on disposal of subsidiaries	0.00	14.64	(14.64)	(100.00%)
Other	0.79	(1.46)	2.25	154.11%
Total	(180.42)	1,313.64	(1,494.06)	(113.73%)

Section 5 Management Discussion and Analysis (Continued)

Operating expenses

During the Reporting Period, operating expenses of the Group (excluding fees and commission expenses, interest expenses and fair value losses from financial assets at fair value through profit or loss and derivative financial instruments) amounted to RMB1,798.66 million, representing a year-on-year decrease of 10.08%. The Group's operating expenses primarily consist of the following:

Unit: in RMB million

Items	2018	2017	Increase/ (decrease) from last period	Increase/ (decrease) from last period (%)
Staff costs	863.72	1,086.40	(222.68)	(20.50%)
Depreciation and amortisations expenses	97.15	93.07	4.08	4.38%
Other operating expenses and tax and surcharges	685.71	785.47	(99.76)	(12.70%)
Impairment losses	152.08	35.42	116.66	329.36%
Total	1,798.66	2,000.36	(201.70)	(10.08%)

Staff costs decreased by RMB222.68 million or 20.50% year-on-year, primarily attributable to the decreasing business performance and bonus as a result of the impact on the business development of the Company caused by market fluctuation to a certain extent.

Depreciation and amortisation increased by RMB4.08 million or 4.38% year-on-year, primarily attributable to the depreciation or amortisation for the additional properties and equipment and intangible assets.

Other operating expenses and tax and surcharges decreased by RMB99.76 million or 12.70% year-on-year, primarily attributable to the decrease of certain expenses.

Section 5 Management Discussion and Analysis (Continued)

Impairment losses amounted to RMB152.08 million, representing a year-on-year increase of RMB116.66 million. Details are as follows:

Unit: in RMB million

Items	2018	2017	Increase/ (decrease) from last period	Increase/ (decrease) from last period (%)
Impairment losses				
Provision of/(Reversal of) margin financing and securities lending	4.13	0.66	3.47	525.76%
Provision of available-for- sale financial assets	0.00	19.68	(19.68)	(100.00%)
Financial assets at fair value through other comprehensive income	0.06	0.00	0.06	N/A
Provision/(Reversal of) of financial assets held under resale agreements	7.43	(0.59)	8.02	1,359.32%
Provision of other current assets	140.46	2.33	138.13	5,928.33%
Provision of other non- current assets	0.00	13.34	(13.34)	(100.00%)
Total	152.08	35.42	116.66	329.36%

Impairment losses on assets primarily included provision for impairment losses on margin financing and securities lending, financial assets held under resale agreements and other current assets. Among which, impairment losses on margin financing and securities lending during the Reporting Period were RMB4.13 million; impairment losses on financial assets held under resale agreements during the Reporting Period were RMB7.43 million and impairment losses on other current assets during the Reporting Period were RMB140.46 million.

Section 5 Management Discussion and Analysis (Continued)

2. Assets

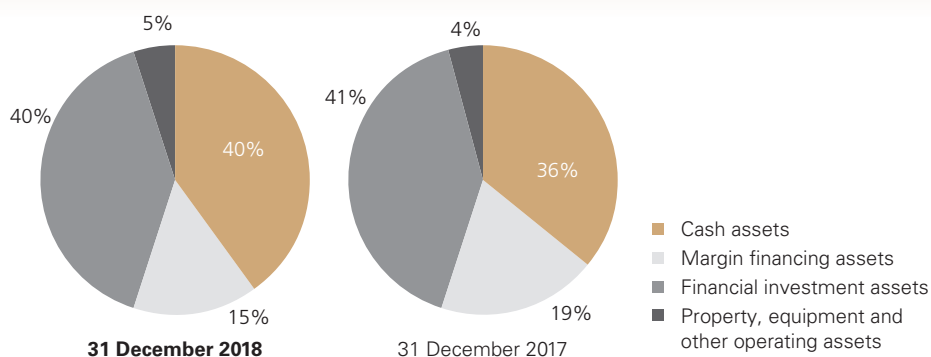
As at the end of the Reporting Period, total assets of the Group amounted to RMB29,915.08 million, representing a year-on-year decrease of 17.85%, of which, cash assets amounted to RMB12,051.67 million, representing a year-on-year decrease of 8.82%; margin financing assets amounted to RMB4,399.91 million, representing a year-on-year decrease of 37.00%; financial investment assets amounted to RMB11,908.58 million, representing a year-on-year decrease of 19.29%; and property, equipment and other operating assets amounted to RMB1,554.92 million, representing a year-on-year increase of 6.47%. Changes in the total major assets of the Group are as follows:

Unit: in RMB million

Items	31 December 2018	31 December 2017	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Total assets				
Cash assets	12,051.67	13,218.13	(1,166.46)	(8.82%)
Margin financing assets	4,399.91	6,984.49	(2,584.58)	(37.00%)
Financial investment assets	11,908.58	14,753.96	(2,845.38)	(19.29%)
Property, equipment and other operating assets	1,554.92	1,460.41	94.51	6.47%
Total	29,915.08	36,416.99	(6,501.91)	(17.85%)

Section 5 Management Discussion and Analysis (Continued)

Total assets of the Group consist of:



Cash assets

As at the end of the Reporting Period, cash assets of the Group decreased by RMB1,166.46 million or 8.82% year-on-year, representing 40.29% of the Group's total assets. The Group's cash assets consist of the following:

Unit: in RMB million

Items	31 December 2018	31 December 2017	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Cash assets				
Cash and bank balances (including cash held on behalf of brokerage clients)	10,591.10	11,830.24	(1,239.14)	(10.47%)
Clearing settlement funds	980.06	773.39	206.67	26.72%
Refundable deposits	480.51	614.50	(133.99)	(21.80%)
Total	12,051.67	13,218.13	(1,166.46)	(8.82%)

Changes in cash assets primarily reflected in cash and bank balances (including cash held on behalf of brokerage clients), which decreased by RMB1,239.14 million or 10.47%, mainly due to the decrease in client deposits as a result of the inactive exchanging actives of the customers as affected by the sluggish market this year.

Section 5 Management Discussion and Analysis (Continued)

Margin financing assets

As at the end of the Reporting Period, margin financing assets of the Group decreased by RMB2,584.58 million or 37.00% year-on-year, representing 14.71% of the Group's total assets. The Group's margin financing assets consist of the followings:

Unit: in RMB million

Items	31 December 2018	31 December 2017	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Margin financing assets				
Margin account receivables	3,237.92	5,322.84	(2,084.92)	(39.17%)
Financial assets held under resale agreements	1,161.99	1,661.65	(499.66)	(30.07%)
Total	4,399.91	6,984.49	(2,584.58)	(37.00%)

Margin account receivables amounted to RMB3,237.92 million, representing a year-on-year decrease of 39.17%. The increase was primarily attributable to the decrease in the size of the Group's margin financing business.

Section 5 Management Discussion and Analysis (Continued)

Financial investment assets

As at the end of Reporting Period, financial investment assets of the Group decreased by RMB2,845.38 million or 19.29% year-on-year, representing 39.81% of the Group's total assets. The following table set forth the composition of the Group's financial investment assets:

Unit: in RMB million

Items	31 December 2018	31 December 2017	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Financial investment assets				
Interests in associates	12.56	16.10	(3.54)	(21.99%)
Available-for-sale financial assets	0.00	1,740.30	(1,740.30)	(100.00%)
Financial assets at fair value through other comprehensive income	55.42	0.00	55.42	N/A
Financial assets at fair value through profit or loss	11,840.60	12,997.56	(1,156.96)	(8.90%)
Total	11,908.58	14,753.96	(2,845.38)	(19.29%)

Section 5 Management Discussion and Analysis (Continued)

Available-for-sale financial assets

As at the end of the Reporting Period, the available-for-sale financial assets of the Group decreased by RMB1,740.30 million or 100.00% year-on-year, representing 0.00% of the Group's total assets. The Group's available-for-sale financial assets consist of the following:

Unit: in RMB million

Items	31 December 2018	31 December 2017	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Available-for-sale financial assets				
Debt securities	0.00	0.00	0.00	N/A
Equity securities	0.00	1,595.76	(1,595.76)	(100.00%)
Assets management schemes	0.00	71.06	(71.06)	(100.00%)
Investment funds	0.00	73.48	(73.48)	(100.00%)
Total	0.00	1,740.30	(1,740.30)	(100.00%)

Section 5 Management Discussion and Analysis (Continued)

Financial assets at fair value through profit or loss

As at the end of the Reporting Period, the financial assets at fair value through profit or loss of the Group decreased by RMB1,156.96 million or 8.90% year-on-year, representing 39.58% of the Group's total assets. The Group's financial assets at fair value through profit or loss consist of the following:

Unit: in RMB million

Items	31 December 2018	31 December 2017	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Financial assets at fair value through profit or loss				
Debt securities	6,398.43	8,306.95	(1,908.52)	(22.97%)
Equity securities	3,617.25	2,432.19	1,185.06	48.72%
Investment funds	1,228.27	789.99	438.28	55.48%
Asset management schemes	596.65	1,024.16	(427.51)	(41.74%)
Financial assets designated at fair value through profit or loss:				
debt securities	0.00	444.27	(444.27)	(100.00%)
Total	11,840.60	12,997.56	(1,156.96)	(8.90%)

Section 5 Management Discussion and Analysis (Continued)

Property, equipment and other operating assets

As at the end of the Reporting Period, property, equipment and other operating assets of the Group amounted to RMB1,554.92 million, increased by RMB94.51 million or 6.47% year-on-year, representing 5.19% of the Group's total assets. The following table sets forth the composition of the Group's property, equipment and other operating assets:

Unit: in RMB million

Items	31 December 2018	31 December 2017	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Property, equipment and other operating assets				
Property and equipment and investment properties	564.54	535.06	29.48	5.51%
Goodwill	43.74	43.74	0.00	0.00%
Intangible assets	115.27	117.47	(2.20)	(1.87%)
Deferred tax assets	231.10	112.19	118.91	105.99%
Other current assets and other non-current assets	600.27	651.95	(51.68)	(7.93%)
Total	1,554.92	1,460.41	94.51	6.47%

Section 5 Management Discussion and Analysis (Continued)

3. Liabilities

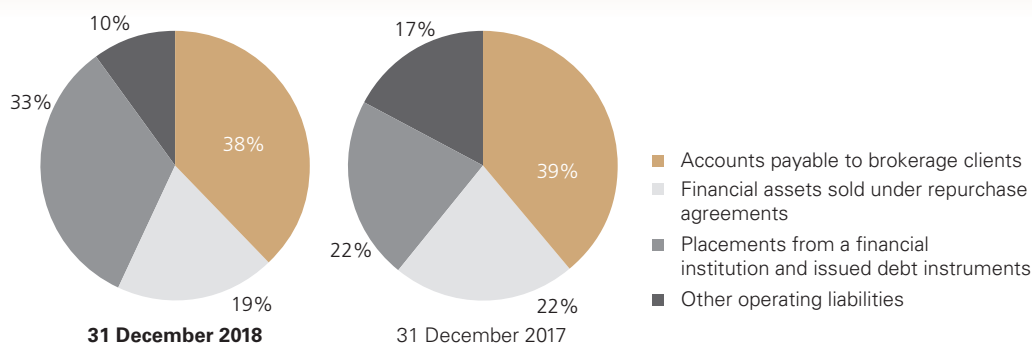
As at the end of the Reporting Period, total liabilities of the Group amounted to RMB19,970.26 million, representing a year-on-year decrease of RMB5,504.30 million or 21.61%. As at the end of the Reporting Period, accounts payable to brokerage clients amounted to RMB7,691.50 million, representing a year-on-year decrease of 23.30%. Financial assets sold under repurchase agreements amounted to RMB3,742.33 million, down by 33.83% year-on-year. The decrease was primarily attributable to the significant decrease in the income right of margin financing and securities lending. Placements from a financial institution and debt instruments issued amounted to RMB6,571.32 million, up by 18.51% year-on-year. Major changes in the Group's total liabilities are as follows:

Unit: in RMB million

Items	31 December 2018	31 December 2017	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Liabilities				
Accounts payable to brokerage clients	7,691.50	10,028.33	(2,336.83)	(23.30%)
Financial assets sold under repurchase agreements	3,742.33	5,655.78	(1,913.45)	(33.83%)
Placements from a financial institution and issued debt instruments	6,571.32	5,544.86	1,026.46	18.51%
Other operating liabilities	1,965.11	4,245.59	(2,280.48)	(53.71%)
Total	19,970.26	25,474.56	(5,504.30)	(21.61%)

Section 5 Management Discussion and Analysis (Continued)

The Group's total liabilities consist of:



Placements from a financial institution and debt instruments

Unit: in RMB million

Items	31 December 2018	31 December 2017	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Placements from a financial institution and issued debt instruments				
Placements from a financial institution	500.00	700.00	(200.00)	(28.57%)
Debt instruments	6,071.32	4,844.86	1,226.46	25.31%
Total	6,571.32	5,544.86	1,026.46	18.51%

Placements from a financial institution amounted to RMB500 million, decreased by 28.57% year-on-year. The decrease was primarily attributable to the repayment of the borrowing from China Securities Finance Corporation Limited.

Debt instruments increased by RMB1,226.46 million year-on-year. The increase was primarily attributable to the increase in the closing balance of beneficiary certificates for the period.

Section 5 Management Discussion and Analysis (Continued)

Other operating liabilities

Unit: in RMB million

Items	31 December 2018	31 December 2017	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Other operating liabilities				
Employee benefits payable	287.69	415.73	(128.04)	(30.80%)
Deferred revenue	0.00	6.94	(6.94)	(100.00%)
Contract liabilities	34.33	–	34.33	N/A
Other liabilities	1,626.36	3,701.09	(2,074.73)	(56.06%)
Deferred tax liabilities	16.73	121.83	(105.10)	(86.27%)
Total	1,965.11	4,245.59	(2,280.48)	(53.71%)

Employee benefits payable decreased by RMB128.04 million or 30.80% year-on-year, primarily attributable to the decrease in staff costs resulting from worse operating results and decreased provision for bonus brought about by the Group's declining revenue and profit.

Other liabilities decreased by RMB2,074.73 million, representing a year-on-year decrease of 56.06% primarily attributable to the decrease in payables to other investors of consolidated structured entities.

Section 5 Management Discussion and Analysis (Continued)

4. Equity

As at the end of the Reporting Period, total equity of the Group amounted to RMB9,944.82 million, down by 9.12% year-on-year. The decrease was primarily attributable to operating loss, distribution of dividends and payment of interests on perpetual bond. The following table sets forth the composition of the Group's equity:

Unit: in RMB million

Items	31 December 2018	31 December 2017	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Share capital	2,604.57	2,604.57	0.00	0.00%
Share premium	1,665.24	1,665.24	0.00	0.00%
Perpetual capital securities	1,500.00	1,500.00	0.00	0.00%
Reserves	3,766.60	4,801.47	(1,034.87)	(21.55%)
Non-controlling interests	408.41	371.15	37.26	10.04%
Total	9,944.82	10,942.43	(997.61)	(9.12%)

5. Segment results

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

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

Section 5 Management Discussion and Analysis (Continued)

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

Unit: in RMB million

Items	2018		2017	
	Amount	Percentage	Amount	Percentage
Brokerage and wealth management	1,326.64	63.18%	1,973.28	46.60%
Investment banking	191.65	9.13%	298.15	7.04%
Proprietary trading	(303.05)	(14.43%)	887.79	20.97%
Investment management	807.40	38.45%	991.98	23.43%
Others	77.01	3.67%	83.16	1.96%
Total	2,099.65	100.00%	4,234.36	100.00%

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

Unit: in RMB million

Items	2018		2017	
	Amount	Percentage	Amount	Percentage
Brokerage and wealth management	1,213.11	41.57%	1,797.22	55.82%
Investment banking	166.92	5.72%	227.25	7.06%
Proprietary trading	516.07	17.68%	298.41	9.27%
Investment management	836.83	28.67%	706.71	21.95%
Others	185.47	6.36%	190.18	5.90%
Total	2,918.40	100.00%	3,219.77	100.00%

Section 5 Management Discussion and Analysis (Continued)

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

Unit: in RMB million

Items	2018		2017	
	Amount	Percentage	Amount	Percentage
Brokerage and wealth management	113.53	(13.87%)	176.06	17.35%
Investment banking	24.73	(3.02%)	70.90	6.99%
Proprietary trading	(819.12)	100.05%	589.38	58.09%
Investment management	(29.43)	3.59%	285.27	28.12%
Others	(108.46)	13.25%	(107.02)	(10.55%)
Total	(818.75)	100.00%	1,014.59	100.00%

(VIII) Contingent Liability, Capital Commitment and other Commitment

Please refer to Note 56 to the consolidated financial statements in this report for particulars of contingent liability.

Please refer to Note 54 to the consolidated financial statement in this report for particulars of capital commitment and other commitment.

As at 31 December 2018, the Group did not have any security over its assets.

Section 5 Management Discussion and Analysis (Continued)

IV. CHANGES IN BRANCHES AND SUBSIDIARIES AND IMPACT ON RESULTS

(I) Branches of the Company

1. Establishment of securities branches and changes in securities branches

(1) Newly-established securities branches

None in the Reporting Period.

(2) Relocation of securities branches

During the Reporting Period, 21 securities branches of the Company were relocated, details of which are as follows:

No.	Name of securities branch before relocation	Name of securities branch after relocation	Address of securities branch after relocation (PRC)
1	Hengtai Securities Co., Ltd Wuhan Yanjiang Avenue Securities Branch (恒泰证券股份有限公司武汉沿江大道证券营业部)	Hengtai Securities Co., Ltd Wuhan Optics Valley International Plaza Securities Branch (恒泰证券股份有限公司武汉光谷国际广场证券营业部)	Room 1706, 17/F, Rongzhong International Office Building, the north of Luoyu Road and the west of Lumo Road, East Lake High-Tech Development Zone, Wuhan, Hubei (湖北省武汉市东湖新技术开发区珞瑜路以北·鲁磨路以西融众国际写字楼17层1706号)
2	Hengtai Securities Co., Ltd Beijing Jianguo Road Securities Branch (恒泰证券股份有限公司北京建国路证券营业部)	Hengtai Securities Co., Ltd Beijing Guanghua Road Securities Branch (恒泰证券股份有限公司北京光华路证券营业部)	Room B207A, 2/F, Building 30, No.8 Guanghua Road, Chaoyang District, Beijing (北京市朝阳区光华路8号30幢二層B207A 房間)
3	Hengtai Securities Co., Ltd Dalian Huizhan Road Securities Branch (恒泰证券股份有限公司大连会展路证券营业部)	Hengtai Securities Co., Ltd Dalian Huizhan Road Securities Branch (恒泰证券股份有限公司大连会展路证券营业部)	Room 2, 11/F, Building 3, No.67 Huizhan Road, Shahekou District, Dalian, Liaoning (遼寧省大連市沙河口區會展路67號3單元11層2號)
4	Hengtai Securities Co., Ltd Wuhai Wuda District Bayinsai Street Securities Branch (恒泰证券股份有限公司烏海烏達區巴音賽街證券營業部)	Hengtai Securities Co., Ltd Wuhai Wuda District Bayinsai Street Securities Branch (恒泰证券股份有限公司烏海烏達區巴音賽街證券營業部)	Room 301, No.1 Jiefang South Road, Wuda District, Wuhai, Inner Mongolia (內蒙古自治區烏海市烏達區解放南路1號301室)

Section 5 Management Discussion and Analysis (Continued)

No.	Name of securities branch before relocation	Name of securities branch after relocation	Address of securities branch after relocation (PRC)
5	Hengtai Securities Co., Ltd Beijing Jiancaicheng West Road Securities Branch (恒泰证券股份有限公司北京建材城西路證券營業部)	Hengtai Securities Co., Ltd Beijing Jiancaicheng West Road Securities Branch (恒泰证券股份有限公司北京建材城西路證券營業部) ¹	Room 1005, Unit 2, 10/F, Building 2, No.87, Jiancaicheng West Road, Huilongguan Town, Changping District, Beijing (北京市昌平區回龍觀鎮建材城西路87號2號樓10層2單元1005)
6	Hengtai Securities Co., Ltd Shanghai Chengshan Road Securities Branch (恒泰证券股份有限公司上海成山路證券營業部)	Hengtai Securities Co., Ltd Shanghai South Henan Road Securities Branch (恒泰证券股份有限公司上海河南南路證券營業部)	Room 15J, 13/F, No.33 South Henan Road, Huangpu District, Shanghai (上海市黃浦區河南南路33號13層15J室)
7	Hengtai Securities Co., Ltd Shenyang Fengtian Street Securities Branch (恒泰证券股份有限公司瀋陽奉天街證券營業部)	Hengtai Securities Co., Ltd Shenyang Fengtian Street Securities Branch (恒泰证券股份有限公司瀋陽奉天街證券營業部) ¹	(Room 601-609) No.351 Fengtian Street, Shenhe District, Shenyang, Liaoning (遼寧省瀋陽市沈河區奉天街351號(601-609室))
8	Hengtai Securities Co., Ltd Jiaxing Huayuan Road Securities Branch (恒泰证券股份有限公司嘉興花園路證券營業部)	Hengtai Securities Co., Ltd Jiaxing Nanhu Avenue Road Securities Branch (恒泰证券股份有限公司嘉興南湖大道證券營業部)	Room B1601, Building 1, Business & Finance Tower, Jiaxing Economic and Technology Development Zone, Jiaxing, Zhejiang (浙江省嘉興市經濟技術開發區商務金融大廈1幢辦B1601室)
9	Hengtai Securities Co., Ltd Linyi Fuqian Road Securities Branch (恒泰证券股份有限公司臨沂府前路證券營業部)	Hengtai Securities Co., Ltd Linyi Guangzhou Road Securities Branch (恒泰证券股份有限公司臨沂廣州路證券營業部)	North side of 3/F, Daguanyuan, Block A of Yanjie Building, Intersection of Guangzhou Road and Menghe Road, Liuqing Avenue, Lanshan District, Linyi, Shandong (山東省臨沂市蘭山區柳青街道廣州路與蒙河路交匯大官苑沿街樓A區三樓北側)
10	Hengtai Securities Co., Ltd Hohhot Zhongshan West Road Securities Branch (恒泰证券股份有限公司呼和浩特中山西路證券營業部)	Hengtai Securities Co., Ltd Hohhot Daxue West Street Securities Branch (恒泰证券股份有限公司呼和浩特大學西街證券營業部)	No. 1802, 1803, and 1804, 18/F Mengxi Cultural Plaza, Daxue West Street, Yuquan district, Hohhot, Inner Mongolia Autonomous Region(內蒙古自治區呼和浩特市玉泉區大學西街蒙西文化廣場18層1802,1803,1804號)

Section 5 Management Discussion and Analysis (Continued)

No.	Name of securities branch before relocation	Name of securities branch after relocation	Address of securities branch after relocation (PRC)
11	Hengtai Securities Co., Ltd Baotou Qingshan District Ziyou Road Securities Branch (恒泰证券股份有限公司包头青山區自由路證券營業部)	Hengtai Securities Co., Ltd Baotou Wenhua Road Securities Branch(恒泰证券股份有限公司包头文化路證券營業部)	10-103, Guanghui 1st District, Jiankang Xincheng, No. 4 Neighborhood, Minzhu Road, Qingshan District Baotou, Inner Mongolia Autonomous Region (內蒙古自治區包頭市青山區民主路4號街坊健康新城光輝一區10-103)
12	Hengtai Securities Co., Ltd Yantai Yingchun Avenue Securities Branch (恒泰证券股份有限公司煙臺迎春大街證券營業部)	Hengtai Securities Co., Ltd Yantai Yingchun Avenue Securities Branch (恒泰证券股份有限公司煙臺迎春大街證券營業部) ¹	Room 1903 and 1904, 19/F, Building 1, Runhua Building, No. 177, Yingchun Avenue, Laishan District, Yantai, Shandong (山東省煙臺市萊山區迎春大街177號潤華大廈一號樓19樓1903和1904室)
13	Hengtai Securities Co., Ltd Liaocheng Huangshan South Road Securities Branch (恒泰证券股份有限公司聊城黃山南路證券營業部)	Hengtai Securities Co., Ltd Liaocheng Dongchang Road Securities Branch (恒泰证券股份有限公司聊城東昌路證券營業部)	Room 1027, Wealth Center Building, No. 86, Dongchang Road, Economic & Technological Development Area, Liaocheng, Shandong (山東省聊城市經濟技術開發區東昌路86號財富中心大廈1027室)
14	Hengtai Securities Co., Ltd Shangyu Civic Blvd Securities Branch (恒泰证券股份有限公司上虞市民大道證券營業部)	Hengtai Securities Co., Ltd Shaoxing Zhongxing South Road Securities Branch (恒泰证券股份有限公司紹興中興南路證券營業部)	103-105, 1/F, Zhongxing South Road, Yuecheng District, Shaoxing, Zhejiang (浙江省紹興市越城區中興南路103、105一層)
15	Hengtai Securities Co., Ltd Shanghai Changliu Road Securities Branch (恒泰证券股份有限公司上海長柳路證券營業部)	Hengtai Securities Co., Ltd Shanghai Haichao Road Securities Branch (恒泰证券股份有限公司上海海潮路證券營業部)	Room 1242, 1243, No. 133, Haichao Road, Huangpu District, Shanghai (上海市黃浦區海潮路133號1242、1243室)
16	Hengtai Securities Co., Ltd Shenyang Yunfeng Street Securities Branch (恒泰证券股份有限公司瀋陽雲峰街證券營業部)	Hengtai Securities Co., Ltd. Shenyang Hun'n'an Third Road Securities Branch (恒泰证券股份有限公司瀋陽渾南三路證券營業部)	Room 902, Block A, Tongfang Building, 1-8, Hun'n'an Third Road, Hun'n'an District, Shenyang, Liaoning (遼寧省瀋陽市渾南區渾南三路1-8同方大廈A座902室)

Section 5 Management Discussion and Analysis (Continued)

No.	Name of securities branch before relocation	Name of securities branch after relocation	Address of securities branch after relocation (PRC)
17	Hengtai Securities Co., Ltd Wenzhou Haichuan Road Securities Branch (恒泰证券股份 有限公司温州海川路證券營業部)	Hengtai Securities Co., Ltd Wenzhou Jinxiu Road Securities Branch (恒泰证券股份有限公司 温州錦繡路證券營業部)	Room 515, No. 1067, Zhixin Center, Jinxiu Road, Lucheng District, Wenzhou, Zhejiang (浙江省温州市 鹿城區錦繡路1067號置信中心1幢515室)
18	Hengtai Securities Co., Ltd Beijing Xisihuan North Road Securities Branch (恒泰证券股份有限公司 北京西四環北路證券營業部)	Hengtai Securities Co., Ltd Beijing Liuxiang Road Securities Branch (恒泰证券股份有限公司 北京榴鄉路證券營業部)	104, 1/F, No. 2 Building, No. 88 Courtyard, Liuxiang Road, Fengtai District, Beijing (北京市豐台區榴鄉路 88號院2號樓1層104)
19	Hengtai Securities Co., Ltd Xi'an Qujiangchi North Road Securities Branch (恒泰证券股份 有限公司西安曲江池北路證券營 業部)	Hengtai Securities Co., Ltd Xi'an Gaoxin Third Road Securities Branch (恒泰证券股份有限公司 西安高新三路證券營業部)	Room 1803, Financial Building of PICC Building (Shaanxi), No. 12, Gaoxin Third Road, Zhangba Road, High-tech District, Xi'an, Shaanxi (陝西省西安 市高新區丈八街辦高新三路12號中國人保大廈(陝西) 金融大廈1803室)
20	Hengtai Securities Co., Ltd Beijing Suzhou Street Securities Branch (恒泰证券股份有限公司 北京蘇州街證券營業部)	Hengtai Securities Co., Ltd Beijing Zhichun Road Securities Branch (恒泰证券股份有限公司北京知春 路證券營業部)	1293, 12/F, Building 1, No. 128, Zhichun Road, Haidian District, Beijing (北京市海澱區知春路128號 1號樓12層1293)
21	Hengtai Securities Co., Ltd Baicheng Changqing South Street Securities Branch (恒泰 证券股份有限公司白城長慶南街 證券營業部)	Hengtai Securities Co., Ltd Baicheng Changqing South Street Securities Branch ¹ (恒泰 证券股份有限公司白城長慶南街 證券營業部)	Room 2-2, Changqing South Street, Baicheng, Jilin (吉林省白城市長慶南街2-2號)

Note:

1. Name of the securities branch remained unchanged after relocation.

(3) *Deregistration of securities branches*

None in the Reporting Period.

Section 5 Management Discussion and Analysis (Continued)

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

None in the Reporting Period.

(II) Subsidiaries of the Company

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

1. On 22 January 2018, as Shenzhen Hengtai Baojuchang Investment Management Co., Ltd. does not conduct actual operation activities, Hengtai Capital transferred the 51% equity interests in Shenzhen Hengtai Baojuchang Investment Management Co., Ltd. to Liu Zhihong (劉志宏), an independent third party, at a consideration of RMB1. Upon completion of the transfer, Hengtai Capital no longer held any equity interests in Shenzhen Hengtai Baojuchang Investment Management Co., Ltd.
2. On 16 May 2018, the proposal regarding Reduction of Registered Capital of Hengtai Capital Investment Co., Ltd., a Wholly-owned Subsidiary of the Company was considered and approved at the 5th extraordinary meeting of the fourth session of the Board, pursuant to which it was approved to reduce the registered capital of Hengtai Capital to RMB0.6 billion in steps. On 22 August 2018, Hengtai Capital completed the industrial and commercial registration for the change of registered capital from RMB1.5 billion to RMB1.2 billion.

(III) Impact on Results

During the Reporting Period, in accordance with the requirements of the Management Standards for Private Investment Fund Subsidiary of Securities Company (《證券公司私募投資基金子公司管理規範》) issued by the Securities Association of China, Hengtai Capital continued to sort through its businesses, ceased to engage in direct investment business, and disposed subsidiaries whose activities were not covered by its business scope. Therefore, Hengtai Capital focused on private equity fund business and improved the utilization efficiency of its own proceeds with the view to achieving better results.

Section 5 Management Discussion and Analysis (Continued)

V. MAJOR INVESTMENT AND FINANCING

(I) Equity Financing

None in the Reporting Period.

(II) Major Debt Financing

1. Issue of long-term corporate bonds

No long-term corporate bonds were issued by the Company in 2018. As at 31 December 2018, the outstanding balance of long-term corporate bonds amounted to RMB1.5 billion, which were issued by the Company on 29 January 2016 and will be mature on 29 January 2019.

2. Issue of beneficiary certificates

The Company raised an aggregate of RMB2.946 billion through issue of beneficiary certificates in 2018. As at 31 December 2018, the outstanding balance of the beneficiary certificates amounted to RMB3.047 billion. The particulars of the issuance of beneficiary certificates of the Company in 2018 are set out below:

Abbreviation	Size of the Issuance (RMB'00 million)	Interest rate	Term	Issue Date	Maturity date
			(days)		
恒富14號	0.60	5.50%	364	18 January 2018	17 January 2019
恒創泰富13號	5.00	6.20%	365	14 March 2018	14 March 2019
恒富16號	1.40	6.20%	733	11 April 2018	13 April 2020
恒富17號	1.41	5.60%	364	27 June 2018	26 June 2019
恒創泰富14號	5.00	5.85%	365	4 July 2018	4 July 2019
恒富18號	1.48	5.80%	546	11 July 2018	8 January 2020
恒富19號	1.60	5.60%	364	25 July 2018	24 July 2019
恒創泰富15號	5.00	5.50%	365	25 July 2018	25 July 2019
恒創泰富16號	0.80	5.40%	454	31 August 2018	28 November 2019
恒創泰富17號	3.00	5.40%	364	27 September 2018	26 September 2019
恒創泰富19號	3.00	5.75%	731	16 November 2018	16 November 2020
恒富20號	0.85	5.00%	726	26 December 2018	21 December 2020
恒富21號	0.32	5.00%	726	27 December 2018	22 December 2020

Section 5 Management Discussion and Analysis (Continued)

3. Issue of subordinated bonds by the Company

No subordinated bonds were issued by the Company in 2018. As at 31 December 2018, the outstanding balance of subordinated bonds amounted to RMB1.5 billion, which were issued by the Company on 1 November 2017 and will be mature on 1 November 2022.

(III) Equity Investment

None in the Reporting Period.

VI. MATERIAL ASSETS DISPOSAL, ACQUISITION, MERGER, DIVISION, EXTERNAL GUARANTEE, MORTGAGE, PLEDGE AND MATERIAL CONTINGENT LIABILITIES

Save for the matters stated above in IV and V under this Section 5 “Management Discussion and Analysis”, the Company had no other material assets disposal, acquisition, merger, division or reorganization of other companies.

During the Reporting Period, there was no external guarantee, mortgage, pledge and material contingent liability that may affect the Company’s financial position and operating results.

VII. BUSINESS INNOVATION AND ITS IMPACT AND RISK CONTROL

(I) Business Innovation and its Impact

In 2018, the Company clarified the need to focus on wealth management and investment advisory business in the transformation of the brokerage and wealth management business. By broking the inherent business framework to eliminate the differences caused by the original system, the Company made further efforts to support the wealth management and investment advisory business. Meanwhile, the Company spared no efforts to maintain the foundation of its sale of financial products business by strengthening its ability to screen financial products, enlarging the pool of financial products, widening the product supply channel, and actively building the mechanism for cooperation with financial product managers and fund managers, which has made preliminary achievements at this stage. In addition, the internet finance business of the Company has evolved from “opening and connection” into “technology empowering”. The Company strengthened channel building, reinforced product research and development, optimized business operation and strived to build a standardized service system featuring technology empowering and continued to pursue new growth driver of profit by technological means.

Section 5 Management Discussion and Analysis (Continued)

(II) Risk Control of Business Innovation

In 2018, the Company continued to optimize internal control and risk management system, intensified compliance review and risk assessment, enhanced risk identification and prevention abilities, executing internal control and risk management throughout the whole process of business innovation. The Company also procured its business departments to enhance the awareness of risk prevention and control through organization optimization and promotion and training programs, effectively performing the duties of the first line of defense.

The Company strengthened pre-management of risks relating to new businesses by perfecting its risk preference system, exercising risk quota management, upgrading risk management information system, deepening stress test mechanism, promoting project review quality and evaluation and ensuring the independence of review opinions. The Company continued to promote the development of a comprehensive risk management system, and improved the risk management of the Company by establishing and perfecting the mechanism for risk identification, evaluation, monitoring and control from the perspectives of credit risks, market risks, liquidity risks, operation risks and reputation risks.

(III) Prospects of Business Innovation

With increasingly intensified competition in the industry, securities companies with higher rankings enjoy apparent competitive advantages. Furthermore, the policy on financial deleveraging will also have a far-reaching impact on the development of small and medium-sized securities companies. Against this backdrop, only by quickening the pace of business transformation can we effectively strengthen our market competitiveness. In 2019, the Company will continue to promote innovation and transformation of its various line of business while effectively enhancing its risk prevention capability, which is mainly reflected in the followings:

1. In terms of brokerage business, the Company will accelerate the transformation of it from a “revenue and profit center” into a “wealth management center”. Efforts will be made to build the sales channel in order to strengthen our customer acquisition capability. The Company will strengthen outlet management, push forward the transformation of old business outlets and make great efforts to support new business outlets, in an effort to comprehensively increasing the speed of business transformation and upgrading; it will carry out traditional brokerage business in a steadily manner while rapidly developing the share option business by actively securing a first mover advantage in the share option market and other innovative business markets and strengthening business training and marketing, so as to turn it into a new growth driver of profit for the brokerage business. In terms of futures brokerage business, continued efforts will be made to promote transformation of the assets management business, and the risk management business will be nurtured as a new growth driver of profit. These two businesses, in combination with the futures internationalization business will further enhance our ability to serve financial institutions and real enterprises and help us build our core competitiveness.

Section 5 Management Discussion and Analysis (Continued)

2. In terms of investment banking business, the Company will continue to pursue the competitive strategy of “professionalism, market-oriented development, standardized operation and principle of risk minimization” and attach equal importance to compliance, risk control and innovative development of business. On the basis of consolidation of its existing business advantages, the Company will accelerate the realization of business transformation and promote the introduction of new businesses. Based on customer demands, the Company will strengthen business collaboration and continue to improve its service standards, thus building itself into a professional investment banking platform with sound corporate governance, standardized management, excellent business and distinctive characteristics.
3. In terms of public-raised funds business, the Company will continue to strengthen management of investment and research work, so as to improve the performance of our funds business. The Company will strengthen investment team building and management, and perfect the performance appraisal mechanism, in a bid to achieving rapid increase in management size of the public-raised funds and its profit. The Company will optimize the modes and approaches used in the investment and research work, strive to make a breakthrough in key research and in-depth research, thus creating a synergy between investment and research and leveraging the overall advantages in resources; and it will strengthen product research and development and intensify its efforts in funds marketing, so as to rapidly increase the management size of funds. The Company will carry out the special accounts business in a steady manner, and seek to increase its percentage of profit contribution.
4. In terms of private equity investment funds business, the Company will further define its business positioning, actively build presence in private funds business and financial advisory business, and shift its business model towards investment in enterprises with growth potential.

VIII. RISK FACTORS AND COUNTERMEASURES

(I) Credit Risk

Credit risk is the possibility of loss caused by our counterparty’s failure to perform a contract or a change in its credit rating or ability to perform. Credit risk of the Company is mainly generated from two aspects: (i) financing business such as margin financing and securities lending and securities-backed lending; and (ii) proprietary credit bond investment business.

Section 5 Management Discussion and Analysis (Continued)

Credit risk from financing activities can be controlled by (i) determination of reasonable credit line which is managed through client suitability management, daily mark to market, risk reminders and forced liquidation of client's positions upon credit investigation via the internal credit rating system; and (ii) conducting sufficient due diligence on the financier and analysis on the fundamentals of pledge target prior to the implementation of securities pledged projects to reasonably determine key risk factors including pledge rate and performance guarantee proportion, and maintaining constant risk monitoring over projects in performance to address problems once detected. Investment credit risks can be controlled by establishing securities pool, internal rating, risk indicator limit and other measures.

(II) Market Risk

Market risk refers to risk of unexpected potential value losses of the financial assets held by the Company resulting from adverse changes in securities price, interest rate and exchange rate. In particular, risk of adverse price fluctuations refers to the risk that the stock market may fluctuate and cause the prices of stocks and other securities products to change, which may incur losses for the Company. Interest rate risk refers to the risk arising from changes in market interest rates and credit spread that could result in changes in the prices of bonds and other fixed-income securities. Exchange rate risk refers to possibility that the Company may incur losses due to changes in exchange rates during operating activities involving possession or use of foreign exchanges. Market risk of the Company mainly derives from proprietary businesses including equity securities investment, fixed income securities investment, financial derivatives investment and NEEQ market-making business.

Market risk is mainly managed by the Company through implementation of limit management, securities pool system, daily mark to market, stress test, monitoring and warning, stop-loss and stop-profit, risk hedge, risk report and other systems and measures. Based on risk tolerance preferences, the Company sets the annual overall limits of market risk for proprietary businesses which are decomposed and assigned to the respective business departments level by level. The Company has established a market risk indicator system including Value at Risk (VaR), Basis Point Value (DV01) and Max Drawdown. The risk management department conducts a daily monitoring over the proprietary position risk and regularly carries out stress test to estimate the losses under extreme circumstances and timely make risk warning and urge relevant business department to handle it when the risk control indicator exceeds the warning threshold.

Section 5 Management Discussion and Analysis (Continued)

(III) Liquidity Risk

Liquidity risk refers to risk where the Company fails to obtain sufficient funds in time at reasonable costs in order to repay mature debts, fulfill other payment obligations and satisfy the funding needs for carrying on normal business. The planning and financing department of the Company is responsible for liquidity risk management. The Company constantly monitors Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and other liquidity risk control indicators and conducts semi-annual liquidity risk stress tests through which its liquidity risk level under the extreme circumstance is evaluated and the risk emergency plans are established. The Company has set threshold values for liquidity risk control indicators, and a risk warning will be sent to the relevant responsible person of the Company once such threshold values are exceeded. The Company monitors and analyzes the matching of the Company's assets and liabilities from various time periods under both normal and stressed situations, the diversification and stability of the Company's capital resources, the cashability of high-quality liquid assets and market liquidity and at the same time strengthens the management of the Company's liquidity during operating hours and makes reasonable arrangements for financing activities to maintain adequate intraday liquidity position.

(IV) Compliance Risk

Compliance risk refers to risk of a securities company being subject to legal sanctions, regulatory measures and self-discipline penalties due to violations of laws, regulations or rules in its business activities or employee conducts. The Company has established an effective and sound compliance management system and compliance management framework. The compliance management department of the Company manages compliance risk through compliance review, compliance monitoring, compliance examination, compliance supervision and compliance training.

(V) Operational Risk

Operational risk is possibility of losses caused by the failures of internal systems and procedures, improper employee behaviors, information system defect and the influence of external events. The Company has formulated operational risk management system and internal management system of various businesses and regulated its business activities. It has established an identification, assessment and control system for operational risk that fully covers the Company's business activities. The Company mainly managed operational risks through self-appraisal of risks and control (RCSA), loss data collection (LDC), key risk indicator (KRI) monitoring, and other measures.

Section 5 Management Discussion and Analysis (Continued)

(VI) Reputation Risk

Reputational risk is the risk of negative assessment or comments on the Company from stakeholders as a result of its operation, management and other companies or external events. Reputational risk management refers to the process and method for ensuring the achievement of the overall objective of reputational risk management based on the reputational risk management objective and planning, through the establishment and improvement of the reputational risk management system and through daily reputational risk management and proper handling of reputational events. The Company has established a sound reputation risk management system and workflow, to provide guarantee for the improvement of the all-round risk management system, the enhancement of the reputation risk management capability and the maintenance and promotion of the reputation and image of the Company.

IX. CONSTRUCTION OF RISK MANAGEMENT SYSTEM AND COMPREHENSIVE RISK MANAGEMENT IMPLEMENTATION

During the Reporting Period, the Company actively implemented various requirements of the Norms for the All-round Risk Management of Securities Companies (《證券公司全面風險管理規範》), conducted routine risk management and various key projects based on the requirements of full coverage, monitorability, measurability, analysis and risk-response ability on risk management and continuously improved the comprehensive risk management system.

(I) Management System

The Company established the Measures for All-round Risk Management of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司全面風險管理辦法》), which set overall requirements on the comprehensive risk management. It has established special risk management systems on liquidity risks, market risks, credit risks, operation risks, reputation risks and other risks. It also specified the risk management requirements on various businesses, including but not limited to the risk identification, evaluation, measurement, monitoring and response in relevant businesses.

Section 5 Management Discussion and Analysis (Continued)

(II) Framework

The Company established a four-level risk management system including the Board, the management, the risk management department and business departments. It specified the responsibilities of the Board, the Supervisory Committee, the management, all departments, branches and subsidiaries in performing the comprehensive risk management and established a multi-layered and inter-connected operation mechanism with effective balances. Meanwhile, the Company has gradually incorporated all subsidiaries into the comprehensive risk management system and guided subsidiaries in establishing and improving the governance structure, setting risk preference and perfecting the risk monitoring, reporting and response mechanism. It specified the responsible person for the risk management of subsidiaries and the chief risk officer of the Company conducts appraisal on the responsible person.

(III) Information Technology

The Company has established a securities risk monitoring and management platform with the integration of dynamic risks monitoring on net capitals, market risk management, credit risk management, operation risk management, liquidity risk management, abnormal transaction monitoring and other functions. It supports the collection, identification, measurement, appraisal, monitoring and reporting of various risk information and can meet the demands of the Company in risk management and decision-making.

(IV) Indicator System

The Company has established a risk preference indicator system with net capital and liquidity as the core covering concentration risks, market risks, credit risks and operation risks. The risk preference of the Company can cover all business line, including proprietary investment business, asset management business, securities brokerage business and investment banking business. Based on the development strategy, operation targets and financial conditions of the Company, it set management and control quota on major risks, including but not limited to risk quota, business size, value at risk, sensitivity indicator, concentration, stop-loss and stop-profit. It also regularly appraises the risk tolerance through stress test and other methods and guides resources allocation.

Section 5 Management Discussion and Analysis (Continued)

(V) Talent Team

The risk management department of the Company has established four professional teams on net capital and market risk, credit risk, operation risk and comprehensive risks. The planning and financial department and the board office designate special persons to be responsible for the management of liquidity risks and reputation risks. Currently, risk management staff with over three years of relevant working experience account for over 2% of the total staff at the head office of the Company, which provided talent guarantees to effectively conducting the comprehensive risk management work. In addition, all business and functional departments of the Company have set business risk management positions as an integral part of the risk management system. They accept the business guidance of the risk management department and serve as the bridge link.

(VI) Response Mechanism

The Company established a working mechanism on regular reporting and stress test to identify significant potential risks in the business process in a timely manner and actively take prevention and response measures. The Company also has risk emergency plans on significant risks and emergencies, specified the emergency triggering conditions, the organizational system, measures, methods and procedures in risk disposal and continuously improved them through emergency exercises. The Company has established a performance appraisal and accountability mechanism linked to risk management results. It regularly appraises the risk management performance of all business departments and branches and the appraisal results are included in the performance appraisal system. Meanwhile, the audit department regularly appraises the comprehensive risk management system to guarantee the effectiveness of the comprehensive risk management.

In October 2018, the Company successfully passed the field inspection on the comprehensive risk management organized by the Inner Mongolia Securities Regulatory Bureau of the CSRC.

X. INVESTMENT IN COMPLIANCE, RISK CONTROL AND INFORMATION TECHNOLOGY

The Company has always attached great importance to compliance and risk management and insisted on providing adequate guarantee for compliance and risk management. During the Reporting Period, the Company continued to increase investment in compliance and risk management, including preparation of annual budget for compliance and risk management, establishment of a professional compliance and risk management talent team, strengthening personnel training, launch or upgrading of the compliance and risk management information systems, etc. During the Reporting Period, the Company further strengthened the construction of information system to provide support for the development of various businesses. The investment in the fields of electronic equipment operation, communication lines, and use of facilities at the exchange amounted to approximately RMB33.91 million.

XI. COMPETITION AND POSITION IN THE INDUSTRY AND CORE COMPETITIVENESS

(I) Competition in the Industry

In the year of 2018, the trend of “stringent financial regulatory and enhanced ability to prevent and resolve risks across the board” in the aspect of industrial regulation since the convening of the 19th CPC National Congress still continued. In terms of the securities industry, there was a general declining trend in the operating results of securities companies due to the continued zigzagged downward trend in the domestic stock markets. However, large securities companies with higher rankings continued to register a larger portion of the industry’s total net profit, and there was a significant increase in concentration of business undertakings in the industry, creating a more arduous market competition environment for small and medium-sized securities companies.

(II) Market Position

According to the statistical data of the Securities Association of China, as at 31 December 2018, there were 131 securities companies in the PRC, and the average total assets, net assets and net capital size of a single securities company amounted to approximately RMB47,786 million, RMB14,427 million and RMB11,985 million, respectively. In 2018, the average operating revenue of a single securities company amounted to approximately RMB2,033 million and the average net profit of a single securities company amounted to approximately RMB508 million.

The 2018 industry data show that the Company remained as a small and medium securities company in the industry. In 2018, the Company experienced a significant decline in the percentage of profit contribution from its traditional businesses such as brokerage and investment banking business and recorded a significant loss in its proprietary trading business due to the impact of the external environment. The weak market environment has restricted the development of various businesses of the Company to a certain extent.

(III) Core Competitiveness

1. Professional and stable management team

The management team of the Company has extensive experience in the securities and financial service industries with their average experience in the securities industry close to 17 years. The stable management team with extensive management experience in the industry enables the Company to quickly respond to the changes in the regulatory requirements and the competitive conditions in the market and make prompt adjustments of the business strategy of the Company, thus ensuring long-term stable development of the Company.

Section 5 Management Discussion and Analysis (Continued)

2. Implementation of effective risk management and internal control systems

The long-term implementation of effective risk management and internal control systems enables the Company to carry out compliance work and foster compliance awareness in respect of all businesses and all staff of the Company, and to identify, assess, reduce and manage various risks in the course of business. The Company has always been dedicated to strengthening risk management and internal control, corporate governance and building corporate compliance culture, and continuously optimizing the risk management and internal control systems to enhance the ability of the Company in identifying compliance risks, with a view to identifying and correcting the shortcomings in risk management and internal control in a prompt manner, and continuously improving the Company's risk management and internal control systems by means of quantifying control over risk management and operation risks, thus ensuring sound and stable growth of the Company's business.

3. Sound capability in continuous innovation

The continuous and initiative innovation capability plays a key role in the development of the Company. The innovation work of the Company has focused on continuous understanding, research and satisfaction of different demands of the customers. The Company proactively responds to the competition in the market through initiative innovation. With admirable customer service and effective risk management capacity, the Company has made great achievements in customer financing business, and other innovative businesses in recent years.

In addition, the Company has always attached importance to innovative application in the Internet and fintech field. The traditional securities business has been transformed to adopt the online business model due to cooperation with third party Internet service suppliers based on legal compliance and effective control, thus accessing to and getting more customer resources. The Company also provides one-stop comprehensive online diversified financial services including payment, financial management, investment and financing to satisfy the customers demands.

4. Effective business layout to promote transformation and upgrade

In the past two years, the Company has made certain achievements through the establishment of new securities branches and the adjustment of the layout of branches, which laid a solid foundation for further improving the market share of the brokerage business of the Company and the overall business development of the Company. Meanwhile, the early layout of the Company in the purchaser's business has achieved preliminary results.

Section 5 Management Discussion and Analysis (Continued)

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

5. Excellent corporate culture

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

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

The Company always insists on centering on talent strategy, pays great attention to the introduction, absorption, stability and promotion of the talents, especially the stability of the core talents. Through the provision of professional training and a good operation platform, the Company effectively improved the staff's professional ability and career value. The Company has developed the market-oriented staff remuneration structure based on the risk management and performance appraisal, and executed the standard multi-level review mechanism. Furthermore, it has established a reasonable talent development system to foster professionals and set up channels for promotion.

XII. PROSPECTS

In 2019, China will face a severe and complicated environment and situation in opening up to the outside world amidst mounting downward pressure on the economy and a slowdown in GDP growth rate. In terms of the capital markets, the Central Economic Work Conference, which was concluded at the end of 2018, further reiterated the importance of capital markets in financial operation as a single step having the potential to affect the overall situation, and the reform of the capital markets will be further deepened, which heralds the chance of improvement in the business environment of the industry.

Section 5 Management Discussion and Analysis (Continued)

The Company will further reinforce its efforts in compliance and risk control, so as to facilitate mutual promotion and coordinated development between compliance, risk control and business operation. The Company will accelerate the transformation of various businesses, gradually implement a differentiated competition strategy, explore and apply a long-term sustainable profit model, and study and solidify a robust investment model that is suitable for the development of the Company, thus stabilizing and improving its profitability. Also, the Company will strengthen management of its subsidiaries and allocate a variety of resources to support the professional and market-oriented development of its two subsidiaries with the financial licenses to carry out funds and futures business. A management approach which prioritizes risk control and efficiency will be established and the synergy effect of front and back offices will be enhanced through an effective internal management system and allocation of resources, thus fully coordinate and support business operation. Meanwhile, the Company will actively perform its social responsibilities, so as to enhance the social value and brand reputation of the Company.

Section 6 Report of the Board of Directors

I. INFORMATION ON THE PRINCIPAL ACTIVITIES AND PRINCIPAL SUBSIDIARIES

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

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

II. ANALYSIS OF MAJOR FINANCIAL PERFORMANCE INDICATORS

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

III. ANALYSIS OF PRINCIPAL RISKS AND UNCERTAINTIES

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

IV. PROFIT DISTRIBUTION AND PROFIT DISTRIBUTION PLAN

(I) Formulation, Implementation or Adjustment of the Profit Distribution Policy

The Company has been attaching great importance to reasonable investment return to its shareholders, and emphasising the stability and continuity of investment return. According to the order of profit distribution specified in the Articles of Association, the Company may distribute dividend by way of cash or shares. When the Board proposes declaration of dividends, the Board has formulated its profit distribution plan on a reasonable basis to safeguard shareholders’ interests in accordance with relevant requirements of the Articles of Association and with reference to the the Group’s financial performance, overall financial position, expected working capital needs and surplus, future development plan and external financing environment. The annual profit distribution plan shall be proposed by the Board and subject to consideration and approval at the general meeting of the Company. During the Reporting Period, the profit distribution policy was strictly implemented without any adjustment.

Section 6 Report of the Board of Directors (Continued)

(II) Implementation of the 2017 Profit Distribution Plan

The Company held the 2017 annual general meeting on 31 May 2018 to consider and approve the resolution in relation to the 2017 Profit Distribution Plan, pursuant to which, based on the total number of share capital of the Company of 2,604,567,412 shares as at 31 December 2017, the cash dividend of RMB1.00 per 10 shares (tax inclusive) and RMB260,456,741.20 in aggregate (tax inclusive) was distributed to holders of Domestic Shares and H Shares whose names appeared on the register of members of the Company after the business hours on 12 June 2018.

The 2017 final dividend was denominated and declared in RMB and payable in RMB to holders of Domestic Shares, and in HK dollars to holders of H Shares. The average benchmark exchange rate of RMB against HK dollar announced by the People's Bank of China for the five working days prior to the date of the 2017 annual general meeting was HK\$1.00 to RMB0.815352. Accordingly, the dividend payable per 10 H Shares was HK\$1.226464 (tax inclusive). The distribution of the final dividend for the year 2017 was completed on 25 July 2018.

(III) The 2018 Annual Profit Distribution Plan

The 2018 annual profit distribution plan of the Company: no profit will be distributed.

V. THE ISSUE OF SHARES AND THE USE OF PROCEEDS

On 15 October 2015, the Company raised total proceeds of HK\$1,767,316,320 through public issue of 450,846,000 H Shares on the Hong Kong Stock Exchange. The actual proceeds finally received by the Company (deducting the Listing related expenses and the amount directly transferred into the national treasury pool due to share selling by the selling shareholders (namely reduction of state-owned shares)) was RMB1,306,244,936.55 due to the impact arising from foreign exchange gains or losses, interest and other related fees.

Section 6 Report of the Board of Directors (Continued)

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

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

On 22 December 2017, the resolution in relation to "Change of the Use of Proceeds of the Company" was considered and approved at the 2017 first extraordinary general meeting of the Company to change the use of the remaining available proceeds for NEEQ market-making business and use RMB320 million of which for the Company's capital-based intermediary business and replenishing working capital.

The use of the proceeds of the Company was detailed in the table below:

Use of proceeds as specified in the Prospectus	50% of the funds being used for the capital-based intermediary business	30% of the funds being used for the NEEQ market-making business	20% of the funds being used for the internet-based finance business	Total
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Amount of proceeds available for use before change (RMB)	653,122,468.27	391,873,480.97	261,248,987.31	1,306,244,936.55
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Section 6 Report of the Board of Directors (Continued)

Use of proceeds upon change on 22 December 2017	For the capital-based intermediary business and replenishing working capital	For the NEEQ market-making business	For the internet-based finance business	Total
Amount of proceeds available for use upon change <i>(RMB)</i>	973,122,468.27	71,873,480.97	261,248,987.31	1,306,244,936.55
Accumulated amount of proceeds used as of 31 December 2018 <i>(RMB)</i>	970,902,777.77	50,000,000.00	95,995,131.61	1,116,897,909.38
Remaining amount of proceeds available for use <i>(RMB)</i>	2,219,690.50	21,873,480.97	165,253,855.70	189,347,027.17
Expected timeline for use of the remaining proceeds available for use	Rational use based on actual business needs	Rational use based on actual business needs	Rational use based on actual business needs	–

The proceeds were used and are proposed to be used according to the intentions previously disclosed.

VI. DIRECTORS AND SUPERVISORS

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

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

VII. DIRECTOR AND SUPERVISOR SERVICE CONTRACT

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

Section 6 Report of the Board of Directors (Continued)

VIII. INTERESTS OF DIRECTORS, SUPERVISORS AND CONTROLLING SHAREHOLDERS

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

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

Controlling Shareholders' Interests in Contracts of Significance

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a controlling shareholder had a material interest, whether directly or indirectly, has been entered into and subsisted during the Reporting Period, save as disclosed in this report.

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

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

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

During the Reporting Period, no Directors, Supervisors of the Company or their respective spouses or children under the age of 18 purchased the shares or debentures of the Company to obtain rights, nor did such persons exercise any such rights; and no arrangements have been made by the Company or any of its subsidiaries to enable any Directors, Supervisors of the Company or their respective spouses or children under the age of 18 to obtain such rights from any other body corporate.

Section 6 Report of the Board of Directors (Continued)

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

As at 31 December 2018, based on the information acquired by the Company and to the knowledge of the Directors, the Directors, Supervisors and chief executives of the Company have no (i) interests or short positions (including the interests or short positions considered or deemed to have according to such provisions of the SFO) which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with Sections 7 and 8 of Part XV under the SFO; (ii) interests or short positions which shall be recorded in the interests register in accordance with section 352 of the SFO; or (iii) interests or short positions which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with the requirements of the Model Code in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO), save as disclosed as follows:

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

Notes:

- As at 31 December 2018, the Company has issued a total number of 2,604,567,412 shares, comprising 2,153,721,412 Domestic Shares and 450,846,000 H Shares.
- 99.99% and 0.01% of the equity interest in Huijin Jiaye are held by Shanghai Xishida and Ms. Pei Jingjing (裴晶晶女士) who is a Supervisor of the Company, respectively. 95% and 2% of the equity interest in Shanghai Xishida are held by Shenzhen Zhongxin and Ms. Pei Jingjing (裴晶晶女士), respectively. Approximately 99.47% of the equity interest in Shenzhen Zhongxin is held by Shanghai Julu. 35% and 35% of the equity interest in Shanghai Julu are held by Ms. Pei Jingjing (裴晶晶女士) and Mr. Ci Penghui (慈鹏辉先生), respectively. Therefore, Ms. Pei Jingjing (裴晶晶女士) is deemed to be interested in 206,182,000 Domestic Shares held by Huijin Jiaye.

Section 6 Report of the Board of Directors (Continued)

XII. COMPLIANCE WITH NON-COMPETITION UNDERTAKINGS

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

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

XIII. PERMITTED INDEMNITY PROVISIONS

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

XIV. EQUITY-LINKED AGREEMENTS

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

Section 6 Report of the Board of Directors (Continued)

XV. OTHER DISCLOSURES

(I) Share Capital

Information on share capital is contained in Note 49(a) to the consolidated financial statements of this report and forms a part of the Report of the Board of Directors.

(II) Pre-emptive Rights Arrangements

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

(III) Sufficiency of Public Float

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

(IV) Management Contract

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

(V) Data on Tax Reduction and Exemption by the Shareholders of H Shares

Individual investors

In accordance with the Individual Income Tax Law of the People's Republic of China (2018 Amendment) (《中華人民共和國個人所得稅法》(2018修正)) and the Regulations for the Implementation of the Individual Income Tax Law of the People's Republic of China (2018 Revision) (《中華人民共和國個人所得稅法實施條例》(2018修訂)), the dividends paid by the Chinese companies shall be subject to the withholding tax at a uniform rate of 20%. Non-Chinese resident foreign individuals shall be imposed 20% of individual income tax on the dividends gained from Chinese companies, except for specific exemptions allowed by the tax authorities of the State Council or special deductions in accordance with an applicable tax treaty.

Section 6 Report of the Board of Directors (Continued)

According to the Notice on the Management of Individual Income Tax Impose after the Abolition of Guo Shui Fa [1993] No. 045 Document (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) issued by the State Administration of Taxation, for domestic non-foreign-invested enterprises making public offering in Hong Kong, the foreign resident individual shareholders are entitled to the associated tax preference according to the provisions in the taxation treaties signed between their nations and China as well as the taxation arrangements between Mainland China and Hong Kong (Macao). The dividends paid by domestic non-foreign-invested enterprises which have made the public offering in Hong Kong to foreign resident H Shares individual holders shall be imposed individual income tax at the rate of 10%, without having to make applications to the Chinese tax authorities. If the tax rate of 10% is not applicable, (1) for a foreign resident who is H Shares individual holder to receive dividend, if his country has signed income tax treaty at the rate of less than 10% with China, non-foreign-invested enterprises which have made public offering in Hong Kong may, on behalf of such holder, apply for lower tax rate preference; upon approved by the tax authorities, the excessive part of withholding tax paid will be refunded; (2) for a foreign resident who is H Shares individual holder to receive dividend, if his country has signed income tax treaty at the rate of higher than 10% but less than 20% with China, non-foreign-invested enterprises which have made public offering in Hong Kong shall pay withholding tax in accordance with the treaty and no need to make an application; and (3) for a foreign resident who is H Share individual holder to receive dividend, if his country has not signed any tax treaty or otherwise, non-foreign-invested enterprises which have made public offering in Hong Kong shall pay withholding tax at the rate of 20%.

Enterprise

According to the Enterprise Income Tax law of the People's Republic of China (《中華人民共和國企業所得稅法》) and the Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) effective on 1 January 2008, if non-resident enterprises do not establish organizations and sites within the territory of China, or though establishing organizations and sites but the dividends and bonus received have no real connection to the organizations and sites established, such enterprises shall pay the corporate income tax at the rate of 10% of its income from the Chinese territory.

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

Section 6 Report of the Board of Directors (Continued)

withholding or paying dividend and provide information to prove it is an actual beneficiary under the requirement of taxation treaties (arrangement). After the relevant tax authorities have verified that there is no error, it shall refund tax with reference to the tax levied and the difference in the amount of tax payable calculated at the tax rate under the taxation treaties (arrangement).

(VI) Reserves and Reserves of Profits Available for Distribution

Reserves and the changes in reserves of profits available for distribution of the Group during the Reporting Period are set out in Note 51 to the consolidated financial statements and the “consolidated statement of changes in equity” in this report, which forms a part of the Report of the Board of Directors.

(VII) Relationship with Key Stakeholders

1. Employees

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

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

2. Major customers and suppliers

The Company provides services for the various individual customers and institutional customers. The Company’s large customers include financial institutions, large, small and medium enterprises, institutional investors and individual customers. Most customers of the Company are located in China, mainly in Inner Mongolia. As at 31 December 2018, revenue and other income generated from the top five customers accounted for 7.09% of the revenue and other income of the Group, and revenue and other income generated from the largest customer accounted for 2.00% of the revenue and other income of the Group. During the Reporting Period, as far as the Directors are aware, none of the Directors, their associates or any Shareholders who owned more than 5% of the Company’s share capital had any interest in the five largest customers.

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

Section 6 Report of the Board of Directors (Continued)

(VIII) Property and Equipment

The relevant information is set out in Note 23 to the consolidated financial statements of this report, which forms a part of this Report of the Board of Directors.

(IX) Fulfillment of Social Responsibilities

1. Investor education

The Company actively undertakes the corporate mission of performing social responsibilities and attaches great importance to investor education in protecting the legitimate interests of investors and promoting the standardized, healthy and orderly development of the market. In adherence to the concept of “actively protecting investors” and undertaking the mission of carrying forward and fostering a rational investment culture, the Company actively organized and conducted a total of 386 investor education activities focusing on popularizing securities knowledge, establishing rational investment concept and promoting risk prevention with the participation of nearly 100,000 investors in 2018. It has distributed nearly 100,000 copies of brochures and booklets on investor education to investors. In addition, the Company also vigorously participated in activities organized by regulatory authorities. Its products on investor education have been displayed by the CSRC and other regulatory authorities on their websites and official accounts. It also obtained the award of excellence in the activities on the handling of compliant cases organized by Shenzhen Stock Exchange and the honor of excellent H-share securities companies issued by the Hong Kong Stock Exchange.

In order to effectively facilitate the visit and learning of investors and enable the investors to have better experience, the Company selected the 13/F of the headquarters of the Company besides streets in the downtown area of Hohhot, Inner Mongolia, the PRC for the construction of the investor education base covering a land area of 537 square meters. It will build ten major functional areas and highlight the characteristics of ethnic minorities in the overall design. The layout of all functional areas is unique and equipped with professionals on investor education devoted to work. Focusing on investors’ demands through “inviting into the inside” and “reaching out to the outside”, the Company organized education activities for different types of investors. Through the course system on investor education established with the hierarchical and classified investor education concept, the Company conducted activities in universities and provided continuous investor education services to energetically advance the effective implementation of the “adopting investor education into the national education system”, help young students set up a right investment concept and master fundamental investment knowledge to inject new vitality into the capital market in the future.

Section 6 Report of the Board of Directors (Continued)

In the future, the Company will stay true to its original aspirations, work even harder and improve various work on investor education in a practical and effective way to provide investors with considerate products and services on investor education and carry out the protection of the legitimate interests of medium and small investors.

2. Social activities and public benefit donations

During the Reporting Period, in active response to the industry call, the Company pooled resources and strengths in all aspects together in carrying out poverty alleviation and other social activities for public benefit in a proactive manner to perform its social responsibilities through practical actions.

In respect of poverty alleviation through industrial development, the Company completed the recommended listing of Gansu Kaikai Agricultural Science And Technology Development Co., Ltd. (甘肅凱凱農業科技發展股份有限公司) and Xilin Gol League Yangyang Husbandry Co., Ltd. (錫林郭勒盟羊羊牧業股份有限公司) on NEEQ and advanced the recommended listing of Hebei Wuhuatou Ecological Agriculture Development Co., Ltd. (河北五花頭生態農業開發有限公司) and obtained the reply to the listing on the NEEQ within the year. Meanwhile, the Company also assisted in the financing through additional issuance of shares by Jiangxi Boyang Shengtai Food Industrial Co., Ltd. (江西鄱陽縣盛態糧食實業有限公司) and Xilin Gol League Yangyang Husbandry Co., Ltd., raising RMB20.16 million and RMB10.02 million, respectively. Hengtai Changcai completed the issuance of corporate bonds with RMB500 million in the corporate bond program (Phase II) of Nanchong Jialing Development Investment Co., Ltd. (南充嘉陵發展投資有限公司).

In respect of poverty alleviation through public welfare undertakings, the Company continued to advance the implementation of poverty alleviation programs in the first half to ensure that they can put into operation successfully, which have achieved excellent economic and social effects. Given various fruitful work conducted by the Company in poverty alleviation, the Company was awarded the “Prize of Excellence in Medical Poverty Alleviation” (優秀醫療扶貧獎) and the “Prize of Excellence in Targeted Poverty Alleviation” (優秀定點扶貧獎) for companies at the awards ceremony of the “Selection of Chinese Securities Companies with Contributions in Poverty Alleviation in 2018” (2018中國證券公司扶貧評選) & “Display of Poverty Alleviation Results in Securities Industry in 2018” (2018證券行業扶貧成果展) held by the Securities Association of China and the China Futures Association in October 2018 under the guidance of the CSRC and the State Council Leading Group Office of Poverty Alleviation and Development.

Section 6 Report of the Board of Directors (Continued)

During the Reporting Period, in order to further facilitate the poverty alleviation in impoverished counties with targeted aid, the Company dispatched one key business staff to hold positions in Arxan City, a targeted aid city in Inner Mongolia to display his professional advantages, provide specific services, seek the target for the Company's aid and bolster up local poverty elimination.

For other poverty alleviation efforts, New China Fund donated RMB400,000 to Chongqing Youth Development Foundation and Hengtai Futures donated RMB100,000 to the Niujie Primary Middle School in Eryuan County, Dali Prefecture, Yunnan, respectively, to improve the education in poverty-stricken areas. In addition, Hengtai Futures carried out poverty alleviation through consumption in Chahar Right Middle Banner, Ulanqab City, Inner Mongolia and spent RMB100,000 on the purchase of featured agricultural products to boost the industrialized development of local featured agriculture.

(X) Material Events after the Reporting Period

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

(XI) Compliance of Laws and Regulations

The Company operated in strict compliance with requirements of laws, regulations and regulatory documents of the PRC and jurisdictions where the Company's shares are listed, including the Company Law of the PRC, the Securities Law of the PRC, the Regulations on the Supervision and Administration of Securities Companies, the Corporate Governance Rules for Securities Companies, the Listing Rules and the SFO, to standardize the operation of the Company and improve the management system. For punishment or public censure on the Company during the Reporting Period, please refer to the subsection headed "I. Punishment or Public Censure in the Reporting Period" under Section 7 "Other Material Particulars" of this report.

(XII) Environmental Policies and Performance

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

Section 6 Report of the Board of Directors (Continued)

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

For more details, please refer to the “2018 Environmental, Social and Governance Report” to be published separately.

(XIII) Business Review

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

(XIV) Future Development

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

(XV) Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

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

(XVI) Donations

During the Reporting Period, the Group made charitable donations amounting to RMB500,000. Please refer to (IX) “Fulfillment of Social Responsibilities” under XV. “Other Disclosures” in this section.

(XVII) Bonds

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

By order of the Board

Pang Jiemin

Chairman

Beijing, the PRC
22 March 2019

Section 7 Other Material Particulars

I. PUNISHMENT OR PUBLIC CENSURE IN THE REPORTING PERIOD

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

1. On 23 October 2018 and 1 November 2018, the Company received the Prior Notification on Rectification (Nei Zheng Jian Han [2018] No. 576) (《責令改正事先告知書》(內證監函[2018]576號)) and the Notice of Rectification Measures on Hengtai Securities Co., Ltd. (Notice on Administrative Regulatory Measures [2018] No. 9) (《關於對恒泰證券股份有限公司採取責令改正措施的決定》(行政監管措施決定書[2018]9號)) from the Inner Mongolia Bureau of the CSRC, pursuant to which, the Company was ordered to make rectification in respect of the illegal behaviors of the Company in agency sale of the platform-based P2P financial products of Beijing Hengtai Puhui Information Service Co., Ltd. without entering into the agency sale agreement and in illegally guaranteeing the minimum rate of return of Hengtai Chuangfu No. 51 Collective Assets Management Scheme (恒泰創富51號集合資產管理計劃) to customers by practitioners through WeChat.

The Company paid high attention to the problems revealed in the notices and conducted overall rectification in respect of them. The Company revised and formulated various management systems on internal control, which standardized the management on the process of entering into agreements and sale activities, enhanced the awareness of employees on product risks. It further improved the compliance awareness of all staff and strengthened the management and inspection on suitability to prevent re-occurrence of such incidents in the future. It also submitted the rectification report to the Inner Mongolia Bureau of the CSRC in a timely manner.

2. On 11 July 2018, the Company received the Letter of Regulation to Hengtai Securities Co., Ltd. (Nei Zheng Jian Han [2018] No. 347) (《關於對恒泰證券股份有限公司的監管函》(內證監函[2018]347號)), requiring the Company rectifying the problems in a timely manner in failure to sign the tripartite supervision agreement on certain bonds, non-standard draft of due diligence programs for asset-backed specialized schemes, incomplete disclosure of prospectus and disqualified operation of underlying assets and collection of cash flow, which were found in the on-site inspection on the entrusted management of bonds and the management of asset-backed specialized schemes by the Company conducted in June 2018.

The Company paid high attention to the problems revealed in the letter and sorted out and rectified the problems strictly following relevant requirements. The Company strengthened internal control, implemented the requirements on due diligence and standardized the performance of relevant procedures. It also further enhanced the management of information disclosure and archives safeguarding and urged equity originators and others to follow the provisions of laws and contractual obligations to protect the interests of investors in a practical way. It also submitted the rectification report to the Inner Mongolia Bureau of the CSRC in a timely manner.

Section 7 Other Material Particulars (Continued)

II. SIGNIFICANT LAWSUITS AND ARBITRATIONS

(I) New Lawsuits and Arbitration Cases in the Reporting Period

1. The dispute with regard to the Qinghui Leasing asset-backed special scheme Phase I under the management of the Company

(1) *The lawsuits filed by the Company against Hongyuan Petrochemical and Qinghui Leasing*

On 7 January 2016, the Company established the Qinghui Leasing asset-backed special scheme Phase I (the "Project", "Special Scheme") and acted as the manager thereof. The underlying assets are the rental claim and other rights as well as their auxiliary guarantee rights under a single lease contract. The Project fell due on 4 November 2018 in plan. In December 2017, the Company learned that Xianyang Hongyuan Petrochemical Co., Ltd. (咸陽鴻元石油化工有限公司) ("Hongyuan Petrochemical"), the single lessee of the Special Scheme, ceased to be a going concern and had been taken to legal proceedings for debt collection by a number of financial institutions. As Hongyuan Petrochemical faces risks and cannot pay the rental with the sufficient amount, it triggered the events on the early termination of the special scheme. In order to safeguard the legitimate interests of the preferential holders of the Project, on 15 January 2018, the Company instituted a proceeding to the People's High Court of Beijing ("Beijing High Court") against Qinghui Leasing Co., Ltd. (慶匯租賃有限公司) ("Qinghui Leasing"), being the equity originators of the Special Scheme and Hongyuan Petrochemical, claiming for an aggregate of RMB530 million. Beijing High Court registered the case on 22 January 2018. Afterwards, Qinghui Leasing and Hongyuan Petrochemical submitted the Applications on Jurisdictional Objection to Beijing High Court, claiming that the case be transferred to the People's High Court of Liaoning and the People's High Court of Shaanxi, respectively, for handling. Beijing High Court issued the Civil Ruling Paper on 3 April 2018 and ruled and rejected such jurisdictional objection made by Qinghui Leasing and Hongyuan Petrochemical. Notwithstanding, Qinghui Leasing and Hongyuan Petrochemical appealed to the Supreme People's Court in turn. The Supreme People's Court issued the Civil Ruling Paper on 19 October 2018 and ruled and rejected such jurisdictional objection made by Qinghui Leasing and Hongyuan Petrochemical. As a result, the case will still be heard in Beijing High Court and the hearing of the case has not yet proceeded. In addition to filing for trial, the Company applied for property preservation in the process of litigation. As at the end of the Reporting Period, Beijing High Court closed down certain bank accounts of Qinghui Leasing and sealed up certain assets and bank accounts of Hongyuan Petrochemical stepwise.

Section 7 Other Material Particulars (Continued)

(2) *The lawsuits filed by the preferential holders of the Special Scheme against the Company*

Since June 2018, the Company has successively received the civil indictments brought by Xinyuan Fund Management Limited (鑫元基金管理有限公司), Galaxy Jinhui Securities Assets Management Co., Ltd. (銀河金匯證券資產管理有限公司), Goldstate Capital Fund Management Co., Ltd. (金元順安基金管理有限公司), Bank of Nanjing Co., Ltd. (南京銀行股份有限公司), Chuangjin Hexin Fund Management Limited (創金合信基金管理有限公司) and Tianhong Asset Management Co., Ltd. (天弘基金管理有限公司), the preferential holders of the Qinghui Leasing asset-backed special scheme Phase I (collectively the "Plaintiffs"), claiming for the repayment of the outstanding principals (i.e., RMB20 million, RMB60 million, RMB130 million, RMB100 million, RMB40 million and RMB35 million, respectively), and the interest payable and relevant charges by the Company. The Plaintiffs claimed that the Company, as the manager of the Special Scheme, had failed to perform its responsibilities in accordance with the laws and regulations as well as the requirements under the agreements and documents in relation to the Special Scheme, and therefore shall be liable for compensation to the Plaintiffs. Since August 2018, the Company has made counterplea against the Plaintiffs at the competent courts according to the time schedule of the competent courts in succession.

On 20 December 2018, Beijing Second Intermediate People's Court ruled and rejected the lawsuit filed by Galaxy Jinhui Securities Assets Management Co., Ltd., Goldstate Capital Fund Management Co., Ltd. and Bank of Nanjing Co., Ltd. On 29 December 2018, the above three companies appealed to the People's High Court of Beijing. On 27 November 2018, the lawsuit against the Company filed by Xinyuan Fund Management Limited, Chuangjin Hexin Fund Management Limited and Tianhong Asset Management Co., Ltd. was heard at the Finance Street People's Court of the People's Court of the Xicheng District in Beijing and is currently pending for judgment/ruling.

Section 7 Other Material Particulars (Continued)

2. The dispute with regard to the Tianxing Targeted Additional Issuance No. 1 and No. 2 Collective Assets Management Schemes under the management of the Company

The Company set up the Hengtai Tianxing Targeted Additional Issuance No. 1 Collective Assets Management Scheme (“TXTI No. 1”) and Hengtai Tianxing Targeted Additional Issuance No. 2 Collective Assets Management Scheme (“TXTI No. 2”) on 19 June 2015 and 30 June 2015, respectively, and invested in the Donghai Ruijing – Ruixiang NEEQ No. 1 special assets management scheme (“Ruixiang No. 1”) and Donghai Ruijing – Ruixiang NEEQ No. 2 of the special assets management scheme (“Ruixiang No. 2”) issued by Donghai Ruijing Asset Management (Shanghai) Co., Ltd. (東海瑞京資產管理(上海)有限公司) (“Donghai Ruijing”), respectively. TXTI No. 1 and TXTI No. 2 fell due and expired on 28 June 2017 and 5 July 2017. However, since TXTI No. 1 and TXTI No. 2 failed to be cashed out due to the failure of selling off of the assets of Ruixiang No. 1 and Ruixiang No. 2, into which the investment was made, the Company has yet to allocate the entrusted property so far.

In July 2018, the Company received the notice of appearance from the court, pursuant to which, on the grounds that the Company failed to perform its legal obligations and agreements under contracts in the course of management, 25 principals of TXTI No. 1 and TXTI No. 2 had initiated court proceedings against the Company, claiming for compensation totaling approximately RMB150 million and claiming that all litigation fees be borne by the Company. Since August 2018, the Company has made counterplea against the principals at the competent courts according to the time scheduled by the competent courts in succession. Meanwhile, Donghai Ruijing has taken proceedings in respect of the disputes involving the assets into which it made investment. The Company will allocate the entrusted property to the principals after cashing out the underlying assets under TXTI No. 1 and TXTI No. 2.

The People’s Court of the Xincheng District in Hohhot issued the written judgment on 19 December 2018, rejected the claim of Ms. Chu Xiuqin, the principal of TXTI No. 1, and the plaintiff made no appeals. In addition, the lawsuits against the Company filed by the other 24 principals have been heard in the competent courts. So far, all of the 24 principals have withdrawn the lawsuits.

Section 7 Other Material Particulars (Continued)

3. The lawsuits filed by the Company against Mr. Han Yiwen and Ms. Chao Ye for the equity pledged borrowings project

Beijing Hengtai Puhui Information Service Co., Ltd. (“Hengtai Puhui”) is a wholly-owned subsidiary established by Hengtai Pioneer, a wholly-owned subsidiary of the Company, on 17 April 2015. Hengtai Pioneer transferred 70% of the equity in Hengtai Puhui held by it on 28 June 2017, and holds 30% of the equity in Hengtai Puhui at present. As the internet financial platform, Hengtai Puhui established the NEEQ-Gongzhun Company-Pledge-602191 project on 4 August 2016. Mr. Han Yiwen (韓義文), the legal representative of Gongzhun Meat Products Incorporated Company (“Gongzhun Company”), a company listed on the NEED, made a borrowing of RMB60 million from 225 capital contributors through the platform as pledged by certain equity in Gongzhun Company held by him. The term of the pledge was one year and the interest rate was 6.5% per annum. The borrowings were to be used to replenish the working capital of Gongzhun Company. As the share price of Gongzhun Company was lower than the agreed compensation price, Ms. Chao Ye (Mr. Han Yiwen’s spouse), the director and deputy general manager of Gongzhun Company, increased the pledged shares of Gongzhun Company to Hengtai Puhui on 26 April 2017. Upon the expiry of the loan term, the borrower was unable to repay the principal and interest and caused the default.

In October 2017, the Company received the creditor’s rights transfer as a registered user of the platform, and filed a case in the People’s Court of the Xicheng District in Beijing (“Xicheng District Court”) on 2 November 2017. The court first mediated. When the mediation failed, the Company, in accordance with the agreed jurisdiction, filed a lawsuit concerning the loan contract dispute litigation to the People’s Court of the Xicheng District in Beijing on 2 January 2018. the Company claimed that the defendants, Mr. Han Yiwen and Ms. Chao Ye, shall repay the principal, interest, default interest of the creditor’s transfer of credits previously received by the Company totaling RMB16,999,900.09; and bear the expenses for execution of creditor’s rights including the litigation fees and property preservation fees and that the Company be entitled to the priority of compensation for the pledged shares of the two defendants after the auction sale. A formal court session of the case was held on 25 July 2018. On 28 September 2018, Xicheng District Court issued the verdict, requiring the defendants, Mr. Han Yiwen and Ms. Chao Ye, repaying the principal, interest and default interest within ten days after the judgment came into effect. On 19 November 2018, the Company made an application to the Enforcement Bureau of Xicheng District Court on the enforcement of the case on this Gongzhun project to facilitate its enforcement procedure.

Section 7 Other Material Particulars (Continued)

4. The lawsuit filed by the Company against Shenwu in relation to bond transactions

On 7 December 2016, the Company purchased in the market corporate bonds with an aggregate face value of RMB70 million, which were part of the corporate bonds issued by Shenwu Environmental Technology Co., Ltd. (神霧環保技術股份有限公司) (“Shenwu”) by way of non-public issuance in 2016 (“16 Shenwu Bonds”, bond code:118579). 16 Shenwu Bonds were unconditionally and irrevocably, jointly and severally, guaranteed by Shenwu Technology Group Corporation Limited (神霧科技集團股份有限公司) and Mr. Wu Daohong, the de facto controller of Shenwu (the “Guarantors”). On 6 February 2018, Shenwu published an announcement informing investors about the upward adjustment to the coupon rate of 16 Shenwu Bonds. Subsequently on 13 February 2018, the Company submitted application through the securities trading system for selling back 16 Shenwu Bonds it held to Shenwu as agreed under the investor put option. As at 14 March 2018, however, the Company had not received the payment of the principal of 16 Shenwu Bonds and the interest accrued thereon in the aggregate amount of RMB75.60 million. On 15 March 2018, Shenwu published an announcement that it was unable to pay the principal of 16 Shenwu Bonds and the interest accrued thereon due to strained liquidity.

On 10 May 2018, the Company filed a lawsuit with the Beijing No. 3 Intermediate People’s Court, demanding that Shenwu pay the principal of 16 Shenwu Bonds and the interest accrued thereon, the relevant legal fees and fees for property preservation in the aggregate sum of RMB76,853,911.01, and requesting that the Guarantors assume joint and several liabilities for such payments. Further, the Company also files an application for property preservation to freeze the equivalent cash deposits of Shenwu and the Guarantors. Beijing No. 3 Intermediate People’s Court issued the judgment on 28 August 2018, ruling that Shenwu shall pay the principal of 16 Shenwu Bonds and the interest accrued thereon, the relevant legal fees and fees for property preservation to the Company. On 15 October 2018, Shenwu appealed to People’s High Court of Beijing, claiming that the legal fees are excessively high and it lacks legal ground to support fees for property preservation. The case is expected to be heard in April 2019.

5. The arbitration with regard to the Pingyin Kaidi electricity on-grid tariff asset-backed specialized scheme (Phase II) under the management of the Company

On 11 November 2015, the Company established the Pingyin Kaidi electricity on-grid tariff asset-backed specialized scheme (Phase II) (the “Project” or “Special Scheme”) and acted as the manager thereof. The underlying asset is the electricity on-grid tariff during a

Section 7 Other Material Particulars (Continued)

particular period. The expected maturity date of the Project is 23 September 2021. The equity originators of the Special Scheme are Chongyang Kaidi Green Energy Development Co., Ltd. (崇陽縣凱迪綠色能源開發有限公司), Laifeng Kaidi Green Energy Development Co., Ltd. (來鳳縣凱迪綠色能源開發有限公司), Jiangling Kaidi Green Energy Development Co., Ltd. (江陵縣凱迪綠色能源開發有限公司), Chibi Kaidi Green Energy Development Co., Ltd. (赤壁凱迪綠色能源開發有限公司) and Gucheng Kaidi Green Energy Development Co., Ltd. (谷城縣凱迪綠色能源開發有限公司), all of which are subsidiaries of Kaidi Ecological and Environmental Technology Co., Ltd. (凱迪生態環境科技股份有限公司) (“Kaidi Ecological”). Kaidi Ecological is the promisor for the shortfall payment under the Special Scheme.

As Kaidi Ecological is involved in indebtedness default, it triggered the early termination events for the Special Scheme. After the termination of the Special Scheme, all of the asset-backed securities under the Special Scheme will mature. Equity originators shall pay all unpaid principal and interest of the asset-backed securities to the Special Scheme and Kaidi Ecological shall perform the payment obligation on the difference of the outstanding principal and interest of the asset-backed securities based on the priority of the Special Scheme. In order to safeguard the legitimate interests of the holders of the Project, on 10 August 2018, the Company, as the manager and on behalf of the Special Scheme, submitted the arbitration application on five cases and the application for property preservation to China International Economic and Trade Arbitration Commission, requiring the respondents repaying the outstanding principal and expected return of the Special Scheme with an aggregate sum of RMB1,215 million as well as default interest losses. The first respondents are Chongyang Kaidi Green Energy Development Co., Ltd., Laifeng Kaidi Green Energy Development Co., Ltd., Jiangling Kaidi Green Energy Development Co., Ltd., Chibi Kaidi Green Energy Development Co., Ltd. and Gucheng Kaidi Green Energy Development Co., Ltd. The second respondent is Kaidi Ecological. The five arbitration cases filed by the Company on behalf of the Special Scheme, were heard on 10 January 2019 and no arbitration award has been issued by the arbitral tribunal so far.

(II) Cases Concluded in the Reporting Period

None in the Reporting Period.

(III) Cases on Enforcement Procedures and Bankruptcy Proceedings

None in the Reporting Period.

Section 7 Other Material Particulars (Continued)

III. SIGNIFICANT CONTRACTS AND CONTRACT FULFILLMENT

1. The Company entered into a property lease contract with China Everbright Bank, Hohhot Branch on 1 September 2015, pursuant to which the Company leased from China Everbright Bank, Hohhot Branch the space of 14–18/F, Everbright Bank Building, Oriental Junzuo Block D, Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia Autonomous Region, China for a term of 1 year commencing from 1 September 2015. The property lease contract was renewed on 1 September 2016 and 1 September 2017, respectively. The rental paid by the Company for the Reporting Period was RMB3,001,500.
2. The Company entered into a property lease contract with China Life Real Estate Co., Limited on 1 March 2016, pursuant to which the Company leased from China Life Real Estate Co., Limited the space of the Unit 1101, 11/F, China Life Centre, Financial Street, Xicheng District, Beijing, China for a term of 3 years commencing from 1 March 2016. The rental paid by the Company for the Reporting Period was RMB21,980,300.

IV. CONNECTED TRANSACTIONS

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

During the Reporting Period, the Company and Huarong Investment entered into a property leasing and related services framework agreement (the "Framework Agreement") on 16 May 2018 to regulate the properties leasing relationship and property management services between the Group and Huarong Investment. The SASAC of Xicheng District, through Finance Street Xihuan Properties, Finance Street Investment and Huarong Infrastructure (collectively, the "Finance Street Group"), is interested in approximately 20.42% of the total issued share capital of the Company, and therefore it is a substantial shareholder of the Company. Pursuant to Rule 14A.07 of the Listing Rules, Finance Street Group and its associates are connected persons of the Company. Huarong Investment is a holding company of Finance Street Xihuan Properties, and is therefore an associate of the Finance Street Group. Accordingly, Huarong Investment is a connected person of the Company and transactions that the Company enters into with Huarong Investment and its associate constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Section 7 Other Material Particulars (Continued)

The Framework Agreement became effective from 1 January 2018 and will expire on 31 December 2020, subject to renewal. Since one or more of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the annual caps for the Framework Agreement exceeds 0.1% but is less than 5%, the Framework Agreement and the transactions contemplated under the Framework Agreement are subject to the reporting, announcement and annual review requirements, but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. All applicable percentage ratios calculated with reference to the rentals and management fees already incurred from 1 January 2018 to 30 April 2018 falls below 0.1% and therefore were exempt from reporting, announcement and annual review requirements. For details of the principal terms and pricing basis of the Framework Agreement, please refer to the announcement in relation to continuing connected transactions of the Company dated 16 May 2018. The amount of the above continuing connected transactions during the Reporting Period was RMB8,047,131, not exceeding the 2018 annual caps of RMB10 million disclosed in the above announcement.

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

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

Section 7 Other Material Particulars (Continued)

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

Based on the foregoing and for the continuing connected transactions disclosed:

- a. nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.
- b. for transactions involving the provision of goods or services by the Group, nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group.
- c. nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.
- d. with respect to the aggregate amount of the continuing connected transactions set out in the attached list of continuing connected transactions, nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have exceeded the 2018 annual cap as set by the Company in the Announcement.

Save as disclosed above, other transactions set out in Note 57 to the consolidated financial statements do not constitute connected transactions or continuing connected transactions or are exempt from compliance with reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

V. ATTAINED QUALIFICATIONS FOR SINGLE BUSINESS

The Company did not obtain any new business qualifications during the Reporting Period.

VI. SHARE OPTION SCHEME AND EQUITY INCENTIVE SCHEME

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

Section 7 Other Material Particulars (Continued)

VII. CLASSIFIED EVALUATION RESULTS OF THE COMPANY FROM SECURITIES REGULATORY AUTHORITY

In the classified evaluation of the PRC securities companies in 2018 carried out by the CSRC, the Company was assigned a BB rating in Class B.

VIII. ENGAGEMENT OF ACCOUNTING FIRMS

The Company appointed Ruihua Certified Public Accountants LLP and RSM Hong Kong as its external auditors for 2018 for providing correlated audit and review services, based on China's Accounting Standards for Business Enterprises and International Financial Reporting Standards, respectively.

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

As the Company could not reach a consensus with KPMG on the audit fee proposed for the financial year ended 31 December 2016, the resolution in respect of the change of International Auditors was considered and approved at the 2015 annual general meeting of the Company held on 27 May 2016, pursuant to which the Company ceased to re-appoint KPMG as its international accounting firm for 2016 and appointed RSM Hong Kong (in November 2018, its Chinese name was changed to “羅申美會計師事務所”, while there is no change of its English name) as its international accounting firm for 2016.

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

Ruihua Certified Public Accountants LLP, Ms. Pan Shuai and Mr. Hu Wei, 11 years.

2. International accounting firms and service lengths:

RSM Hong Kong, 3 years.

3. Remunerations for accounting firm

The Company paid RMB1.63 million to Ruihua Certified Public Accountants LLP for annual audit fee in 2018.

The Company paid RMB0.70 million to RSM Hong Kong for interim review fee in 2018 and RMB1.80 million for annual audit fee in 2018.

Section 7 Other Material Particulars (Continued)

IX. OTHER IMPORTANT PARTICULARS AND SUBSEQUENT EVENTS

(I) Change of Shareholders, Directors, Supervisors and Senior Management of the Company after the Reporting Period

None.

(II) Annual Profit Distribution Plan of the Company

Please refer to "Section 6 Report of the Board of Directors – IV. Profit Distribution and Profit Distribution Plan".

(III) Major Investment and Financing after the Reporting Period

1. Major investment of the Company

None.

2. Major financing of the Company

On 1 March 2019, the Company issued the beneficiary certificates "恒創泰富20號" with an issuance size of RMB200 million and a term of 364 days at an interest rate of 5.00%.

(IV) Significant Litigations and Arbitrations after the Reporting Period

On 1 March 2019, the Company received a notice of response to action from the People's Court of Futian District of Shenzhen, according to which, China Resources SZITIC Trust Co., Ltd. (華潤深國投信託有限公司), a preferential holder of Qinghui Leasing asset-backed special scheme Phase I (the "Special Scheme"), filed a lawsuit against the Company, alleging that the Company failed to perform its duties as the manager of the Special Scheme in accordance with the provisions of laws and regulations as well as the requirements specified in certain agreements and documents in respect of the Special Scheme. Therefore, it requested the Company to assume the compensation obligation for the principal amount of RMB30 million, plus accrued interest and related expenses. It is expected that the People's Court of Futian District of Shenzhen will hear the case in April 2019. For the details of the Special Scheme, please refer to the subsection headed "II. Significant Lawsuits and Arbitrations" under section 7 "Other Material Particulars".

Section 7 Other Material Particulars (Continued)

(V) Merger or Disposal of Subsidiaries after the Reporting Period

None.

(VI) Other Major Subsequent Events which may Affect the Financial Conditions, Operating Results, and Cash Flow of the Company

None.

(VII) Change of the Articles of Association after the Reporting Period

On 26 February 2019, the first extraordinary general meeting of the Company in 2019 considered and approved the resolution on the Change of the Company's Registered Address and Amendments to the Articles of Association and agreed to change the Company's registered address and make amendments to the corresponding provision in the Articles of Association. For details, please refer to the circular dated 11 January 2019 and the announcement dated 26 February 2019 of the Company. The change of the Company's registered address and the amendments to the Articles of Association will come into effect after approval has been granted by the relevant regulatory authorities of the PRC. Further announcement will be made by the Company in accordance with the Listing Rules as and when appropriate.

(VIII) Others

On 16 May 2018, the proposal regarding Reduction of Registered Capital of Hengtai Capital Investment Co., Ltd., a Wholly-owned Subsidiary of the Company was considered and approved at the 5th extraordinary meeting of the fourth session of the Board, pursuant to which it was approved to reduce the registered capital of Hengtai Capital to RMB0.6 billion in steps. On 22 August 2018, Hengtai Capital completed the industrial and commercial registration for the change of registered capital from RMB1.5 billion to RMB1.2 billion. On 11 March 2019, Hengtai Capital completed the industrial and commercial registration for the change of registered capital from RMB1.2 billion to RMB0.8 billion.

Section 8 Equity (Capital) Changes and Substantial Shareholders

I. SHAREHOLDING STRUCTURE

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

II. CHANGES IN SHARES

None in the Reporting Period.

III. SHAREHOLDERS

At the end of the Reporting Period, the Company had 50 registered shareholders, including 22 registered holders of Domestic Shares and 28 registered holders of H Shares.

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

No.	Name of shareholders	Nature of shareholders	Class of shares	Number of shares held	Percentage	Number of shares changed during the year	Number of shares held without sale limitations	Number of shares held with sale limitations	Pledge or freezing status	
									Status of shares	Number
1	HKSCC Nominees Limited ¹	Overseas legal person	H Shares	450,781,900	17.31%	-	450,781,900	0	-	-
2	Baotou Huazi Industry Co., Ltd.	Social legal person	Domestic Shares	308,000,000	11.83%	-	308,000,000	0	-	-
3	Beijing Qingyun Intercontinental Technology Co., Ltd.	Social legal person	Domestic Shares	226,961,315	8.71%	-	226,961,315	0	Pledged	214,932,520
4	Beijing Finance Street Xihuan Properties Co., Ltd.	State-own legal person	Domestic Shares	211,472,315	8.12%	-	211,472,315	0	-	-
5	Beijing Huijin Jiaye Investment Co., Ltd.	Social legal person	Domestic Shares	206,182,000	7.92%	-	206,182,000	0	Pledged	201,973,858
6	Beijing Finance Street Investment (Group) Co., Ltd.	State-own legal person	Domestic Shares	165,418,345	6.35%	-	165,418,345	0	-	-
7	Beijing Huarong Infrastructure Investment Co., Ltd.	State-own legal person	Domestic Shares	155,079,698	5.95%	-	155,079,698	0	-	-
8	Tibet Dazi Huifa Investment Co., Ltd.	Social legal person	Domestic Shares	154,000,000	5.91%	-	154,000,000	0	-	-
9	Beijing Hongzhi Huitong Industrial Co., Ltd.	Social legal person	Domestic Shares	154,000,000	5.91%	-	154,000,000	0	Pledged	123,500,000
10	Hua Chen Trust Limited Corporation	State-own legal person	Domestic Shares	92,297,832	3.54%	-	92,297,832	0	Frozen	92,297,832

Note:

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

Section 8 Equity (Capital) Changes and Substantial Shareholders (Continued)

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

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

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

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

Name of shareholders	Legal representative	Date of establishment	Registered capital (RMB0'000)	Registered address	Principal business
Baotou Huazi Industry Co., Ltd.	Song Weidong (宋衛東)	30 November 1998	48,493.20	South Road of National Rare Earth High-Tech Industrial Development Zone, Baotou City, Inner Mongolia Autonomous Region, China	Production and sales of sugar, molasses; operation of export of products and relevant technologies manufactured and developed by itself; operation of importing of raw and auxiliary materials, machinery, equipment, instruments and spare parts required for production; conducting foreign co-production and compensated trade business

Section 8 Equity (Capital) Changes and Substantial Shareholders (Continued)

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

As at 31 December 2018, to the knowledge of the Directors after having made all reasonable enquiries, the following persons (excluding the Directors, Supervisors or senior management of the Company) had interests or short positions in the shares or underlying shares of the Company which had to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and were recorded, pursuant to Section 336 of the SFO, in the register referred to therein:

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

Section 8 Equity (Capital) Changes and Substantial Shareholders (Continued)

Name of substantial shareholders	Class of Shares	Nature of interest	Number of shares held (shares)	Approximate percentage of total number of issued shares of the Company ¹ (%)	Approximate percentage of the Company's total issued Domestic Shares/ H Shares ¹	Long positions/ short positions/ shares available for lending
					(%)	
Qingyun Intercontinental ⁸	Domestic Shares	Beneficial owner	226,961,315	8.71	10.54	Long positions
Ningbo Shike ⁹	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long positions
Shaanxi Hongya ⁸	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long positions
Mr. Duan Shuai ⁸	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long positions
Mr. Sun Yuanlin ⁹	Domestic Shares	Interests of controlled corporation	226,961,315	8.71	10.54	Long positions
Hongzhi Huitong ⁹	Domestic Shares	Beneficial owner	154,000,000	5.91	7.15	Long positions
Shaanxi Tianchen ⁹	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Hangzhou Ruisi ⁹	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Suzhou Bingtai ⁹	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Mr. Zhang Li ⁹	Domestic Shares	Interests of controlled corporation	154,000,000	5.91	7.15	Long positions
Guotai Fund Management Co., Ltd. (國泰基金管理有限公司)	H Shares	Investment manager	62,235,000	2.39	13.80	Long positions
Pohua JT Private Equity Fund L.P. ¹⁰	H Shares	Beneficial owner	67,880,000	2.61	15.05	Long positions
Pohua JT Capital Partners Limited ¹⁰	H Shares	Interests of controlled corporation	67,880,000	2.61	15.05	Long positions

Notes:

- As at 31 December 2018, there was a total of 2,604,567,412 shares of the Company in issue, comprising 2,153,721,412 Domestic Shares and 450,846,000 H Shares.
- Huarong Infrastructure is wholly-owned by Finance Street Capital, which is in turn wholly-owned by SASAC Xicheng District. Therefore, each of Finance Street Capital and SASAC Xicheng District is deemed to be interested in 155,079,698 Domestic Shares held by Huarong Infrastructure.
- Finance Street Investment is wholly-owned by SASAC Xicheng District. Therefore, SASAC Xicheng District is deemed to be interested in 165,418,345 Domestic Shares held by Finance Street Investment.
- 90.00% of the equity interest in Finance Street Xihuan Properties is held by Huarong Investment, which is in turn wholly-owned by SASAC Xicheng District. Therefore, each of Huarong Investment and SASAC Xicheng District is deemed to be interested in 211,472,315 Domestic Shares held by Finance Street Xihuan Properties.
- Tomorrow Holding, Zhongchang Hengyuan and Shanghai Yida have entered into an agreement to act in concert in respect of their shareholding in the Company. Therefore, each of Tomorrow Holding, Baotou Huazi (which is held by Tomorrow Holding as to approximately 54.32%), Zhongchang Hengyuan and Shanghai Yida is deemed to be interested in 443,868,000 Domestic Shares (being an aggregate of 308,000,000, 75,100,000 and 60,768,000 Domestic Shares held by Baotou Huazi, Zhongchang Hengyuan and Shanghai Yida, respectively).

Section 8 Equity (Capital) Changes and Substantial Shareholders (Continued)

6. 53.33% and 46.67% of the equity interest in Huifa Investment is held by Mr. Shen Weimin (沈為民) and Ms. Chen Shan (陳珊), respectively. Therefore, each of Mr. Shen Weimin (沈為民) and Ms. Chen Shan (陳珊) is deemed to be interested in 154,000,000 Domestic Shares held by Huifa Investment.
7. 99.99% of the equity interest in Huijin Jiaye is held by Shanghai Xishida. 95.00% of the equity interest in Shanghai Xishida is held by Shenzhen Zhongxin. 99.47% of the equity interest in Shenzhen Zhongxin is held by Shanghai Julu. 35.00% of the equity interest in Shanghai Julu is held by Mr. Ci Penghui (慈鵬輝). Therefore, each of Shanghai Xishida, Shenzhen Zhongxin, Shanghai Julu, and Mr. Ci Penghui (慈鵬輝) is deemed to be interested in 206,182,000 Domestic Shares held by Huijin Jiaye.
8. 70.00% of the equity interest in Qingyun Intercontinental is held by Ningbo Shike, which is in turn held by Shaanxi Hongya as to 99.60%. Shaanxi Hongya is held by Mr. Duan Shuai (段帥) and Mr. Sun Yuanlin (孫元林) as to 49.00% and 51.00%, respectively. In addition, 0.40% of the equity interest in Ningbo Shike is held by Mr. Sun Yuanlin (孫元林). Therefore, each of Ningbo Shike, Shaanxi Hongya, Mr. Duan Shuai and Mr. Sun Yuanlin (孫元林) is deemed to be interested in 226,961,315 Domestic Shares held by Qingyun Intercontinental.
9. 97.08% of the equity interest in Hongzhi Huitong is held by Shaanxi Tianchen. 98.67% of the equity interest in Shaanxi Tianchen is held by Hangzhou Ruisi. 94.00% of the equity interest in Hangzhou Ruisi is held by Suzhou Bingtai. 81.82% of the equity interest in Suzhou Bingtai is held by Mr. Zhang Li (張利). Therefore, each of Shaanxi Tianchen, Hangzhou Ruisi, Suzhou Bingtai and Mr. Zhang Li (張利) is deemed to be interested in 154,000,000 Domestic Shares held by Hongzhi Huitong.
10. Pohua JT Private Equity Fund L.P. is wholly-owned by Pohua JT Capital Partners Limited. Therefore, Pohua JT Capital Partners Limited is deemed to be interested in 67,880,000 H Shares held by Pohua JT Private Equity Fund L.P..

Save as disclosed above, as at 31 December 2018, the Company is not aware of any other persons (excluding the Directors, Supervisors and senior management of the Company) having any interest or short position in the shares or underlying shares of the Company which will be required to be recorded in the register under Section 336 of the SFO.

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

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

VI. PRE-EMPTIVE RIGHTS

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

Section 9 Directors, Supervisors, Senior Management and Employees

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

(I) Directors

No.	Name	Gender	Age	Positions	Term of office	Total remuneration (before tax) received from the Company during the Reporting Period <i>(RMB in thousand)</i>	Remarks
1	Pang Jiemin (龐介民)	Male	47	Chairman of the Board and executive Director	From 22 December 2017 to 21 December 2020	1,943	–
2	Wu Yigang (吳誼剛)	Male	59	Vice chairman of the Board and executive Director	From 22 December 2017 to 21 December 2020	920	–
3	Zhang Tao (張濤)	Male	40	Non-executive Director	From 22 December 2017 to 21 December 2020	75	–
4	Sun Chao (孫超)	Male	35	Non-executive Director	From 22 December 2017 to 21 December 2020	75	–
5	Dong Hong (董紅)	Female	49	Non-executive Director	From 5 January 2018 to 21 December 2020	75	Obtained approval of qualification as a Director on 5 January 2018
6	Gao Liang (高靚)	Female	48	Non-executive Director	From 31 January 2018 to 21 December 2020	69	Obtained approval of qualification as a Director on 31 January 2018
7	Zhou Jianjun (周建軍)	Female	49	Independent non- executive Director	From 22 December 2017 to 21 December 2020	150	–
8	Lam Sek Kong (林錫光)	Male	59	Independent non- executive Director	From 22 December 2017 to 21 December 2020	150	–
9	Lv Wendong (呂文棟)	Male	51	Independent non- executive Director	From 5 January 2018 to 21 December 2020	150	Obtained approval of qualification as an independent Director on 5 January 2018

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

(II) Supervisors

No.	Name	Gender	Age	Positions	Term of office	Total remuneration (before tax) received from the Company during the Reporting Period <i>(RMB in thousand)</i>	Remarks
1	Guo Liwen (郭力文)	Male	58	Chairman of Supervisory Committee	From 22 December 2017 to 21 December 2020	799	-
2	Pei Jingjing (裴晶晶)	Female	35	Shareholder representative Supervisor	From 22 December 2017 to 21 December 2020	45	-
3	Wang Hui (王慧)	Male	45	Employee representative Supervisor	From 22 December 2017 to 21 December 2020	570	-

(III) Senior Management

No.	Name	Gender	Age	Positions	Term of office	Total remuneration (before tax) received from the Company during the Reporting Period <i>(RMB in thousand)</i>	Remarks
1	Niu Zhuang (牛壯)	Male	46	President	From 22 December 2017 to 21 December 2020	1,525	-
2	Zhang Wei (張偉)	Male	48	Vice president, secretary of the Board	From 22 December 2017 to 21 December 2020	926	-
3	Fu Lixin (付立新)	Female	52	Vice president	From 22 December 2017 to 21 December 2020	804	-
4	Wu Lihui (武麗輝)	Female	47	Vice president	From 22 December 2017 to 21 December 2020	926	-
5	Zhao Peiwu (趙培武)	Male	54	Vice president	From 22 December 2017 to 21 December 2020	792	-
6	Huang Weiguo (黃偉國)	Male	41	Vice president	From 22 December 2017 to 21 December 2020	1,569	-
7	Liu Quansheng (劉全勝)	Male	43	Vice president	From 22 December 2017 to 21 December 2020	805	-
8	Pang Jiemin (龐介民)	Male	47	Chief compliance officer (acting)	From 2 November 2017 to present	-	-
9	Yu Fang (于芳)	Female	38	Chief risk officer	From 22 December 2017 to 21 December 2020	805	-
10	Yang Shufei (楊淑飛)	Female	45	Chief financial officer	From 22 December 2017 to 21 December 2020	806	-

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

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

(I) Appointment in Shareholders' Companies

No.	Name	Position in the Company	Employing unit	Position in shareholders' company	Term of office
1	Zhang Tao (張濤)	Non-executive Director	Baotou Huazi Industry Co., Ltd. (包頭華資實業股份有限公司)	Chairman of supervisory committee	May 2008 to present
2	Sun Chao (孫超)	Non-executive Director	Beijing Qingyun Intercontinental Technology Co., Ltd. (北京慶雲洲際科技有限 公司)	Chairman of the board and general manager	December 2013 to present
			Dalian Ben Hao Cheng Industrial Co., Ltd. (大連本浩成實業有限公司)	Chairman of the board and general manager	August 2013 to present
3	Dong Hong (董紅)	Non-executive Director	Beijing Finance Street Investment (Group) Co., Ltd. (北京金融街投資(集團)有限公司)	Chief legal advisor	March 2015 to present
			Beijing Huarong Infrastructure Investment Co., Ltd. (北京華融基礎設施投資有限責任公司)	Director	November 2016 to present
4	Gao Liang (高靚)	Non-executive Director	Beijing Finance Street Investment (Group) Co., Ltd. (北京金融街投資(集團)有限公司)	Director	December 2013 to present

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

No.	Name	Position in the Company	Employing unit	Position in shareholders' company	Term of office
5	Pei Jingjing (裴晶晶)	Shareholder representative Supervisor	Beijing Huijin Jiaye Investment Co., Ltd. (北京匯金嘉業投資有限公司)	Executive director and general manager	February 2013 to present
			Shanghai Xishida Electronics Co., Ltd. (上海喜仕達電子技術有限公司)	Executive director and general manager	April 2012 to present

(II) Appointment in other Units

No.	Name	Position in the Company	Employing unit	Position in other units	Term of office
1	Pang Jiemin (龐介民)	Chairman of the Board and executive Director	Inner Mongolia Securities & Futures Association in China (中國內蒙古證券期貨協會)	President	April 2016 to present
2	Zhou Jianjun (周建軍)	Independent non-executive Director	Beijing Zhongchuan Xinju Accounting Firm Company Limited (北京中川鑫聚會計師事務所有限責任公司)	Chief accountant	April 2009 to May 2018
			Beijing Xinlian Renhe Investment Co., Ltd (北京信聯仁和投資有限公司)	Finance manager	June 2018 to present
3	Lam Sek Kong (林錫光)	Independent non-executive Director	Messrs. S.K. Lam, Alfred Chan & Co. (林錫光、陳啟鴻律師行)	Partner	June 1996 to present
			APT Satellite Holdings Limited (亞太衛星控股有限公司)	Independent non-executive director	July 2007 to present

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

No.	Name	Position in the Company	Employing unit	Position in other units	Term of office
4	Lv Wendong (呂文棟)	Independent non-executive Director	Business School of University of International Business and Economics (對外經濟貿易大學商學院)	Professor	December 2009 to present
			Scientific Decision Making Magazine (《科學決策》雜誌社)	President	January 2011 to present
			Chinese Social and Economic Systems Analysis Research Association (中國社會經濟系統分析研究會)	Vice-chairman	December 2014 to present
5	Gao Liang (高靚)	Non-executive Director	Finance Street Holdings Co., Ltd. (金融街控股股份有限公司)	Chairman	January 2017 to present
			China Securities Pyrophosphate Copper Fund Management Co. Ltd (中證焦銅基金管理有限公司)	Vice-chairman	February 2017 to present
			China Association for Public Companies (中國上市公司協會)	Deputy chairman	April 2017 to present

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

(I) Directors

Mr. Pang Jiemin (龐介民), aged 47, has been a Director and the chairman of the Board and legal representative since December 2010. Before joining our Group, Mr. Pang served in Beijing Huarong Comprehensive Investment Company (北京華融綜合投資公司) as a deputy general manager from May 2010 to December 2010. Mr. Pang graduated from Hebei University of Economics and Business (河北經貿大學, formerly known as Hebei College of Finance and Economics (河北財經學院)) in Shijiazhuang, Hebei Province, the PRC with a bachelor's degree of finance in July 1993. He then obtained a master's degree of economics from Central Institute of Finance and Banking (中央財政金融學院, now known as Central University of Finance and Economics (中央財經大學)) in Beijing, the PRC in March 1996. Mr. Pang obtained a doctor's degree of economics in Southwestern University of Finance and Economics (西南財經大學) in Chengdu, Sichuan Province, the PRC in January 2005. From December 2007 to May 2008, Mr. Pang was a visiting post-doctor researcher at the ICMA Centre of University of Reading in the United Kingdom. Mr. Pang was granted the qualification as economist (經濟師資格) by Ministry of Human Resources and Social Security of the People's Republic of China (中華人民共和國人力資源和社會保障部) in November 1997. He also passed the 21st qualification test for senior management of securities institutions organized by the Securities Association of China in December 2010.

Mr. Wu Yigang (吳誼剛), aged 59, has been a Director and the vice chairman of our Board since October 2008 and June 2015, respectively. Mr. Wu is currently responsible for formulating our corporate and business strategies and making major corporate and operational decisions and responsible for the corporate governance matters. Mr. Wu served as the president of the Company from April 2003 to June 2015. Mr. Wu completed a college course in radio fax and graduated from Inner Mongolia University (內蒙古大學) in Hohhot, Inner Mongolia, the PRC in July 1987. He completed an undergraduate course in economics and management and graduated from Inner Mongolia Autonomous Region Party Committee Party School (中共內蒙古自治區委員會黨校) in Hohhot, Inner Mongolia, the PRC in January 1997. Mr. Wu then completed a postgraduate course in market economy and graduated from Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) in Beijing, the PRC in November 1998.

Mr. Zhang Tao (張濤), aged 40, has been a Director since November 2008. Concurrently, he has also been assuming the position of chairman of the board of supervisors in Baotou Huazi (a substantial shareholder of our Company) since May 2008. Before joining our Group, he served in Baotou Huazi as a director, in charge of investment and financing from September 2001 to April 2008. Mr. Zhang graduated from The Open University of China (中央廣播電視大學) in Beijing, the PRC in May 2005, majoring in law.

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

Mr. Sun Chao (孫超), aged 35, has been a Director since January 2015. He has concurrently been acting as the president and general manager of Dalian Ben Hao Cheng Industrial Co., Ltd. (大連本浩成實業有限公司) and the president and general manager of Qingyun Intercontinental in charge of designing, negotiating and managing the investment project since August 2013 and December 2013, respectively. Before joining our Group, he served as an assistant to general manager in charge of industry research and a deputy general manager in charge of direct project investment management in Dalian Ben Hao Cheng Industrial Co., Ltd. (大連本浩成實業有限公司) from July 2008 to September 2010 and from September 2011 to August 2013, respectively. He also worked as a deputy general manager in charge of project investment management in Qingyun Intercontinental from September 2012 to December 2013. Mr. Sun graduated from East China Normal University (華東師範大學) in Shanghai, the PRC with a bachelor's degree majoring in software engineering in July 2008. He obtained a master's degree of arts majoring in international financial analysis from University of Newcastle upon Tyne in Newcastle, the United Kingdom in September 2011.

Ms. Dong Hong (董紅), aged 49, has been a Director since January 2018. Ms. Dong successively served as an assistant judge and judge at the economic tribunal of Fengtai District People's Court of Beijing Municipality (北京市豐台區人民法院) from August 1989 to May 2000. She was then successively served as a judge of the commercial tribunal and a deputy chief judge and a chief judge of Nanmofang People's Tribunal (南磨房人民法庭) at Chaoyang District People's Court of Beijing Municipality (北京市朝陽區人民法院) from May 2000 to March 2015. She has been the general counsel in Finance Street Investment since March 2015. Ms. Dong graduated from Beijing College of Politics and Law (北京政法職業學院) formerly known as Beijing School of Justice (北京市司法學校) in Beijing, the PRC with a specialized secondary diploma majoring in law in July 1989; from Peking University (北京大學) in Beijing, the PRC with a college's diploma majoring in law in December 1991; from Correspondence Institute of Party School of the Central Committee of C.P.C (中共中央黨校函授學院) in Beijing, the PRC with a bachelor diploma in politics and laws in December 1997 and from Peking University (北京大學) in Beijing, the PRC with a degree of Bachelor of Laws in January 2004.

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

Ms. Gao Liang (高靚), aged 48, has been a Director since January 2018. Ms. Gao served as a teacher of The Third People's Police School of Beijing (北京市第三人民警察學校) from July 1993 to July 1994. Ms. Gao successively served as an employee, the manager and the assistant to general manager of Beijing Finance Street Property Management Co., Ltd. (北京金融街物業管理有限責任公司) from July 1994 to December 1995, and the deputy general manager of Jinxiao Real Estate Advisory Co., Ltd. (金曉房地產諮詢有限公司) from January 1996 to March 1998. Ms. Gao served as the manager of Finance Street Construction & Development Co., Ltd. (金融街建設開發有限責任公司) from March 1998 to October 1999, the deputy general manager and deputy managing director of Finance Street Holdings Co., Ltd. (金融街控股股份有限公司) from October 1999 to June 2011. Ms. Gao serves as the deputy general manager of Finance Street Investment from July 2011 to July 2014, and has been a director of the company since December 2013. Furthermore, Ms. Gao served as the chairman and general manager of Beijing Finance Street Investment and Management Co., Ltd (北京金融街投資管理有限公司) from December 2011 to July 2014 and the deputy managing director of Beijing Finance Street Capital Management Centre (北京金融街資本運營中心) from March 2012 to July 2014. Ms. Gao is a director of Finance Street Holdings Co., Ltd. (金融街控股股份有限公司) since April 2013, and served as the general manager of Finance Street Holdings Co., Ltd. (金融街控股股份有限公司) from August 2014 to January 2017, and served as the president of Finance Street Holdings Co., Ltd. (金融街控股股份有限公司) since January 2017. Ms. Gao obtained the bachelor's degree in laws from China University of Political Science and Law (中國政法大學) in July 1993, graduated from the Graduate School of Chinese Academy of Social Science (中國社會科學院研究生院) in July 1998, majored in business management, and obtained an executive master of business administration degree from The Hong Kong University of Science and Technology (香港科技大學) in November 2007.

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

Ms. Zhou Jianjun (周建軍), aged 49, has been an independent Director since April 2015. Ms. Zhou graduated from Northwest Agriculture University (西北農業大學) (now known as Northwest A&F University (西北農林科技大學)) in Shaanxi, the PRC with a bachelor's degree majoring in soil and plant nutriology in July 1992. Ms. Zhou graduated from Lanzhou University of Finance and Economics (蘭州商學院) in Lanzhou, Gansu Province, the PRC in June 1999 and majored in accounting. Ms. Zhou was qualified as China's certified tax agent and certified public accountant in November 2002 and March 2004, respectively. Ms. Zhou worked in Lanzhou Chemical Industry Company (蘭州化學工業公司, which was merged by absorption by China National Petroleum Lanzhou Petrochemical Corporation (中石油蘭州石油化工公司)) as an accountant and a chief accountant from July 1992 to November 2001. She served as an auditor in Gansu Wulian United Accounting Firm (甘肅五聯聯合會計師事務所) (now known as Gansu branch of Ruihua Accounting Firm (瑞華會計師事務所(特殊普通合夥)甘肅分所)) from November 2001 to September 2004. Then she worked in Ningbo Kexin Accounting Firm (寧波科信會計師事務所有限公司) as a project auditing manager from September 2004 to November 2006. She also worked as a finance manager in Kongchuang (Beijing) Technology Company Limited (控創(北京)科技有限公司), from November 2006 to April 2009. Ms. Zhou was a chief accountant in Beijing Zhongchuan Xinju Accounting Firm Company Limited (北京中川鑫聚會計師事務所有限責任公司) from April 2009 to May 2018 and has been serving as the finance manager of Beijing Xinlian Renhe Investment Co., Ltd (北京信聯仁和投資有限公司) since June 2018.

Dr. Lam Sek Kong (林錫光), aged 59, has been an independent Director since April 2015. Concurrently, Dr. Lam has been an independent non-executive director of APT Satellite Holdings Limited (亞太衛星控股有限公司) (the issued shares of which are listed on the Main Board of the Stock Exchange, stock code: 1045) since July 2007, in which he also served as the chairman of the nomination committee and a member of each of the audit committee and remuneration committee. Dr. Lam is a partner of Messrs. S.K. Lam, Alfred Chan & Co. He has been practicing law in Hong Kong since 1987. Dr. Lam is a member of the Hong Kong Society of Notary Public, a member of the China Appointed Attesting Officers Association in Hong Kong and a member of the Chartered Institute of Arbitrators (UK). Dr. Lam is also admitted as barrister and solicitor of the Supreme Court of Australian Capital Territory, legal practitioner of the Supreme Court of New South Wales and barrister in federal court of Australia. Dr. Lam obtained a bachelor's degree and a master's degree of laws from University of Hong Kong, in Hong Kong, in November 1984 and November 1991, respectively. Dr. Lam also obtained a master's degree in economic law from Peking University (北京大學), in Beijing, the PRC in June 2004 and a Ph. D. degree in civil and commercial law from Tsinghua University (清華大學), in Beijing, the PRC in January 2007.

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

Mr. Lv Wendong (呂文棟), aged 51, has been an independent Director since January 2018. Mr. Lv worked in Taiyuan Science and Technology Committee (太原市科學技術委員會) as a clerk from July 1990 to August 2000. He acted as a clerk of Intellectual Property Affairs Center of Science and Technology Department (科技部知識產權事務中心) from August 2000 to September 2001. He was a professor of School of Insurance and Economics of University of International Business and Economics (對外經濟貿易大學) from May 2006 to November 2009, and he has been the professor of Business School of University of International Business and Economics (對外經濟貿易大學) since December 2009. Mr. Lv graduated from Shanxi University (山西大學) with a bachelor degree in economics in August 1990; graduated from Renmin University of China (中國人民大學) with a master degree in business administration in July 1999; graduated from School of Government, Peking University (北京大學政府管理學院) in June 2004 with a juris doctor degree and graduated from Guanghua School of Management, Peking University (北京大學光華管理學院) with a postdoctoral certificate in business administration in June 2006.

(II) Supervisors

Mr. Guo Liwen (郭力文), aged 58, has been a Supervisor and the chairman of the Supervisory Committee since December 2010. Mr. Guo joined the Company in June 1999 and served as the general manager of coordination development department from June 1999 to October 2008. Mr. Guo served as a director of the Company from October 2008 to November 2011. Mr. Guo graduated from a graduate course of philosophy from Inner Mongolia University (內蒙古大學) in Hohhot, Inner Mongolia, the PRC in July 1984.

Ms. Pei Jingjing (裴晶晶), aged 35, has been a Supervisor since January 2015. She has also been assuming positions of general manager and executive director both in Shanghai Xishida Electronics Ltd. (上海喜仕達電子技術有限公司) and Huijin Jiaye since April 2012 and February 2013, respectively. Ms. Pei graduated from Beihang University (北京航空航天大學) in Beijing, the PRC with a bachelor's degree majoring in economics in July 2007. Ms. Pei is deemed to be interested in 206,182,000 Domestic Shares held by Huijin Jiaye in the Company immediately after the completion of the Global Offering.

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

Mr. Wanghui (王慧), aged 45, has been an employee representative Supervisor since September 2012, a deputy manager of office of the Board from July 2009 to January 2017 and manager of office of the Board since January 2017. Concurrently, he has also been a supervisor of Hengtai Changcai, Hengtai Pioneer, Hengtai Futures, Shanghai Yingwo Investment Management Co, Ltd. (上海盈沃投資管理有限公司), Beijing Hengtai Hongze Investment Co., Ltd. (北京恒泰弘澤投資有限公司), Shanghai Hongdian Investment Management Co., Ltd. (上海泓典投資管理有限公司) and Inner Mongolia Hengtai Shengda Investment Management Co., Ltd. (內蒙古恒泰盛達投資管理有限公司) since October 2012, January 2013, June 2013, July 2013, April 2015, May 2015 and November 2015, respectively. Before joining the Group, Mr. Wang served successively as a deputy chief of staff and deputy director of office of the board in Beijing Huarong Comprehensive Investment Company (北京華融綜合投資公司) from October 2005 to July 2009. Mr. Wang graduated from East China University of Metallurgy (華東冶金學院) in Ma'anshan, An'hui Province, the PRC with a bachelor's degree majoring in ferrous metallurgy in July 1995. He obtained a master's degree majoring in business administration from Beijing Jiaotong University (北京交通大學) in Beijing, the PRC in May 2004.

(III) Senior Management

Mr. Niu Zhuang (牛壯), aged 46, has been the president of the Company since June 2015 and is currently mainly responsible for formulating the Company's corporate and business strategies and making major corporate and operational decisions, being fully responsible for the Company's overall operation and management and execution of the Board resolutions. Mr. Niu served as the chief financial officer and an executive vice president of the Company from February 2004 to September 2012 and from September 2012 to June 2015, respectively. Concurrently, Mr. Niu also has served as the chairman of the board and the legal representative of Inner Mongolia Hengtai Shengda Investment Management Co., Ltd. (內蒙古恒泰盛達投資管理有限公司) and an executive director and the legal representative of Shanghai Yingwo Investment Management Co, Ltd. (上海盈沃投資管理有限公司) from November 2015 and September 2016, respectively. Mr. Niu has served as an executive director and the legal representative of Hengtai Capital from December 2015, and the general manager thereof since January 2017. Mr. Niu graduated from Beijing Institute of Fashion Technology (北京服裝學院) in Beijing, the PRC with a bachelor's degree majoring in industrial management engineering in July 1993. He obtained a master's degree majoring in accounting from Renmin University of China (中國人民大學) in Beijing, the PRC in January 2005.

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

Mr. Zhang Wei (張偉), aged 48, has been a vice president, the secretary of the Board and one of the joint company secretaries of the Company since September 2008, November 2011 and March 2015, respectively. He is currently in charge of the president office and the Board office, management of the operation of Hengtai Changcai. Concurrently, Mr. Zhang has been a director in Hengtai Futures and the legal representative, executive director and general manager in Hengtai Changcai since December 2009 and June 2014, respectively. Mr. Zhang served as the president assistant and a vice president of the Company from August 2002 to November 2006 and from November 2006 to September 2008, respectively. Before joining the Group, Mr. Zhang served as a manager of general management department in China National Heavy Duty Truck Finance Co., Ltd (中國重汽財務有限公司) from July 1994 to May 1999. Mr. Zhang worked in China National Heavy Duty Truck Group Jinan Truck Co., Ltd. (中國重汽集團濟南卡車公司) as a secretary of the Communist Youth League from May 1999 to August 2002. Mr. Zhang graduated from Shandong University (山東大學) in Ji'nan, Shandong Province, the PRC with a bachelor's degree majoring in public finance in July 1994.

Ms. Yu Fang (于芳), aged 38, has been the chief risk officer of the Company since April 2014. She is currently in charge of our risk management department and audit department and risk management and internal audit. Concurrently, Ms. Yu also has been a director of New China Fund since August 2015. Ms. Yu was the chief compliance officer of the Company from January 2013 to November 2017. Before joining the Group, Ms. Yu served in New Times Securities Co. Ltd. (新時代證券有限責任公司) as the general manager assistant and a vice president, in charge of compliance management department, audit department and legal management department from June 2008 to June 2012 and from June 2012 to December 2012, respectively. Ms. Yu graduated from Hunan University (湖南大學) in Changsha, Hunan Province, the PRC with a bachelor's degree majoring in law in June 2003.

Ms. Fu Lixin (付立新), aged 52, has been a vice president of the Company since May 2008. She is currently responsible for the operation of Hengtai Futures. She has also been assuming positions of the chairman of the board and legal representative of Hengtai Futures as well as executive director and legal representative of Hengtai Yingwo Asset Management Co. Ltd. (恒泰盈沃資產管理有限公司) since December 2009 and February 2016, respectively. Ms. Fu served as a president assistant of the Company, in charge of brokerage business department, research and e-commerce from October 2003 to May 2008. Before joining the Group, Ms. Fu worked in Fuyou Securities Brokers Co., Ltd. (富友證券經紀有限責任公司) successively as a manager and a vice president from April 1993 to October 2003. Ms. Fu graduated from Tianjin University of Finance and Economics (天津財經大學, formerly known as Tianjin College of Finance and Economics (天津財經學院)) in Tianjin, the PRC with a bachelor's degree majoring in statistics in July 1988. She obtained a master's degree majoring in politics and economics from Harbin Institute of Technology (哈爾濱工業大學) in Harbin, Heilongjiang Province, the PRC in March 1994.

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

Ms. Wu Lihui (武麗輝), aged 47, has been a vice president of the Company since July 2012. She is currently responsible for the financial market department and supervision of the management of Hengtai Pioneer. Concurrently, Ms. Wu has been assuming positions of an executive director, the legal representative and the general manager in Hengtai Pioneer since January 2013, respectively. Ms. Wu served successively as a director of office of the Board and the assistant to the chairman of the Board of the Company from November 2009 to July 2012 and as an executive director and the legal representative of Beijing Hengtai Hongze Investment Co., Ltd. (北京恒泰弘澤投資有限公司) from April 2015 to January 2018. Before joining the Group, Ms. Wu worked in Guantao Law Firm (觀韜律師事務所) in Beijing as a lawyer and a partner from February 2000 to December 2007. Then she assumed the position of a deputy general manager in Finance Street Xihuan Properties from January 2008 to October 2009. Ms. Wu graduated from China University of Mining and Technology (中國礦業大學) in Xuzhou, Jiangsu Province, the PRC with a bachelor's degree majoring in material management project in July 1993 and obtained a master's degree majoring in civil law from Heilongjiang University (黑龍江大學) in Harbin, Heilongjiang Province, the PRC in July 1996.

Mr. Zhao Peiwu (趙培武), aged 54, has been a vice president of the Company since September 2009. He is currently responsible for the management of the brokerage business department and supervision of the operation of the Changchun branch office, and all of the securities branches as well as the asset custody department and institutional investment consultant department. Mr. Zhao consecutively served as a deputy director of operating department of the Company from October 1988 to September 1989, the general manager of the sales department from April 1993 to April 2000, a director of president office from April 2000 to January 2004, a manager of brokerage department from January 2004 to March 2008 and an assistant to the president of the Company from March 2008 to September 2009, respectively. Mr. Zhao also served in Hengtai Changcai as the general manager from September 2009 to July 2011 and from July 2013 to June 2014. He also acted as an executive director and the legal representative for Hengtai Changcai from July 2011 to June 2014. Mr. Zhao finished his three-year financial courses in Shanxi Institute of Finance and Economics (陝西財經學院) (now known as Schools of Economics and Finance of Xi'an Jiaotong University (西安交通大學經濟與金融學院)) in Xi'an, Shaanxi Province, the PRC in July 1994. Mr. Zhao graduated from The Open University of China (中央廣播電視大學) in Beijing, the PRC with a bachelor's degree (part-time) majoring in finance in December 2012.

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

Mr. Huang Weiguo (黃偉國), aged 41, has been a vice president of the Company since December 2015. He is currently responsible for the management of Shanghai Hongdian Investment Management Co., Ltd. (上海泓典投資管理有限公司), and he served as an executive director and legal representative of Shanghai Hongdian Investment Management Co. Ltd. since April 2015. Before joining the Group, Mr. Huang worked in the head office of investment banking of Guosen Securities Co., Ltd. (國信證券股份有限公司), the head office of investment banking of Industrial Securities Co., Ltd. (興業證券股份有限公司) and the head office of investment banking of Pacific Securities Co., Ltd. (太平洋證券股份有限公司) from December 2000 to August 2006, August 2006 to March 2007 and March 2007 to July 2010, respectively. He served as the deputy general manager and the secretary to the board of Shanghai Kanda Biotechnology Co., Ltd. (上海康岱生物技術股份有限公司) from July 2010 to May 2012 and as the deputy general manager and the secretary to the board of Wuxi Lihu Corporation Limited (無錫蠡湖增壓技術股份有限公司) from May 2012 to October 2014. Then he served as the president of Jinduo (Shanghai) Asset Management Co., Ltd. (晉多(上海)資產管理有限公司) from October 2014 to April 2015. Mr. Huang graduated from the School of Finance of Central University of Finance and Economics (中央財經大學) with a bachelor's degree majoring in international finance in June 1998. Mr. Huang graduated from finance department of Shanghai University of Finance and Economics (上海財經大學) with a master's degree majoring in currency banking in July 2003.

Mr. Liu Quansheng (劉全勝), aged 43, has been a vice president of the Company since 31 May 2016. He heads our internet finance department and institutional trading department. Mr. Liu served as an assistant in the computer department of Baotou Gangtie Street Securities Branch (包頭鋼鐵大街證券營業部) and manager of the securities service department of the Company from July 1999 to February 2003 and from February 2003 to March 2004, respectively. Mr. Liu served as the assistant to general manager of brokerage business department from March 2004 to March 2006, assistant to general manager of Baotou Gangtie Street Securities Branch from March 2006 to September 2007, general manager of Linhe District Shengli North Road Securities Branch(臨河勝利北路營業部) from September 2007 to September 2009, general manager of brokerage business management head office and assistant to president of the Company from September 2009 to December 2011 and from December 2011 to May 2016, respectively, and executive Director and legal representative of Beijing Hengtai Puhui Information Service Co., Ltd. (北京恒泰普惠信息服務有限公司) from April 2015 to June 2017. Mr. Liu graduated from Inner Mongolia University (內蒙古大學) with a bachelor's degree, majoring in computational mathematics and application software in July 1999.

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

Ms. Yang Shufei (楊淑飛), aged 45, has been the chief financial officer of the Company since 11 October 2016. Ms. Yang has concurrently served as the chairman of the supervisor committee of New China Fund and a supervisor of Hengtai Capital since February 2017 and October 2017, respectively. Before joining the Group, Ms. Yang served as a staff member of the management department and fund department of Aerospace Trust Investment Co., Ltd. (航天信託投資有限責任公司) from July 1995 to September 2001. After then, Ms. Yang worked in CASIC Finance Co., Ltd. (航天科工財務有限責任公司) and served as a staff member of the investment department from October 2001 to September 2002, the manager of the clearing department from October 2002 to March 2005, the manager of the risk management department from April 2005 to June 2008 and chief accountant, general counsel, board secretary and vice president consecutively during the period from July 2008 to November 2015. From November 2015 to June 2016, Ms. Yang served as the chief financial officer of Huahao Xinlian (Beijing) Kemao Co., Ltd. (華浩信聯(北京)科貿有限公司). Ms. Yang graduated from Renmin University of China (中國人民大學) with a bachelor degree in international finance in July 1995 and obtained a master degree in economics from Peking University (北京大學) in November 2005 and an executive master degree of business administration from Tsinghua University (清華大學) in July 2010.

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Changes in Directors

1. On 5 January 2018, the Inner Mongolia Securities Regulatory Bureau of CSRC issued the Approval on Qualification of Dong Hong as a Director of Securities Company (Nei Zheng Jian Xu Ke [2018] No. 1) (《關於董紅證券公司董事任職資格的批覆》(內證監許可[2018]1號)), pursuant to which, Ms. Dong Hong's qualification as a director of securities company was approved. Thus, the appointment of Ms. Dong Hong as a non-executive Director of the fourth session of the Board of Directors has become effective from 5 January 2018.
2. On 5 January 2018, the Inner Mongolia Securities Regulatory Bureau of the CSRC issued the Approval on Qualification of Lv Wendong as an Independent Director of Securities Company (Nei Zheng Jian Xu Ke [2018] No. 2) (《關於核准呂文棟證券公司獨立董事任職資格的批覆》(內證監許可[2018]2號)), pursuant to which, Mr. Lv Wendong's qualification as an independent director of securities company was approved. Thus, the appointment of Mr. Lv Wendong as an independent non-executive Director of the fourth session of the Board of Directors has become effective from 5 January 2018.

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

3. On 31 January 2018, the Inner Mongolia Securities Regulatory Bureau of the CSRC issued the Approval on Qualification of Gao Liang as a Director of Securities Company (Nei Zheng Jian Xu Ke [2018] No. 4) (《關於高靚證券公司董事任職資格的批覆》(內證監許可[2018]4號)), pursuant to which, Ms. Gao Liang's qualification as a director of securities company has been approved. Thus, the appointment of Ms. Gao Liang as a non-executive Director of the fourth session of the Board of Directors has become effective from 31 January 2018.
4. The biographical details of the above Directors were disclosed in the circular dated 6 November 2017 and the supplemental circular dated 7 December 2017, respectively.

(II) Changes in Supervisors

None in the Reporting Period.

(III) Changes in Senior Management

None in the Reporting Period.

V. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

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

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

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

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

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

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

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

For remuneration payment of the Directors, Supervisors and senior management, please refer to “I. Basic Information about Incumbent Directors, Supervisors and Senior Management and those leaving office during the Reporting Period” in this section. Total remuneration for the Directors, Supervisors and senior management of the Company in 2018 is RMB13,979 thousand. The remuneration of the Directors and Supervisors is set out in Note 19 to the consolidated financial statements of this report.

Remuneration of the five highest paid individuals of the Company is set out in Note 20 to the consolidated financial statements of this report.

Section 9 Directors, Supervisors, Senior Management and Employees (Continued)

VI. DETAILS AND REMUNERATION OF STAFF

(I) Number and Composition of Employees

As at the end of the Reporting Period, the Group had 2,064 employees in total, including 1,559 employed by the Company and 505 employed by its subsidiaries, the structure of which is as below:

Age	The Group		The Company	
	Number	Percentage	Number	Percentage
30 or below	605	29.31%	435	27.90%
31-40	877	42.49%	644	41.31%
41 or above	582	28.20%	480	30.79%
Total	2,064	100.00%	1,559	100.00%

Specialty Structure	The Group		The Company	
	Number	Percentage	Number	Percentage
Brokerage	1,087	52.66%	1,039	66.65%
Asset management	120	5.81%	32	2.05%
Proprietary trading	27	1.31%	27	1.73%
Investment banking	156	7.56%	55	3.53%
Compliance, risk control and audit	76	3.68%	47	3.01%
Research	33	1.60%	3	0.19%
Planning and accounting	40	1.94%	20	1.28%
Information technology	89	4.31%	68	4.36%
Transaction settlement	75	3.63%	27	1.73%
Administration	71	3.44%	15	0.96%
Other business	290	14.05%	226	14.50%
Total	2,064	100.00%	1,559	100.00%

Educational background	The Group		The Company	
	Number	Percentage	Number	Percentage
Postgraduate or above	441	21.37%	206	13.21%
College graduate	1,384	67.05%	1,153	73.96%
Junior college graduate or below	239	11.58%	200	12.83%
Total	2,064	100.00%	1,559	100.00%

(II) Remuneration of Employees

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

(III) Staff Training Plans

The Company highly values staff training. At the beginning of the year, the Company made surveys and analysis in respect of staff training by issuing Training Questionnaire for 2018 and, based on the information so collected, prepared the 2018 Training Plan of Hengtai Securities Co., Ltd through summarization, statistics and analysis.

During the Reporting Period, the Company organized large-scale training activities including 1 session of training for development of back-ups for brokerage business, 1 session of special training on information technology and 1 session of training for investor educational business. In addition, the Company also organized online training for new recruits and developed 4 online training courses. 241 employees have participated in the online training.

According to the requirements of the Securities Association of China, the Company has made applications for follow-up trainings on behalf of all current in-house practitioners who have qualification certificates to engage in securities business, funds or futures intermediary business. In addition, the Company has made applications on behalf of its senior management and all departments for participating in 62 training sessions organized by the Securities Association of China, the Shanghai Stock Exchange and other external training institutions, covering 78 trainees.

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

As at the end of the Reporting Period, the securities branches of the Company had 1,204 brokers, who were directly managed by the wealth management center of the securities branches. The securities practitioner qualifications of the brokers were under centralized management of the human resources department of the Company. Upon signing the entrustment contracts, the brokers will receive pre-job training provided by relevant securities branches and follow-up training provided by the Company. They will not be allowed to carry out business until obtaining securities practitioner qualifications. The Company's management of its in-house brokers has complied with the relevant laws, regulations of the PRC and the wealth management system of the Company. Brokers could introduce the general information of the Company and the securities market; the basic information of securities investment, and business processes such as account opening, trading, fund deposit and withdrawal; laws and regulations relating to securities trading, relevant provisions of the CSRC, self-regulatory rules and relevant regulations of the Company to the customers; and deliver a research report to the customers provided by the Company and information related to securities investments.

Section 10 Corporate Governance Report

I. OVERVIEW OF CORPORATE GOVERNANCE

(I) Basic Information on Corporate Governance

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

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

(II) Corporate Governance Policies and the Board's Responsibilities on Corporate Governance

The Company strictly complied with the Corporate Governance Code and all applicable provisions under the Corporate Governance Code, and satisfied substantially all of the recommended best practices under the Corporate Governance Code. In respect of the corporate governance, the responsibilities of the Board shall include:

1. to develop and review the Company's policies and practices on corporate governance;
2. to review and monitor the training and continuous professional development of directors and senior management;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
5. to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

Section 10 Corporate Governance Report (Continued)

During the Reporting Period, the Board had performed the aforementioned responsibilities and reviewed the Corporate Governance Report contained in this report prior to the publication of this report, and is of the view that the content of this section is in line with the relevant requirements under the Listing Rules.

II. SHAREHOLDERS AND GENERAL MEETINGS

(I) Rights of General Meetings and Shareholders

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

(II) General Meetings

During the Reporting Period, the Company convened 1 general meeting in total, the details of which are set out as follows:

1. On 31 May 2018, the 2017 annual general meeting of the Company was held, at which the resolutions in relation to the following matters were considered and approved: the Report of the Board of Directors for the year 2017, the Report of the Supervisory Committee for the year 2017, the Annual Report of the Company for the year 2017, the Profit Distribution Plan for the year 2017, the Final Accounts Report for the year 2017, the Re-appointment of Domestic Auditor for the year 2018, and the Re-appointment of International Auditor for the year 2018. The Work Report of Independent Directors for the year 2017 was heard at the meeting.

Section 10 Corporate Governance Report (Continued)

III. BOARD OF DIRECTORS AND PERFORMANCE OF DUTIES

(I) Duties of the Board and the Management

Duties of the Board

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

Duties of the management

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

(II) Composition of the Board

Directors shall be elected or replaced at general meetings. A Director shall serve a term of three years from the date of the resolution passed at general meeting, and may seek re-election upon expiry of the said term. Currently, the Board consists of nine Directors, including two executive Directors (Mr. Pang Jiemin (龐介民) (Chairman) and Mr. Wu Yigang (吳誼剛) (Vice Chairman)), four non-executive Directors (Mr. Zhang Tao (張濤), Mr. Sun Chao (孫超), Ms. Dong Hong (董紅) and Ms. Gao Liang (高靚)) and three independent non-executive Directors (Ms. Zhou Jianjun (周建軍), Dr. Lam Sek Kong (林錫光) and Mr. Lv Wendong (呂文棟)).

Section 10 Corporate Governance Report (Continued)

The appointment of Mr. Lv Wendong as an independent non-executive Director of the fourth session of the Board was approved by the shareholders at the 2017 first extraordinary general meeting of the Company held on 22 December 2017 and subject to the approval by relevant governmental authorities of the PRC. On 5 January 2018, the Inner Mongolia Securities Regulatory Bureau of the CSRC issued the Approval on Qualification of Lv Wendong as an Independent Director of Securities Company (Nei Zheng Jian Xu Ke [2018] No. 2) (《關於核准呂文棟證券公司獨立董事任職資格的批覆》(內證監許可[2018]2號)), pursuant to which, Mr. Lv Wendong's qualification as an independent Director of securities company was approved. Thus, the appointment of Mr. Lv Wendong as an independent non-executive Director of the fourth session of the Board of Directors has become effective from 5 January 2018. Following the appointment of Mr. Lv Wendong as the independent non-executive Director, the number of independent non-executive Director as required under Rule 3.10(1) of the Listing Rules has been fulfilled. From 5 January 2018 to 31 December 2018, the Board has complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors (the number of which represented at least one-third of the Board) with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

(III) Meetings of the Board

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

Section 10 Corporate Governance Report (Continued)

During the Reporting Period, the Board convened 11 meetings, the details of which are set out as follows:

1. On 23 February 2018, the 1st extraordinary meeting of the fourth session of the Board was held, at which the resolutions in relation to the following matters were considered and approved: the Category Asset Allocation Plan for Proprietary Business for 2018, the Amendments to the Internal Review and Auditing Measures and the Administrative Measures for Reporting of Review and Auditing Results of the Company, and the Authorisation to the Management by the Board of Directors to Establish an Assessment Team for Assessing the Effectiveness of Compliance Management of the Company.
2. On 26 March 2018, the 2nd extraordinary meeting of the fourth session of the Board was held, at which the resolutions in relation to the following matters were considered and approved: the Work Report of the Strategic and Investment Committee of the Board of Directors for the year 2017, the Work Report of the Risk Control and Supervisory Committee of the Board of Directors for the year 2017, the Work Report of the Audit Committee of the Board of Directors for the year 2017, and the Work Report of the Remuneration and Nomination Committee of the Board of Directors for the year 2017.
3. On 27 March 2018, the 3rd extraordinary meeting of the fourth session of the Board was held, at which the resolutions in relation to the following matters were considered and approved: the Plan for Provision of Bonus for Staff for 2017, the Plan for Provision of Bonus for Senior Management for 2017 and the Plan for Bonus Distribution of Senior Management for 2017.
4. On 28 March 2018, the 2nd meeting of the fourth session of the Board was held, at which the resolutions in relation to the following matters were considered and approved: the 2017 Annual Work Report of the Management, the 2017 Annual Report of the Board, the 2017 Annual Work Report of the Independent Directors of the Company, the Approval of the Annual Results Announcement of the Company for the year ended 31 December 2017, the 2017 Annual Report of the Company, the 2017 Self-Assessment Report of Internal Controls of the Company, the 2017 Profit Distribution Plan of the Company, the 2017 Compliance Report of the Company, the 2017 Risk Management Report of the Company, the Payment of External Auditors' Service Fees for 2017, the 2017 Annual Final Accounting Report of the Company, the 2018 Annual Budget Proposal of the Company, the 2018 Annual Business Plan of the Company, the 2018 Work Plan for Auditing Projects of the Company, the Re-appointment of Domestic Auditor for the year 2018, the Re-appointment of International Auditor for the year 2018, and the Convening of the 2017 Annual General Meeting of the Company. The 2017 Special Report of the Company on Net Capital and Other Risk Management Indicators was heard at the meeting.

Section 10 Corporate Governance Report (Continued)

5. On 30 March 2018, the 4th extraordinary meeting of the fourth session of the Board was held, at which the resolutions in relation to the following matters were considered and approved: the Implementation of the Guaranteed Remuneration for the Chief Compliance Officer, Chief Risk Management Officer, the Head and Staff of each of the Compliance, Risk Control and Auditing Departments in Accordance with the Regulatory Requirements, the 2018 Annual Risk Preference Strategy of the Company and the Proposed Remuneration for the Secretary of the Communist Party of China Discipline Inspection Committee of Hengtai Securities.
6. On 16 May 2018, the 5th extraordinary meeting of the fourth session of the Board was held, at which the resolutions in relation to the following matters were considered and approved: the Amendments to the Accounting Policies and Accounting Estimates of the Company, the Matters relating to Continuing Connected Transactions of the Company and the Reduction of Capital Contribution by the Company to Its Wholly-owned Subsidiary Hengtai Capital Investment Co., Ltd.
7. On 29 May 2018, the 6th extraordinary meeting of the fourth session of the Board was held, at which the resolutions in relation to the following matters were considered and approved: the Establishment of the Office of the Labour Union and the Special Asset-backed Plan based on Creditor's Rights over Margin Loans for Financing of the Company.
8. On 12 July 2018, the 7th extraordinary meeting of the fourth session of the Board was held, at which the resolution in relation to the following matter was considered and approved: the 2017 Environmental, Social and Governance Report.
9. On 30 July 2018, the 8th extraordinary meeting of the fourth session of the Board was held, at which the resolution in relation to the following matter was considered and approved: the Change of the Company's Principal Place of Business in Hong Kong.
10. On 24 August 2018, the 3rd meeting of the fourth session of the Board was held, at which the resolutions in relation to the following matters were considered and approved: the Interim Results Announcement of the Company for the Six Months Ended 30 June 2018, and the 2018 Interim Report of the Company. The Special Report of the Company on Net Capital and Other Risk Management Indicators for the First Half of 2018 was heard at the meeting.
11. On 14 November 2018, the 9th extraordinary meeting of the fourth session of the Board was held, at which the resolution in relation to the following matter was considered and approved: the Termination of Provision of Shortfall Guarantee by the Company to Its Wholly-owned Subsidiary Hengtai Changcai Securities Co., Ltd.

Section 10 Corporate Governance Report (Continued)

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

None in the Reporting Period.

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

Name of Director	Position	Number of required attendances at Board meetings	Attendance at Board meetings				Attendance at general meetings	
			Number of attendances in person	Number of attendances by proxy	Number of absences	Voting results	Number of attendances at general meetings	Number of attendances at general meetings
Pang Jiemin (龐介民)	Executive Director	11	11	0	0	All agreed	1	1
Wu Yigang (吳誼剛)	Executive Director	11	11	0	0	All agreed	1	1
Zhang Tao (張濤)	Non-executive Director	11	11	0	0	All agreed	1	1
Sun Chao (孫超)	Non-executive Director	11	11	0	0	All agreed	1	1
Dong Hong (董紅)	Non-executive Director	11	10	1	0	All agreed	1	0
Gao Liang (高靚)	Non-executive Director	11	11	0	0	All agreed	1	1
Zhou Jianjun (周建軍)	Independent Non-executive Director	11	11	0	0	All agreed	1	1
Lam Sek Kong (林錫光)	Independent Non-executive Director	11	11	0	0	All agreed	1	1
Lv Wendong (呂文棟)	Independent Non-executive Director	11	11	0	0	All agreed	1	1

The Chairman met with the non-executive Directors (including the independent non-executive Directors) without any executive Directors present once during the Reporting Period. According to the amendments to Code Provision A.2.7 of Appendix 14 of the Listing Rules, the Company shall comply with the requirement that the Chairman shall meet with the independent non-executive Directors without any other Directors present at least once a year from 2019.

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

Section 10 Corporate Governance Report (Continued)

(VI) Trainings for Directors

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

The Company attached great importance to the continuous training for the Directors and Supervisors. During the Reporting Period, all Directors and Supervisors proactively participated in and completed the Online Training Program for Directors launched by the Hong Kong Stock Exchange. Meanwhile, certain Directors and Supervisors proactively participated in trainings and seminars organized by the regulatory authorities and the industrial associations so as to improve their capabilities to fulfill their duties. Details of the trainings are as follows:

Name	Position	Training content
Pang Jiemin (龐介民)	Chairman, and Executive Director	Attended the 48th seminar on the "Enhanced Continuing Professional Development" (ECPD Seminar) sponsored by The Hong Kong Institute of Chartered Secretaries on 28 November 2018
Sun Chao (孫超)	Non-executive Director	Attended the 48th seminar on the "Enhanced Continuing Professional Development" (ECPD Seminar) sponsored by The Hong Kong Institute of Chartered Secretaries on 28 November 2018
Zhou Jianjun (周建軍)	Independent non- executive Director	Attended follow-up trainings for certified public accountants sponsored by Beijing Institute of Certified Public Accountants (北京註冊會計師協會) from June to September 2018 Attended the follow-up training for certified tax agents sponsored by Beijing Certified Tax Agents Association (北京註冊稅務師協會) from June to September 2018 Attended the 48th seminar on the "Enhanced Continuing Professional Development" (ECPD Seminar) sponsored by The Hong Kong Institute of Chartered Secretaries on 28 November 2018
Lv Wendong (呂文棟)	Independent non- executive Director	Attended the 48th seminar on the "Enhanced Continuing Professional Development" (ECPD Seminar) sponsored by The Hong Kong Institute of Chartered Secretaries on 28 November 2018
Guo Liwen (郭力文)	Chairman of the Supervisory Committee	Attended the 48th seminar on the "Enhanced Continuing Professional Development" (ECPD Seminar) sponsored by The Hong Kong Institute of Chartered Secretaries on 28 November 2018
Pei Jingjing (裴晶晶)	Shareholder representative Supervisor	Attended the 48th seminar on the "Enhanced Continuing Professional Development" (ECPD Seminar) sponsored by The Hong Kong Institute of Chartered Secretaries on 28 November 2018

Section 10 Corporate Governance Report (Continued)

IV. SPECIAL COMMITTEES OF THE BOARD AND DUTY PERFORMANCE

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

Composition of the Special Committees of the Board:

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

(I) Strategy and Investment Committee

1. Duties of the Committee

The main duties and responsibilities of the Strategy and Investment Committee include: studying the national macro-economic policies; studying the medium to long-term strategic goals and development plans of the Company; studying the business plans of the Company, understanding the basic operational situation of the Company, analysing and understanding the latest development of the domestic industries; studying and making suggestions on the capital budgets projects and financing plans within the authorisation of the Board; studying and making suggestions on projects of capital operation, assets management, and assets disposal within the authorisation of the Board; conducting inspection for the implementation status of the above items; and other duties as authorised by the Board. For specific duties and responsibilities of the Strategy and Investment Committee, please refer to Rules of Procedure for the Strategic and Investment Decision-making Committee of the Board of Directors of Hengtai Securities Co., Ltd, which has been published on the Company's website and the HKExnews website.

The main work completed by the Strategy and Investment Committee in 2018 includes:

- considered the Category Assets Allocation Plan for Proprietary Businesses of the Company for 2018;
- proposed reasonable suggestions on the Company's business plan for 2018 based on the status quo of the development of domestic securities industry and the actual operations of the Company, which facilitated the Company to proactively promote various businesses and achieve the Company's strategic goals.

Section 10 Corporate Governance Report (Continued)

2. Meetings of the Committee

During the Reporting Period, 1 meeting was convened by the Strategy and Investment Committee, particulars of which are as follows:

On 15 January 2018, the Strategy and Investment Committee of the fourth session of the Board held the 1st meeting in 2018, at which the resolution in relation to the Category Asset Allocation Plan for Proprietary Business of the Company for 2018 was considered and approved and submitted to the Board for consideration.

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

(II) Risk Control and Supervisory Committee

1. Duties of the Committee

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

The main work completed by the Risk Control and Supervisory Committee in 2018 includes:

- considered the 2017 Compliance Report of the Company, the 2017 Risk Management Report of the Company and the 2017 Self-Assessment Report of Internal Controls of the Company, etc., and proposed reasonable suggestions on the Company's compliance management, risk management, internal control objectives and policies, etc;

Section 10 Corporate Governance Report (Continued)

- organized the Company's 2 joint meetings on business situation, analyzed risk prevention and control and response to risks as well as the risk factors faced in the Company's operations in 2018, and proposed corresponding risk response measures and specific work arrangements and deployment;
- advanced the Company's conscientious implementation of external supervision and internal risk management requirements, and adopted various risk management measures to ensure that the risks of the Company's various businesses were controlled within a reasonable range; proactively promoted the construction of the Company's internal control system and evaluated the scientificity, rationality, effectiveness and implementation of the internal control system.

2. Meetings of the Committee

During the Reporting Period, 3 meetings were held by the Risk Control and Supervisory Committee, particulars of which are as follows:

On 23 March 2018, the Risk Control and Supervisory Committee of the fourth session of the Board held the 1st meeting in 2018, at which the resolutions in relation to the 2017 Compliance Report of the Company, the 2017 Risk Management Report of the Company, the 2017 Self-assessment Report of Internal Control of the Company and the 2017 Special Report of the Company on Net Capital and Other Risk Management Indicators were considered and approved and submitted to the Board for consideration.

On 29 June 2018, the Risk Control and Supervisory Committee of the fourth session of the Board held the 2nd meeting in 2018, at which the resolution in relation to the Establishment of Second-level Department by the Compliance Management Department to Perform the Duty of Internal Audit for OTC Market Business Department was considered and approved.

On 21 August 2018, the Risk Control and Supervisory Committee of the fourth session of the Board held the 3rd meeting in 2018, at which the resolution in relation to the Special Report of the Company on Net Capital and Other Risk Management Indicators for the First Half of 2018 was considered and approved and submitted to the Board for consideration.

Name of member	Number of required attendances	Number of actual attendances
Pang Jiemin (龐介民)	3	3
Wu Yigang (吳誼剛)	3	3
Zhang Tao (張濤)	3	3

Section 10 Corporate Governance Report (Continued)

(III) Audit Committee

1. Duties of the Committee

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

The main work completed by the Audit Committee in 2018 includes:

- considered the 2018 Work Plan for Auditing Projects, the 2017 Self-Assessment Report of Internal Controls of the Company and the 2017 Risk Management Report of the Company;
- made recommendations on the engagement of external auditors to the Board and considered the compensation and terms of engagement for external auditors;
- reviewed the effectiveness of the Company's internal control system and the adequacy of accounting and financial reporting functions;
- organized the working meetings of the Company's planning and financing department and the audit department, at which listened to the 2017 work summary and the 2018 work plan of the planning and financing department and the audit department, respectively, and proposed constructive comments on the Company's internal finance and audit work;
- supervised and evaluated the audit on the Company's financial report, and listened to the special report of the Company's international auditor and domestic auditor on the audit on the 2017 financial report, discussed the relevant issues in the audit process, and evaluated the audit plan, procedures and report.

Section 10 Corporate Governance Report (Continued)

2. Meetings of the Committee

During the Reporting Period, 3 meetings were held by the Audit Committee, particulars of which are as follows:

On 23 March 2018, the Audit Committee of the fourth session of the Board held the 1st meeting in 2018, at which the resolutions in relation to the Payment of External Auditors' Service Fees for 2017, the 2018 Work Plan for Auditing Projects of the Company, the Re-appointment of Domestic Auditor for the year 2018, the Re-appointment of International Auditor for the year 2018, the 2017 Self-Assessment Report of Internal Controls of the Company, the Approval of the Annual Results Announcement of the Company for the year ended 31 December 2017 and the 2017 Risk Management Report of the Company were considered and approved and submitted to the Board for consideration.

On 11 May 2018, the Audit Committee of the fourth session of the Board held the 2nd meeting in 2018, at which the resolution in relation to the Amendments to the Accounting Policies and Accounting Estimates of the Company was considered and approved and submitted to the Board for consideration.

On 23 August 2018, the Audit Committee of the fourth session of the Board held the 3rd meeting in 2018, at which the resolutions in relation to the Interim Results Announcement of the Company for the Six Months Ended 30 June 2018 and the 2018 Interim Report of the Company were considered and approved and submitted to the Board for consideration.

Name of member	Number of required attendances	Number of actual attendances
Zhou Jianjun (周建軍)	3	3
Zhang Tao (張濤)	3	3
Lam Sek Kong (林錫光)	3	3

Section 10 Corporate Governance Report (Continued)

(IV) Remuneration and Nomination Committee

1. Duties of the Committee

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

The Remuneration and Nomination Committee extensively searches for qualified candidates for Directors through various channels and advises the Board on the appointment or reappointment of Directors. In assessing the suitability of candidates for Directors, the Remuneration and Nomination Committee will consider factors including the achievements, professional knowledge and industry experience of the candidates which are relevant to the Company, the commitment in respect of available time and the Board diversity policy of the Company. For candidates for independent non-executive Directors, their independence will also be assessed. Upon review and determination of candidates for Directors by way of resolution by the Remuneration and Nomination Committee and the Board, the nomination will be tabled at the general meeting of the Company in the form of a written proposal for consideration.

Section 10 Corporate Governance Report (Continued)

The main work completed by the Remuneration and Nomination Committee in 2018 includes:

- Made recommendation to the Board on the packages of individual Directors and senior management of the Company for 2017, including the plan for bonus distribution;
- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board, and made recommendations on any proposed changes to be made to the Board to complement the Company's corporate strategy;
- considered appropriate remuneration policy, performance measuring system, and rewards and punishments incentives for the Company in accordance with the features of the securities industry, the responsibilities and importance of Directors and senior management officers, compared with the remuneration level of relevant companies;
- considered and evaluated the plan for bonus distribution of senior management of the Company and made recommendations to the Board.

The Board diversity policy is set out in the subsection head "VIII. Other Related Issues - (X) Board Diversity Policy" under this section.

2. Meetings of the Committee

During the Reporting Period, 3 meetings were held by the Remuneration and Nomination Committee, the particulars of which are as follows:

On 14 January 2018, the Remuneration and Nomination Committee of the fourth session of the Board held the 1st meeting in 2018, at which the resolution in relation to the Implementation of the Remuneration Assurance for the Chief Compliance Officer, Chief Risk Management Officer, the Head and Staff of each of the Compliance, Risk Control and Auditing Departments in Accordance with the Regulatory Requirements was considered and approved and submitted to the Board for consideration.

On 2 February 2018, the Remuneration and Nomination Committee of the fourth session of the Board held the 2nd meeting in 2018, at which the resolution in relation to the Proposed Remuneration for the Secretary of the Discipline Inspection Committee of CPC of Hengtai was considered and approved and submitted to the Board for consideration.

Section 10 Corporate Governance Report (Continued)

On 22 March 2018, the Remuneration and Nomination Committee of the fourth session of the Board held the 3rd meeting in 2018, at which the resolution in relation to the Plan for Bonus Distribution of Senior Management of the Company for 2017 was considered and approved and submitted to the Board for consideration.

Name of member	Number of required attendances	Number of actual attendances
Zhou Jianjun (周建軍)	3	3
Pang Jiemin (龐介民)	3	3
Lam Sek Kong (林錫光)	3	3

V. CHAIRMAN AND PRESIDENT

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

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

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

The Company has four non-executive Directors and three independent non-executive Directors in total. For their appointment, please refer to Section 9 "Directors, Supervisors, Senior Management and Employees".

Section 10 Corporate Governance Report (Continued)

VII. SUPERVISORY COMMITTEE AND DUTY PERFORMANCE

(I) Duties of the Supervisory Committee

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

(II) Composition of the Supervisory Committee

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

(III) Meetings of the Supervisory Committee

The Supervisory Committee held 3 meetings during the Reporting Period, particulars of which are as follows:

1. On 28 March 2018, the 2nd meeting of the fourth session of the Supervisory Committee was held, at which the resolutions in relation to the following matters were considered and approved: the 2017 Report of the Supervisory Committee of the Company, the 2017 Annual Report of the Company, the 2017 Self-assessment Report of Internal Control of the Company, the 2017 Profit Distribution Plan of the Company, the 2017 Annual Final Accounting Report of the Company, the 2017 Risk Management Report of the Company and the 2018 Annual Budget Proposal of the Company.

Section 10 Corporate Governance Report (Continued)

- On 16 May 2018, the 1st extraordinary meeting of the fourth session of the Supervisory Committee was held, at which the resolution in relation to the following matter was considered and approved: the Changes in Accounting Policies and Accounting Estimates.
- On 24 August 2018, the 3rd meeting of the fourth session of the Supervisory Committee was held, at which the resolution in relation to the following matter was considered and approved: the 2018 Interim Report of the Company.

(IV) Meeting Attendances of Supervisors

Name of Supervisor	Position	Number of Required attendances	Attendances in person	Attendances by proxy	Absences	Voting results
Guo Liwen (郭力文)	Chairman of the Supervisory Committee	3	3	0	0	All agreed
Pei Jingjing (裴晶晶)	Shareholder representative Supervisor	3	3	0	0	All agreed
Wang Hui (王慧)	Employee representative Supervisor	3	3	0	0	All agreed

VIII. OTHER RELATED ISSUES

(I) Shareholders' Rights

The Company held general meetings according to the Articles of Association and Rules of Procedure for General Meetings to guarantee the equal status and full exercise of rights for all Shareholders, especially the small and medium ones. When a general meeting is held, all of the Company's Directors, Supervisors and secretary to the Board should attend the general meeting and the president and other senior management may attend the general meeting as observers according to requirements and answer the Shareholder's questions.

According to Article 73 of the Articles of Association, Shareholder(s) severally or jointly holding 10% or more of the shares of the Company shall be entitled to request the Board to convene an extraordinary general meeting, and shall put forward such request to the Board in writing. The Board shall, pursuant to laws, regulations and the Articles of Association, give a written reply on whether to convene the extraordinary general meeting or not within 10 days after receipt of the proposal. In the event that the Board agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within 5 days after the resolution is made by the Board. In the event of any change to the original proposal set forth in the notice, the consent of relevant shareholder(s) shall be obtained. In the event that the Board does not agree to hold the extraordinary general meeting

Section 10 Corporate Governance Report (Continued)

or fails to give a reply within 10 days after receipt of the proposal, shareholder(s) severally or jointly holding 10% or above of the shares of the Company shall be entitled to propose to the Supervisory Committee to convene an extraordinary general meeting, and shall put forward such request to the Supervisory Committee in writing. In the event that the Supervisory Committee agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within 5 days after receipt of the said request. In the event of any change to the original proposal set forth in the notice, the consent of relevant shareholder(s) shall be obtained. In the event that the Supervisory Committee does not issue the notice for the general meeting within the term stipulated, the Supervisory Committee shall be deemed as failing to convene and preside over the general meeting. As a result, the shareholder(s) severally or jointly holding 10% or more of the shares of the Company for 90 consecutive days or longer may convene and preside over such meeting by itself/themselves. According to Article 75 of the Articles of Association, for the general meeting convened by the Supervisory Committee or shareholders on its/their own, the Board and the secretary to the Board shall cooperate. The Board shall provide the register of shareholders on the record date of the equity interests. According to Article 78 of the Articles of Association, the shareholder(s) severally or jointly holding 3% or above of the shares of the Company shall be entitled to propose motions concerning such matters other than nominating candidates for directors (including independent directors) or supervisors to the Company. The shareholder(s) severally or jointly holding 3% or above of the shares of the Company may submit written provisional motion to the convener 10 days before a general meeting is held. The convener shall serve a supplementary notice of general meeting within 2 days after receipt of such motion, and notify the shareholders of the contents of the provisional motion. Save as specified in the preceding paragraph, the convener shall not change the motion set out in the notice of general meeting or add any new motion after the said notice announcement is served. Such motions which are not specified in the notice of the general meeting or which do not comply with Article 77 of the Articles of Association shall not be voted or resolved at the general meeting. According to Article 87 of the Articles of Association, any shareholder entitled to attend and vote at a general meeting shall have the right to appoint one or several persons (who may not be shareholders) to act as his/her proxy to attend and vote at the meeting on his/her behalf.

Resolutions passed at the general meeting shall be immediately announced in accordance with the laws, regulations, departmental rules, normative documents, provisions of the securities regulatory authorities at the place where the shares of the Company are listed, or the provisions of the Articles of Association. Such minutes of meeting, together with the signatures of the shareholders attending meeting and the powers of attorney concerning the proxies attending the meeting on behalf of others, shall be kept at the domicile of the Company. Shareholders may consult photocopies of the minutes of meetings free of charge during the business hours of the Company. In the event of any shareholder asking for photocopies of such minutes, the Company shall deliver the photocopies in 7 days after receiving rational expenses.

Section 10 Corporate Governance Report (Continued)

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

(II) Compliance with Model Code

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

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

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

(IV) Responsibilities of Directors for Financial Statements

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

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

(V) Appointment and Remuneration of Auditors

Please refer to the subsection headed "VIII. Engagement of Accounting Firms" in Section 7 "Other Material Particulars" of this report.

(VI) Review of the Audit Committee

The Audit Committee has reviewed the Company's consolidated financial statements of 2018.

Section 10 Corporate Governance Report (Continued)

(VII) Joint Company Secretaries

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

(VIII) Communications with Shareholders

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

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

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

Section 10 Corporate Governance Report (Continued)

(IX) Investor Relation Activities

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

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

(X) Board Diversity Policy

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

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

The Remuneration and Nomination Committee is primarily responsible for recruitment of candidates with appropriate capacity to be Directors. Meanwhile, it takes into account of Board diversity policy in the selection. The Remuneration and Nomination Committee will discuss at least annually all the agreed measurable objectives (that means selection of candidates will be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, ethnicity, language, cultural and educational background, industry experience and professional experience) to ensure the continuous effectiveness of the Board. The Remuneration and Nomination Committee is satisfied with its current composition and believes that it is in compliance with the requirements of the Board diversity policy formulated by the Company.

Section 10 Corporate Governance Report (Continued)

(XI) Amendments to the Articles of Association

During the Reporting Period, the Articles of Association of the Company were amended once as follows:

On 22 December 2017, the resolution in relation to the Proposed Amendments to the Articles of Association was considered and approved at the 2017 first extraordinary general meeting of the Company. Relevant provisions of the Articles of Association have been amended in accordance with the requirements under the Measures for Management of the Risk Control Indexes of Securities Companies (《證券公司風險控制指標管理辦法》) and the Measures for Compliance Management of Securities Companies and Securities Investment Fund Management Companies (《證券公司和證券投資基金管理公司合規管理辦法》) promulgated by CSRC and the Overall Risk Management Standards of Securities Companies (《證券公司全面風險管理規範》) and the Guidelines on Implementation of Compliance Management of Securities Companies (《證券公司合規管理實施指引》) issued by the Securities Association of China. The proposed amendments came into effect after approval by the relevant securities regulatory authorities. As at 27 March 2018, upon approval by the Inner Mongolia Securities Regulatory Bureau of the CSRC with the Reply on Approval of Amendments to Important Articles of the Articles of Association by Hengtai Securities Co., Ltd. (Nei Zheng Jian Xu Ke [2018] No. 8) (《關於核准恒泰證券股份有限公司變更公司章程重要條款的批覆》(內證監許可[2018]8號)), the Company was approved to change the important articles of the Articles of Association. The revised Articles of Association took effect on 27 March 2018.

(XII) Risk Management and Internal Control

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

Section 10 Corporate Governance Report (Continued)

Responsibility statement of the Board on risk management and internal control

In accordance with the requirements of the Enterprise Internal Control Standard System and the Corporate Governance Code, it is the responsibility of the Board to establish, implement and oversee a sound and effective risk management and internal control systems, assess its effectiveness and truthfully disclose the assessment report. The Supervisory Committee monitored the establishment and implementation of risk management and internal control by the Board. The management is responsible for the organising and leading the daily operations of corporate risk management and internal control. The objectives of risk management and internal control of the Company are to ensure that all operation activities of the Company strictly comply with relevant state laws and regulations, industrial regulatory requirements and the internal management system of the Company and that business activities of the Company are continuously in line with the Company's risk preference system and be effectively carried out with acceptable risks; promote the operation of operational and management activities in a healthy manner, guarantee the security and integrity of the Company's property and the truthfulness and accuracy of its financial reports; facilitate the overall implementation of the development strategy and the achievements of the business objectives of the Company; improve operation efficiency and performance and safeguard the sustainable development of the Company with health and stability. Since there are inherent limitations in risk management and internal control, only reasonable guarantees can be provided for achieving the abovementioned objectives.

In 2018, the Company has adopted the following policies and procedures and taken the following measures to improve the risk management and internal control systems of the Group:

1. Building of risk management and internal control systems

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

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

Section 10 Corporate Governance Report (Continued)

During the Reporting Period, in order to adapt to the constantly changing regulatory requirements and ensure the guiding function of the internal control system for operation and management and business development, the Company timely organized all departments, branches, subsidiaries to sort out and establish internal control systems in strict compliance with related laws, regulations, rules and norms. Besides, the Company has formulated the Management Provisions on Client Trading Activities of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司客户交易行为管理规定》), the Management Provisions for Risk Management Positions of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司风险管理岗管理规定》) and the Management Rules on Engagement in Credit Investment Business with Self-owned Capital of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司自有资金参与信用类投资业务管理细则》). It has also amended the Measures for Operational Risk Management of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司操作风险管理规定》) and the Management Provisions on Client Trading Activities of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司客户交易行为管理规定》), further improving the risk management and internal control systems of the Company.

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

2. Risk management and internal control evaluation

There are inherent limitations in risk management and internal control, and macro environment, policies and regulations and the internal environment are constantly changing, which may lead to the deviation of previous management and control activities. As a result, the risk management and internal control can only provide reasonable guarantee to achieve the aforesaid objectives. The Company has established an independent and objective mechanism for internal review and audit, which requires inspection on the compliance of daily business operation with laws and regulations and timely update and improvement of risk management and internal control systems to be done from time to time pursuant to the provisions of internal and external rules and regulations, providing ex post supervision over risk management and internal control and promoting the sustainable development of the Company.

Section 10 Corporate Governance Report (Continued)

Pursuant to the Basic Standards for Enterprise Internal Control and ancillary relevant guidelines, the Guidance for the Internal Control of Securities Companies issued by the CSRC and the requirements of relevant standards, the Board has conducted an overall evaluation on the internal control for the period from 1 January 2018 to 31 December 2018. The evaluation scope comprises 30 first-tier business processes including securities brokerage business and other businesses, with over 1,230 risk control points.

The Board believes that the Company has established relatively sound risk management and internal control systems. During the Reporting Period, the Company has maintained effective risk management and internal control in all material respects. As such, there were no major defects in the risk management and internal control mechanisms and systems of the Company, nor was there any material deviation during implementation of such mechanisms and systems, which means the overall risk management and internal control of the Company was effective.

On 22 March 2019, Ruihua Certified Public Accountants LLP issued the Special Report on Internal Control of Hengtai Securities Co., Ltd. (Rui Hua Zhuan Shen Zi [2019] No. 01340002) (《恒泰证券股份有限公司內部控制專項報告》(瑞華專審字[2019]01340002號)) in respect of the Company's risk management and internal control, believing that the Company has maintained effective risk management and internal control over financial reporting in all material respects during the Reporting Period according to the Basic Standards for Enterprise Internal Control and relevant regulations.

3. Other matters

(1) *Building of compliance system*

During the Reporting Period, the Company, in strict accordance with relevant laws and regulations, earnestly implemented the requirements of industry regulatory authorities and those set by the Board in relation to compliance management and orderly carried out overall compliance management, taking risk control as the starting point, implementation of internal control as the measure and effective management as the goal. In accordance with the requirements of the CSRC and other regulatory agencies on compliance management, the Company revised and issued the Compliance Management Measures of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司合規管理辦法》) in 2017, which clarified the responsibilities of management at all levels of the Company and improved performance support and organizational structure for compliance management.

Section 10 Corporate Governance Report (Continued)

During the reporting period, the Company comprehensively improved the compliance management system, sorted out and optimized the compliance management system, and strengthened guidance on performance of compliance officer. At the same time, according to the latest Guidelines for Internal Control of Investment Banking Business of Securities Companies (《證券公司投資銀行類業務內部控制指引》) and the actual management of the Company, an Internal Audit Affairs Department was established under the Compliance Management Department to be responsible for the Company's daily internal audit.

① Constantly improving the Company's compliance management system

In order to adapt to the ever-changing regulatory requirements and ensure the guiding role of the internal control system for business management and business operations, the Compliance Management Department organised departments, branches, subsidiaries, etc. to sort out and build internal control system in a timely manner in strict accordance with relevant laws, regulations, standards and specifications. During the Reporting Period, 241 systems (including relevant agreements signed with investors) were reviewed, 127 implementation systems were submitted to the president office for release, and 56 system review opinions were issued to various departments.

② Carrying out compliance inspection and examination

Compliance inspection is an important part of front-end control of business risk. The occurrence of business risks is revealed and controlled through prudent compliance inspection. During the Reporting Period, the Company organised inspection over 117 special projects submitted by all the departments including the Brokerage Business Department, Asset Management Department, Asset Custody Department, Shenzhen Branch, etc., 2,888 agreements and contracts relating to the Company, 36 applications for various permits and 91 approvals on other matters and issued 27 written compliance inspection opinions. The Company strengthened the management of business departments, identified potential risks in a timely manner and promoted business compliance. During the Reporting Period, compliance inspection was completed for 22 business departments; and compliance examination was completed for the Asset Management Department, Shenzhen Branch, etc.

Section 10 Corporate Governance Report (Continued)

③ Compliance training and promotion

The Compliance Management Department interprets laws and regulations, regulatory rules, and internal control system through internal and external compliance trainings and various forms of propaganda, and explains the special business to achieve compliance management transformation from rule understanding to active binding. During the Reporting Period, the Compliance Management Department organised 15 internal compliance training sessions on interpretation of company systems, interpretation of laws and regulations, anti-money laundering training, etc.; prepared 6 issues of Briefing on Laws and Regulations, 46 issues of weekly on industry dynamics and 7 issues of Anti-money Laundering Briefing; and attended the Company's 8 external training sessions including training of associations and organizations and industry exchanges.

④ Strengthening information firewall

During the Reporting Period, the Company periodically identified people involving sensitive information and maintained name lists for inspection and restriction. The Company added a module as information firewall on the internal control platform to strengthen business isolation management, avoiding interest conflicts and tunneling. The Company has sent 14 name lists for inspection and 77 notices of name lists for restriction to relevant departments.

⑤ Handling complaints and tip-offs

The Company specially appointed persons to collect complaints and tip-offs from all branches and business departments, track the handling progress, supervise related departments properly dealing with the complaints and tip-offs and report complaints from corporate clients to the regulatory authorities on a regular basis. There were 4 quarterly reports and 12 monthly reports on corporate client complaints delivered to the regulatory authorities during the Reporting Period.

Section 10 Corporate Governance Report (Continued)

⑥ Fulfilling obligations of anti-money laundering and financial stability

The Company earnestly accomplished the groundwork for anti-money laundering, continuously promoted anti-money laundering and improved the quality of block trade reporting and suspicious transaction reporting, effectively fulfilling its obligations of anti-money laundering. During the Reporting Period, the Company amended 7 anti-money laundering systems of the Company and improved the anti-money laundering monitoring system in accordance with the requirements of the Notice of the People's Bank of China Concerning Relevant Issues on Strengthening the Customer Identification for Anti-Money Laundering (Yin Fa [2017] No.235) (《中國人民銀行關於加強反洗錢客戶身份識別有關工作的通知》(銀發[2017]235號)); a total of 270 block trade data were generated in the treatment system, 12,630 suspicious transactions were excluded, and 15 reports on general suspicious transaction were confirmed; 24 reports and 17 statements were submitted to the People's Bank of China, Hohhot Branch; the 2017 anti-money laundering rating was carried out for the Company according to the requirements of the People's Bank of China; pilot extraction of anti-money laundering inspection data was conducted and the extracted data was reported to the People's Bank of China, Hohhot Branch and Xi'an Branch.

⑦ Assessing the effectiveness of compliance management

During the Reporting Period, as authorised by the Board, the Company assessed the effectiveness of compliance management in 2018. The Company conducted an overall appraisal on compliance of business development in terms of its progress followed by tracking, supervising, improving and implementing over issues discovered, and the compliance management mechanism of the Company was constantly improved as a result.

(2) *Inspections completed by the Compliance Department*

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

For the purpose of strengthening management on securities branches, promptly identifying potential risks and promoting compliance development of business. Compliance inspections involving 22 securities branches were conducted during the Reporting Period.

Section 10 Corporate Governance Report (Continued)

(3) *Inspection and audit completed by the audit department*

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

During the Reporting Period, the Company completed 93 audits, produced 93 auditor's reports, and submitted more than 450 enquiry letters regarding audit risks to the management and relevant departments and issued 4 quarterly reports on progress of rectification supervision.

(4) *Monitoring risk control indicators and building replenishment mechanism*

For the purpose of building a sound dynamic monitoring system of risk control indicators, a capital replenishment mechanism, and a risk control system centering on net capital and liquidity, carrying out business with measurable, controllable and manageable risks, the Company, pursuant to the Administrative Measures for Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) of the CSRC, the Guidance for the Dynamic Monitoring System of the Risk Control Indicators of the Securities Companies (《證券公司風險控制指標動態監控系統指引》) of the Securities Association of China and other pertinent regulations, defined the Administrative Measures for Risk Control Indicators of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司風險控制指標管理辦法》) and other internal control rules.

In accordance with regulatory requirements, the Company established a dynamic monitoring system of risk control indicators for net capital and realized dynamic monitoring of risk control indicators and automatic warning. The dynamic monitoring system of the Company covers the business activities that affect risk control indicators such as net capital and liquidity and dynamically calculates risk control indicators such as net capital and liquidity; it carries out dynamic monitoring with particular business features taken into consideration and gives automatic warning on risk control indicators such as net capital and liquidity according to preset valve values and monitoring standards; it is capable of generating monitoring reports on risk control indicators such as net capital.

Section 10 Corporate Governance Report (Continued)

The Company regularly prepares the supervisory report on risk control indicators for net capital every month, sets up multi-level warnings on risk control indicators, practices dynamic monitoring of risk control indicators, follows and analyzes the causes of changes in indicators, and guides the business departments to timely respond to abnormal situations.

The Company established a stress testing mechanism to assess the impact of new business developments and other matters on risk control indicators such as net capital through regular and special stress tests. When it is found that indicators such as net capital are about to break regulatory alert standards, the Company will launch a contingency plan to take measures such as adjusting business scale and business structure, evaluating and adjusting business operation plans, expanding financing channels, optimizing asset and liability structure and issuing subordinated bonds when necessary to further replenish capital so as to support the long-term and stable business development.

(5) *Standardisation of accounts*

The Company carried out account management in strict compliance with the relevant requirements of laws and regulations, and continued to improve the mechanism for routine auditing of account management to further improve the long-term effectiveness of the mechanism on standardised account management. During the Reporting Period, the Company passed the on-site inspection organised by China Securities Depository and Clearing Corporation Limited.

During the Reporting Period, the Company launched a centralized operation platform, which enables the centralized review at the headquarter and basically covered all common account business, thereby effectively avoiding the occurrence of unstandardised accounts; it standardised and cleaned up the unqualified, dormant and risk disposal accounts and other unstandardised accounts for several times. As at the end of Reporting Period, the Company logged 120,590 dormant accounts, 20,294 pure capital accounts, frozen accounts and lost accounts, 41 unqualified accounts, and no risk disposal account. The Company will continue to strengthen standardised management of accounts, and effectively implement various requirements of standardised management of accounts.

Section 10 Corporate Governance Report (Continued)

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

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

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

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

The Board normally conducts review of the effectiveness of the risk management and internal control systems at least on an annual basis. During the year of 2018, the Board, together with the Audit Committee and the Risk Control and Supervisory Committee, has reviewed the effectiveness of the risk management and internal control of the Company, covering all material controls, financial, compliance and operational controls as well as risk management mechanisms once and considered the risk management and internal control systems of the Company are adequate and being implemented effectively.

Appendix Particulars of Securities Branches

As at the end of the Reporting Period, the Company had established 144 securities branches, details of which are set out in the following table:

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
1	Hengtai Securities Co., Ltd Changchun Dongfeng Avenue Securities Branch (恒泰证券股份有限公司长春东风大街证券营业部)	3/F, Yiqi Finance Building, No. 711 Dongfeng Avenue, Automotive Industry Development Zone, Changchun, Jilin (吉林省长春市汽车开发区东风大街711号一汽财务大厦三楼)	1990.5.12	Dong Xishen (董锡深)	0431-87626400
2	Hengtai Securities Co., Ltd Changchun Dongnanhu Road Securities Branch (恒泰证券股份有限公司长春东南湖大路证券营业部)	Room 602, 6/F, Dianyueshangqi, No.2221 Dongnanhu Road, Changchun Economic & Development Zone, Jilin (吉林省长春市经济开发区东南湖大路2221号典约商祺6楼602号房)	1990.5.12	Zhao Chunrui (赵春瑞)	0431-84947885
3	Hengtai Securities Co., Ltd Hohhot Xincheng North Street Securities Branch (恒泰证券股份有限公司呼和浩特新城北街证券营业部)	No. 62 Xincheng North Street, Hohhot, Inner Mongolia (内蒙古自治区呼和浩特市新城北街62号)	1992.6.23	Lv Zhongkai (吕忠凯)	0471-3330759
4	Hengtai Securities Co., Ltd Changchun Xi'an Blvd Securities Branch (恒泰证券股份有限公司长春西安大路证券营业部)	15/F, No. 1077 Xi'an Blvd, Chaoyang District, Changchun, Jilin (吉林省长春市朝阳区西安大路1077号15层)	1992.11.27	Zhang Lifeng (张利峰)	0431-88497775
5	Hengtai Securities Co., Ltd Changchun Beijing Avenue Securities Branch (恒泰证券股份有限公司长春北京大街证券营业部)	No. 1215 Beijing Avenue, Kuancheng District, Changchun, Jilin(吉林省长春市宽城区北京大街1215号)	1993.4.23	Zhu Qingguo (朱庆国)	0431-82703518
6	Hengtai Securities Co., Ltd Changchun Gongnong Road Securities Branch (恒泰证券股份有限公司长春工农大路证券营业部)	22/F and 23/F, No. 1055 Gongnong Road, Chaoyang District, Changchun, Jilin (吉林省长春市朝阳区工农大路1055号22//23层)	1993.4.24	Liu Guangsen (刘广森)	0431-85647591
7	Hengtai Securities Co., Ltd Hohhot Ulanqab East Road Securities Branch (恒泰证券股份有限公司呼和浩特乌兰察布东街证券营业部)	4/F, Building 102, Yuanyi Yujing Community, Ulanqab East Road, Saihan District, Hohhot, Inner Mongolia (内蒙古自治区呼和浩特市赛罕区乌兰察布东街圆艺御景小区102号楼4层)	1993.6.4	Zhang Yu (张雨)	0471-4962351
8	Hengtai Securities Co., Ltd Baotou Gangtie Street Securities Branch (恒泰证券股份有限公司包头钢铁大街证券营业部)	5/F, Commercial guild hall Office, No. 56 Kunqu Gangtie Avenue, Baotou, Inner Mongolia (内蒙古自治区包头市昆区钢铁大街56号工商联写字楼5楼)	1993.10.22	Yang Huilin (杨慧琳)	0472-6990128

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
9	Hengtai Securities Co., Ltd Hohhot Daxue West Street Securities Branch (恒泰证券股份有限公司呼和浩特大學西街證券營業部)	Rooms 1802-1804, 18/F, Mengxi Culture Square, Daxue West Street, Yuquan District, Hohhot, Inner Mongolia (內蒙古自治區呼和浩特市玉泉區大學西街蒙西文化廣場18層1802, 1803, 1804號)	1993.10.22	Kang Cheng (康誠)	0471-6286962
10	Hengtai Securities Co., Ltd Chifeng Hada Street Securities Branch (恒泰证券股份有限公司赤峰哈達街證券營業部)	Building 1, Jiushenmiao neighborhood committee, Xitun Office, Hongshan District, Chifeng, Inner Mongolia (內蒙古自治區赤峰市紅山區西屯辦事處九神廟居委會1號樓)	1996.8.20	Zhang Hongyun (張紅雲)	0476-8353933
11	Hengtai Securities Co., Ltd Shanghai Xiangde Road Securities Branch (恒泰证券股份有限公司上海祥德路證券營業部)	No. 383 Xiangde Road Shanghai (上海市祥德路383號)	1996.10.30	Lian Wanpeng (連萬鵬)	021-65085138
12	Hengtai Securities Co., Ltd Shenzhen Meilin Road Securities Branch (恒泰证券股份有限公司深圳梅林路證券營業部)	Room 1001, 10th Floor, Unit B, Block B, South Zone of Excellence Meilin Center Plaza, Meilin Road, Meilin Street, Futian District, Shenzhen, Guangdong (廣東省深圳市福田區梅林街道梅林路卓越梅林中心廣場(南區)B座B單元10層1001號)	1996.11.4	Liu Jianjun (劉建軍)	0755-83534805
13	Hengtai Securities Co., Ltd Shanghai Zhangyang Road Securities Branch (恒泰证券股份有限公司上海張楊路證券營業部)	4/F, No. 3399 Zhangyang Road, Pudong District, Shanghai (上海市浦東新區張楊路3399號四層)	1996.12.21	Li Lisong (李麗松)	021-68533517
14	Hengtai Securities Co., Ltd HLD Hexi development District Securities Branch (恒泰证券股份有限公司海拉爾河西開發區證券營業部)	Complex Office Building of Administration Commission, Hailaer Economic and Technological Development Zone, Hulunbeir, Inner Mongolia (內蒙古自治區呼倫貝爾市海拉爾區經濟技術開發區管委會辦公綜合樓)	1997.7.30	Zhu Shengwang (朱勝望)	0470-8352899
15	Hengtai Securities Co., Ltd Ulanqab Jianshe Road Securities Branch (恒泰证券股份有限公司烏蘭察布市建設路證券營業部)	Room 301, 302, 303, Building K18 Anda Guoji Jiayuan, Enhe Road, Jining District, Ulanqab, Inner Mongolia (內蒙古自治區烏蘭察布市集寧區恩和路安大國際嘉園K18棟301、302、303)	1997.7.31	Guo Lifeng (郭立峰)	0474-8222000
16	Hengtai Securities Co., Ltd Hohhot Xilin South Road Securities Branch (恒泰证券股份有限公司呼和浩特錫林南路證券營業部)	No. 601, Block C, Yingjia Guoji, Xilin South Road, Saihan District, Hohhot, Inner Mongolia (內蒙古自治區呼和浩特市賽罕區錫林南路盈嘉國際C座601號)	1997.8.5	Li Sheng (李聖)	0471-6917051

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
17	Hengtai Securities Co., Ltd Dongsheng Erdos Street Securities Branch (恒泰证券股份有限公司東勝鄂爾多斯大街證券營業部)	No. 11 Erdos West Street, Dongsheng, Inner Mongolia (內蒙古自治區東勝市鄂爾多斯西街11號)	1997.8.13	He Jun (何軍)	0477-8331678
18	Hengtai Securities Co., Ltd Linhe District Shengli North Road Securities Branch (恒泰证券股份有限公司臨河勝利北路證券營業部)	4/F, Hua'ao Building, No.1 Shengli North Road, Linhe District, Bayannur, Inner Mongolia (內蒙古自治區巴彥淖爾市臨河區勝利北路1號華澳大廈四層)	1997.8.13	Cheng Xiaohu (程小虎)	0478-8226336
19	Hengtai Securities Co., Ltd WuHai Haila South Road Securities Branch (恒泰证券股份有限公司烏海海拉南路證券營業部)	No. 26 Haila South Road, Haibowan District, Wuhai, Inner Mongolia (內蒙古自治區烏海市海勃灣區海拉南路26號)	2000.8.3	Lv Zhongkai (呂忠凱)	0473-2017526
20	Hengtai Securities Co., Ltd Changchun Jingyang Road Securities Branch (恒泰证券股份有限公司長春景陽大路證券營業部)	Room 1223-1228 & Room 1240-1244, Unit 2, Building A5, Zhonghai Kaixuanmen, Qimao Community East Jingyang Road South, Lvyuan District, Changchun, Jilin (吉林省長春市綠園區汽質小區以東景陽大路以南中海凱旋門A5幢2單元1223室-1228室、1240室-1244室)	2000.9.18	Liu Hong (劉宏)	0431-87989955
21	Hengtai Securities Co., Ltd Beijing Guang'anmenwai Street Securities Branch (恒泰证券股份有限公司北京廣安門外大街證券營業部)	Room 240, second Floor, Shenzhen Hotel, No. 1 Guang'anmenwai Street, Xicheng District, Beijing (北京市西城區廣安門外大街1號深圳大廈2層240號房間)	2000.9.30	Gao Wa (高娃)	010-63431907
22	Hengtai Securities Co., Ltd Changchun Renmin Street Redbuds Securities Branch (恒泰证券股份有限公司長春人民大街紫荊花證券營業部)	Southern Zone, 15/F, Redbuds Hotel, No. 5688 Renmin Street, Nangan District, Changchun, Jilin (吉林省長春市南關區人民大街5688號紫荊花飯店十五層南區)	2002.2.27	Cui Chunyu (崔春雨)	0431-82982159
23	Hengtai Securities Co., Ltd Jilin Tongtan Avenue Securities Branch (恒泰证券股份有限公司吉林通潭大路證券營業部)	Rooms 1 & 2 & 3 & 4, building 5-1, Tongtan West Community, Changyi District, Jilin City, Jilin Province (吉林省吉林市昌邑區通潭西區5-1棟1、2、3、4號工商房)	2002.6.6	Su Xiurong (宿秀榮)	0432-62785999
24	Hengtai Securities Co., Ltd Beijing Dongzhimennei North Alley Securities Branch (恒泰证券股份有限公司北京東直門內北小街證券營業部)	Rooms 101 & 201, Building No. 14 & No. 18, North Alley, Dongzhimennei, Dongcheng District, Beijing (北京市東城區東直門內北小街14、18號樓101、201號)	2003.3.28	Shi Min (史敏)	010-84128668

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
25	Hengtai Securities Co., Ltd Shanghai Xiaomuqiao Road Securities Branch (恒泰证券股份有限公司上海小木橋路證券營業部)	Rooms 1001-1004, No. 251 Xiaomuqiao Road, Xuhui District, Shanghai (上海市徐匯區小木橋路251號1001、1002、1003、1004室)	2003.5.16	Li Xiaoqin (李曉琴)	021-64433290
26	Hengtai Securities Co., Ltd Nanjing Shuiximen Avenue Securities Branch (恒泰证券股份有限公司南京水西門大街證券營業部)	No. 203 Shuiximen Avenue, Jianye District, Nanjing, Jiangsu (江蘇省南京市建邺區水西門大街203號)	2003.9.30	Chong Xinong (崇曦農)	025-84780368
27	Hengtai Securities Co., Ltd Hangzhou Fengqi Road Securities Branch (恒泰证券股份有限公司杭州鳳起路證券營業部)	Cells A-J, Room 801, No. 96 Fengqi Road, Xiacheng District, Hangzhou, Zhejiang (浙江省杭州市下城區鳳起路96號801室A-J座)	2004.7.20	Chen Yiping (陳宜平)	0571-85802451
28	Hengtai Securities Co., Ltd Shenyang Fengtian Street Securities Branch (恒泰证券股份有限公司瀋陽奉天街證券營業部)	Rooms 601-609, No.351 Fengtian Street, Shenhe District, Shenyang, Liaoning (遼寧省瀋陽市瀋河區奉天街351號(601-609))	2004.9.10	Heng Jianwei (衡建偉)	024-86018088
29	Hengtai Securities Co., Ltd Jinan Jiefang Road Securities Branch (恒泰证券股份有限公司濟南解放路證券營業部)	4/F, Block A East, Guohua Building, 30-1 Jiefang Road, Jinan, Shandong (山東省濟南市解放路30-1國華大廈A座東四層)	2006.11.29	Bai Rong (白榮)	0531-81853932
30	Hengtai Securities Co., Ltd Tongliao Central Avenue Securities Branch (恒泰证券股份有限公司通遼中心大街證券營業部)	(Underground 114 and 115, 1-2/F, Building 6, Halal Chech-in Halal Community) Yong'an Middle Road, Khorchin District, Tongliao, Inner Mongolia (內蒙古自治區通遼市科爾沁區永安路中段(清真辦事處清真小區6#樓1-2層和地下室114室、115室))	2009.1.20	Zhang Bin (張斌)	0475-8271162
31	Hengtai Securities Co., Ltd Chifeng Pingzhuanghahe Street Securities Branch (恒泰证券股份有限公司赤峰平莊哈河街證券營業部)	Pingzhuanghahe Street East North, Yuanbaoshan District, Chifeng, Inner Mongolia (內蒙古自治區赤峰市元寶山區平莊哈河街東段北側)	2009.1.20	Wang Yuelong (王躍龍)	0476-3517417
32	Hengtai Securities Co., Ltd Shanghai Wusong Road Securities Branch (恒泰证券股份有限公司上海吳淞路證券營業部)	Rooms 1201 & 1202, No. 575 Wusong Road, Hongkou District, Shanghai (上海市虹口區吳淞路575號1201、1202室)	2009.3.10	Chen Yong (陳勇)	021-65617128
33	Hengtai Securities Co., Ltd Beijing Dongsanhuan Central Securities Branch (恒泰证券股份有限公司北京東三環中路證券營業部)	1/F, 11A, and 2/F, 11B, Building 5, No. 76 Baiziwan South Second Road, Chaoyang District, Beijing (北京市朝陽區百子灣南二環路76號院5號樓1層11A、2層11B)	2009.3.10	Yang liu (楊柳)	010-87751985

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
34	Hengtai Securities Co., Ltd Xilinhot Tuanjie Avenue Securities Branch (恒泰证券股份有限公司錫林浩特團結大街證券營業部)	Xinlinguole Hotel Business Building, Tuanjie Avenue, Xilinhot, Inner Mongolia (內蒙古自治區錫林浩特市團結大街錫林郭勒賓館商業樓)	2009.5.11	Xu Changfeng (徐長鋒)	0479-8248846
35	Hengtai Securities Co., Ltd Baotou Qingshan District Wenhua Road Securities Branch (恒泰证券股份有限公司包頭青山區文化路證券營業部)	10-103, Guanghui No.1 Community, Jiankang Xincheng, No. 4 Minzhu Road, Qingshan District, Baotou, Inner Mongolia (內蒙古自治區包頭市青山區民主路4號街坊健康新城光輝一區10-103)	2009.6.8	Du Hongwei (杜宏偉)	0472-2629188
36	Hengtai Securities Co., Ltd Baotou Youyi Street Securities Branch (恒泰证券股份有限公司包頭友誼大街證券營業部)	No. 126 Culture Creativity Park, No. 67 Youyi Street, Qingshan District, Baotou, Inner Mongolia (內蒙古自治區包頭市青山區友誼大街67號文化創意園-126號)	2009.6.8	Jin Xuxia (金旭霞)	0472-2318629
37	Hengtai Securities Co., Ltd Chifeng Tianyi Road Securities Branch (恒泰证券股份有限公司赤峰天義路證券營業部)	Unit 01012, No. B-16,Yulongjiayuan Community,Tianyi Road West, Quanning Street North, Bajiazutuan, Xincheng District, Chifeng, Inner Mongolia (內蒙古自治區赤峰市新城區八家組團全寧街北天義路西玉龍家園小區B-16號01012)	2009.6.22	Yang Linfeng (楊林峰)	0476-8828997
38	Hengtai Securities Co., Ltd Erdos Xuejiawan Junggar Road SecuritiesBranch (恒泰证券股份有限公司鄂爾多斯薛家灣准格爾路證券營業部)	2/F, Donghua Commercial-residential Building, Junggar Road South Power Supply Administration East, Xinglong Avenue, Junggar Banner, Inner Mongolia (內蒙古自治區准格爾旗興隆街道准格爾路南供電局東東華商住樓二樓)	2009.6.23	Huang Haikuan (黃海寬)	0477-4212298
39	Hengtai Securities Co., Ltd YakeshiQingsong Road Securities Branch (恒泰证券股份有限公司牙克石青松路證券營業部)	Shop 1-8, First Floor, Complex Building, Xingong Street Office, Qingsong Road East, Yakeshi, Inner Mongolia (內蒙古自治區牙克石市新工辦事處青松路東綜合樓一層門市1-8號)	2009.10.23	Geng Zhenshan (耿振山)	0470-7357266
40	Hengtai Securities Co., Ltd Zhalantun Buteha North Road Securities Branch (恒泰证券股份有限公司紮蘭屯布特哈北路證券營業部)	Shop 1005, Building 6, Xiushui Yiyuan Community, Buteha Road, Zhalantun, Inner Mongolia (內蒙古自治區紮蘭屯市布特哈路秀水怡園小區6號樓1005商服)	2009.10.23	Yu Zhaojun (于兆君)	0470-3218089

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
41	Hengtai Securities Co., Ltd Manchuria Shulin Road Securities Branch (恒泰证券股份有限公司滿洲里樹林路證券營業部)	3/F, Main Building of Jinding Building, No. 17 Shulin Road, North District, Manchuria, Inner Mongolia (內蒙古自治區滿洲里市北區樹林路17號金鼎大廈主樓三層)	2009.10.23	Yue Hailong (岳海龍)	0470-6239595
42	Hengtai Securities Co., Ltd Erenhot Xinhua Avunue Securities Branch (恒泰证券股份有限公司二連浩特新華大街證券營業部)	No. 010110, Building 5, Xuefuxinyuan Community, Xinhua Avunue North Qianjin Road West, Erenhot, Inner Mongolia (內蒙古自治區二連浩特市新華大街北·前進路西學府馨苑小區5號樓010110號)	2009.11.4	Huo Dongsheng (霍東勝)	0479-7517860
43	Hengtai Securities Co., Ltd Alashan League Bayanhaot Jilantai Road Securities Branch (恒泰证券股份有限公司阿拉善盟巴彦浩特吉蘭泰路證券營業部)	Minsheng Garden Shop, Jilantai Road South, Bayanhaot Town, Alashan League Alashan Left Banner, Inner Mongolia (內蒙古阿拉善盟阿拉善左旗巴彦浩特鎮吉蘭泰路南民生花園商舖)	2009.11.23	Zhang Mei (張玫)	0483-8351609
44	Hengtai Securities Co., Ltd Jilin Panshi Dongning Street Securities Branch (恒泰证券股份有限公司吉林磐石東寧街證券營業部)	Rooms 6 and 7, No. 11 Longchang Shangcheng, Dongning Street, Panshi, Jilin (吉林省磐石市東寧街隆昌上城11號樓6·7號門市)	2010.2.9	Bie Wei (別畏)	0432-65041516
45	Hengtai Securities Co., Ltd Baishan Hunjiang Street Securities Branch (恒泰证券股份有限公司白山渾江大街證券營業部)	Justice Bureau, Xinjian Street, Badaojiang District, Baishan, Jilin (吉林省白山市八道江區新建街司法局門市)	2010.3.17	Li Jie (李傑)	0439-3299456
46	Hengtai Securities Co., Ltd Tonghua Dongchang Road Securities Branch (恒泰证券股份有限公司通化東昌路證券營業部)	No. 665 Dongchang Road, Dongchang District, Tonghua, Jilin (吉林省通化市東昌區東昌路665號)	2010.8.5	Jing Yafu (經亞夫)	0435-3707171
47	Hengtai Securities Co., Ltd Baicheng Changqing South Street Securities Branch (恒泰证券股份有限公司白城長慶南街證券營業部)	No. 2-2 Changqing South Street, Baicheng, Jilin (吉林省白城市長慶南街2-2號)	2010.10.25	Xu Ke (徐克)	0436-3202666
48	Hengtai Securities Co., Ltd Liaoyuan Hening Street Securities Branch (恒泰证券股份有限公司遼源和寧街證券營業部)	Shop 102, Building G2, Yangguang Xincheng-Dongxing Shanyucheng, Hening Street, Xi'an District, Liaoyuan, Jilin (吉林省遼源市西安區和寧街陽光新城東星山語城G2號樓102門市)	2010.10.28	Feng Dong (豐冬)	0437-6678008

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
49	Hengtai Securities Co., Ltd Qianguo Hasaer Road Securities Branch (恒泰证券股份有限公司前郭哈薩爾路證券營業部)	2/F, No.18 & No.19 Zongshe Shangqi, Jinzuo Estate, Wenzhiwei District, Hasaer Road, Qianguo County, Jilin (吉林省前郭縣哈薩爾路文治委金座綜合商企18、19二層商舖)	2011.3.16	Sun Yuman (孫毓蔓)	0438-6620000
50	Hengtai Securities Co., Ltd Erdos Dalad Banner Securities Branch (恒泰证券股份有限公司鄂爾多斯達拉特旗證券營業部)	Zonghe Building, Xinni Street South Xinhua Road East, Shulinzhao Town, Dalad Banner, Erdos, Inner Mongolia (內蒙古自治區鄂爾多斯市達拉特旗樹林召鎮錫尼街南新華路東綜合樓)	2011.10.24	Li Chunping (李春平)	0477-5223035
51	Hengtai Securities Co., Ltd Wuhai Wuda District Bayinsai Street Securities Branch (恒泰证券股份有限公司烏海烏達區巴音賽街證券營業部)	Room 301, No. 1 Jiefang South Road, Wuda District, Wuhai, Inner Mongolia (內蒙古自治區烏海市烏達區解放南路1號301室)	2011.10.24	Liu Qiuli (劉秋利)	0473-3029977
52	Hengtai Securities Co., Ltd Baotou Salaqi Zhenhua Street Securities Branch (恒泰证券股份有限公司包頭薩拉齊振華大街證券營業部)	Shop No. 4, Main Tower of Tumed Right Hotel, Tumed Right Banner, Baotou, Inner Mongolia (內蒙古自治區包頭市土默特右旗振華大街土右賓館主樓4號底店)	2012.3.16	Wang Xiangyang (王向陽)	0472-8921256
53	Hengtai Securities Co., Ltd Chifeng Ningcheng Daning Road Securities Branch (恒泰证券股份有限公司赤峰寧城大寧路證券營業部)	Huaxin Community, Daning Road East, Tianyi Town, Ningcheng County, Chifeng, Inner Mongolia (內蒙古自治區赤峰市寧城縣天義鎮大寧路東側(華鑫小區))	2012.3.16	Chen Shichao (陳世超)	0476-4255161
54	Hengtai Securities Co., Ltd Chaozhou Chengxinxi Road Securities Branch (恒泰证券股份有限公司潮州城新西路證券營業部)	Shop 11 and 12, No. 1 Haiyi, Chengxinxi Road, Xiangqiao District, Chaozhou, Guangdong (廣東省潮州市湘橋區城新西路海逸一號11、12號商舖)	2014.1.13	Ye Xi (葉璽)	0768-2520003
55	Hengtai Securities Co., Ltd Beijing Finance Street Securities Branch (恒泰证券股份有限公司北京金融大街證券營業部)	Room 507, 5/F, Block C, No. 33 Finance Street, Xicheng District, Beijing (北京市西城區金融大街33號C座5層507)	2014.1.13	Gao Jia (高佳)	010-56673868
56	Hengtai Securities Co., Ltd Beijing Liuxiang Road Securities Branch (恒泰证券股份有限公司北京榴鄉路證券營業部)	Room 104, 1/F, Building 2, No. 88 Liuxiang Road, Fengtai District, Beijing (北京市豐台區榴鄉路88號院2號樓1層104)	2014.1.13	Zu Linlin (祖琳琳)	010-56762190
57	Hengtai Securities Co., Ltd Shenzhen Shennan Avenue Securities Branch (恒泰证券股份有限公司深圳深南大道證券營業部)	Room 701, Yangguang Gao'erfu Building, Shennan Avenue, Futian District, Shenzhen (廣東省深圳市福田區深南大道陽光高爾夫大廈701室)	2015.1.12	Shi Buren (施布仁)	0755-82828137

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
58	Hengtai Securities Co., Ltd Zhongshan Zhongshan Forth Road Securities Branch (恒泰证券股份有限公司中山中山四路證券營業部)	Block 20, Building 81/82/83/85, Shunjing Garden, East District, Zhongshan, Guangdong (廣東省中山市東區順景花園81/82/83/85幢20卡)	2015.1.22	Li Jianhua (李建華)	0760-88833653
59	Hengtai Securities Co., Ltd Liaocheng Dongchang Road Securities Branch (恒泰证券股份有限公司聊城東昌路證券營業部)	Room 1027, Fortune Center Building, No. 86 Dongchang Road, Economic and Technological Development Zone, Liaocheng, Shandong (山東省聊城市經濟技術開發區東昌路86號財富中心大廈1027室)	2015.1.26	Wang Peng (汪鵬)	0635-2110887
60	Hengtai Securities Co., Ltd Weifang Fushou East Street Securities Branch (恒泰证券股份有限公司濰坊福壽東街證券營業部)	Room 601, No. 1 Jinnuo Building, No. 5603 Fushou East Street, Kuiwen District, Weifang, Shandong (山東省濰坊市奎文區福壽東街5603號1號樓金諾大廈601室)	2015.1.29	Zhao Wenyuan (趙文苑)	0536-8986553
61	Hengtai Securities Co., Ltd Qingdao Donghai Middle Road Securities Branch (恒泰证券股份有限公司青島東海中路證券營業部)	No.16A Donghai Middle Road,Shinan District, Qingdao, Shandong (山東省青島市市南區東海中路16號甲)	2015.2.3	Pang Jian (龐健)	0532-85710711
62	Hengtai Securities Co., Ltd Shanghai Hennan South Road Securities Branch (恒泰证券股份有限公司上海河南南路證券營業部)	Room 15J, 13/F, No. 33 Hennan South Road, Huangpu District, Shanghai (上海市黃浦區河南南路33號13層15J室)	2015.3.6	Meng Shuang (孟爽)	021-62030568
63	Hengtai Securities Co., Ltd Shanghai Longhua East Road Securities Branch (恒泰证券股份有限公司上海龍華東路證券營業部)	Room 807, No. 858 Longhua East Road, Huangpu District, Shanghai (上海市黃浦區龍華東路858號807室)	2015.3.18	Yang Shifang (楊世芳)	021-63357216
64	Hengtai Securities Co., Ltd Guangzhou Zhujiang West Road Securities Branch (恒泰证券股份有限公司廣州珠江西路證券營業部)	Self Unit 12, Room 3801, No. 17 Zhujiang West Road, Tianhe District, Guangzhou, Guangdong (廣東省廣州市天河區珠江西路17號3801房自編12單元)	2015.3.20	Lu Liang (盧亮)	020-38206520
65	Hengtai Securities Co., Ltd Beijing Guanghua Road Securities Branch (恒泰证券股份有限公司北京光華路證券營業部)	Room B207A, 2/F, Building 30, No. 8 Guanghua Road, Chaoyang District, Beijing (北京市朝陽區光華路8號院30幢二層B207A房間)	2015.6.18	Liu Teng (劉騰)	010-65921230
66	Hengtai Securities Co., Ltd Dalian Southwest Road Securities Branch (恒泰证券股份有限公司大連西南路證券營業部)	Unit 07, 19/F, Sanhe Building, NO.929 Southwest Road, Shahekou District, Dalian, Liaoning (遼寧省大連市沙河口區西南路929號三合大廈19層07號)	2015.6.26	Zhang Lei (張磊)	0411-68837268

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
67	Hengtai Securities Co., Ltd Qingdao Yanerdao Road Securities Branch (恒泰证券 股份有限公司青岛燕兒島路證券營業部)	No.7a-9 Yanerdao Road, South District, Qingdao, Shandong (山東省青島市市南區 燕兒島路7號甲-9號)	2015.6.30	Fan Shuhui (范曙輝)	0532-86108627
68	Hengtai Securities Co., Ltd Beijing Zhichun Road Securities Branch (恒泰证券股份有限 公司北京知春路證券營業部)	Room 1293, 12/F, Building 1, No. 128 Zhichun Road, Haidian District, Beijing (北京市海澱區知春路128號1號樓12層 1293)	2015.7.1	Zhao Yajing (趙亞晶)	010-62423585
69	Hengtai Securities Co., Ltd Changzhou Longjin Road Securities Branch (恒泰证券 股份有限公司常州龍錦路證券營業部)	No. 7-105, Fuxi Garden Shop, Xinbei District, Changzhou, Jiangsu (江蘇省常州 市新北區府西花園商舖7-105號)	2015.7.2	Chen Le (陳樂)	0519-85551099
70	Hengtai Securities Co., Ltd Chongqing Taishan Avenue Securities Branch (恒泰证 券股份有限公司重慶泰山大道證券營業部)	Room 13-6, Building 3, No.40 Donghu South Road, North New District, Chongqing (重慶市北部新區東湖南路40號 3幢13-6)	2015.7.8	Shen Jie (申傑)	023-63109978
71	Hengtai Securities Co., Ltd Wuhan Xibei Road Securities Branch (恒泰证券股份有限 公司武漢西北湖路證券營業部)	No. 99 Beihu Road, Jiangnan District, Wuhan, Hubei (湖北省武漢市江漢區北湖 小路99號)	2015.7.14	Fan Chunhua (范春華)	027-85898177
72	Hengtai Securities Co., Ltd Shanghai Lanhua Road Securities Branch (恒泰证券股份有限 公司上海蘭花路證券營業部)	Room 1207, No.333 Lanhua Road, Pudong New District, Shanghai (上海市浦東新區 蘭花路333號1207室)	2015.7.20	Li Jianhao (李建毫)	021-50800860
73	Hengtai Securities Co., Ltd Shanghai Dongfang Road Securities Branch (恒泰证 券股份有限公司上海東方路證券營業部)	Shop 18, Lobby 1/F, Unit D2, 15/F, No.778 Dongfang Road, Shanghai Pilot Free Trade Zone, Shanghai (上海自由貿易試驗 區東方路778號15樓D2單元、1樓大堂18 號商舖)	2015.7.21	Chen Shaofeng (陳少峰)	021-31089988
74	Hengtai Securities Co., Ltd Beijing Shangdi Third Street Securities Branch (恒泰证券股 份有限公司北京上地三街證券營業部)	Room 102, Door 3, 1/F, Building 3, Shangdi Information Industry Base Third Street, Haidian District, Beijing (北京市海澱區上 地信息產業基地三街3號樓1層3門102)	2015.7.31	Cheng Zhanhua (程占華)	010-82899169
75	Hengtai Securities Co., Ltd Shanghai Lujiazui Securities Branch (恒泰证券股份有限公司 上海陸家嘴證券營業部)	Room 31026, 31/F, No. 66 Huayuan Shiqiao Road, Shanghai Pilot Free Trade Zone, Shanghai (上海自由貿易試驗區花園 石橋路66號31層31026室)	2015.8.5	Huang Hui (黃輝)	021-61086538
76	Hengtai Securities Co., Ltd Shanghai Haining Road Securities Branch (恒泰证券股份有限 公司上海海寧路證券營業部)	Room 1905, No. 469 Wusong Road, Hongkou District, Shanghai (上海市虹口 區吳淞路469號1905室)	2015.8.12	Pan Xiaoli (潘曉麗)	021-66275131

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
77	Hengtai Securities Co., Ltd Dongguan Dalang Meijing Middle Road Securities Branch (恒泰证券股份有限公司东莞大朗美景中路證券營業部)	Rooms 1101, 1102 and 1103, Finance Building, No. 568 Meijing Middle Road, Changtang Community, Dalang Town, Dongguan, Guangdong (廣東省東莞市大朗鎮長塘社區美景中路568號金融大廈1101、1102、1103號)	2015.8.12	Ruan Hai (阮海)	0769-81198561
78	Hengtai Securities Co., Ltd Foshan Foping Road Securities Branch (恒泰证券股份有限公司佛山佛平路證券營業部)	Shop 2/F, Yujing City Garden Qumingxuan, No. 6 Guichengfoping Third Road, Nanhai District, Foshan, Guangdong (廣東省佛山市南海區桂城佛平三路6號御景城市花園趣鳴軒第二層商舖)	2015.8.24	Xie Wen (謝文)	0757-86288102
79	Hengtai Securities Co., Ltd Hangzhou Jianghong Road Securities Branch (恒泰证券股份有限公司杭州江虹路證券營業部)	Room 1008, Building 1, Xinyada International Creative Center, No. 1750 Jianghong Road, Binjiang District, Hangzhou, Zhejiang (浙江省杭州市濱江區江虹路1750號信雅達國際創意中心1幢1008室)	2015.8.25	Jin Zhenyao (金珍耀)	0571-86965997
80	Hengtai Securities Co., Ltd Hangzhou Xixi Road Securities Branch (恒泰证券股份有限公司杭州西溪路證券營業部)	No. 529-3 Xixi Road, West Lake District, Hangzhou, Zhejiang (浙江省杭州市西湖區西溪路529-3號)	2015.8.26	Wang Weifang (王偉芳)	0571-86538803
81	Hengtai Securities Co., Ltd Shenzhen Yitian Road Zhuoyue Times Square Securities Branch (恒泰证券股份有限公司深圳益田路卓越時代廣場證券營業部)	5007B-5008, 50/F, Zhuoyue Times Square, No. 4068 Yitian Road, Futian Street, Futian District, Shenzhen (廣東省深圳市福田區福田街道益田路4068號卓越時代廣場50樓5007B-5008)	2015.8.27	Wu Rongrong (伍榮榮)	0755-82801189
82	Hengtai Securities Co., Ltd Shanghai Yanan West Road Securities Branch (恒泰证券股份有限公司上海延安西路證券營業部)	Room 2607, No.1116 Yanan West Road, Changning District, Shanghai (上海市長寧區延安西路1116號2607室)	2015.9.6	Xu Enlei (徐恩雷)	021-62379677
83	Hengtai Securities Co., Ltd Wenzhou Gu'an Road Securities Branch (恒泰证券股份有限公司温州古岸路證券營業部)	Rooms 001 and 014, 3/F, Building 1, Yixiang Business Building, Ou Hai District, Wenzhou, Zhejiang (浙江省溫州市甌海區億象商廈第1幢3層001、014)	2015.9.6	Chen Kai (陳愷)	0577-88709188
84	Hengtai Securities Co., Ltd Shanghai Caoxi North Road Securities Branch (恒泰证券股份有限公司上海漕溪北路證券營業部)	Room 704, No.398 Caoxi North Road, Xuhui District, Shanghai (上海市徐匯區漕溪北路398號704室)	2015.9.10	Sun Jianing (孫佳甯)	021-62785699

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
85	Hengtai Securities Co., Ltd Beijing, Beixinzhuang Road Securities Branch (恒泰证券股份有限公司北京北辛莊路證券營業部)	Room 308, Block A, Beiruanshuangxin Kechuangyuan, Beixinzhuang Road, Sijiqing Town, Haidian District, Beijing (北京市海澱區四季青鎮北辛莊路北軟雙新科創園A座308房間)	2015.9.14	Zhang Jia (張佳)	010-62596752
86	Hengtai Securities Co., Ltd Taizhou Shifu Avenue Securities Branch (恒泰证券股份有限公司台州市市府大道證券營業部)	No. 387 and 389 Shifu Avenue, Taizhou, Zhejiang (浙江省台州市市府大道387、389號)	2015.9.16	Liu Liangping (劉良平)	0576-89039186
87	Hengtai Securities Co., Ltd Guangzhou Tiyu West Road Securities Branch (恒泰证券股份有限公司廣州體育西路證券營業部)	Room 1205, No. 103 Tiyu West Road, Tianhe District, Guangzhou, Guangdong (廣東省廣州市天河區體育西路103號1205房)	2015.9.18	Zeng Jianyuan (曾建元)	020-38479013
88	Hengtai Securities Co., Ltd Shanghai Xujiahui Road Securities Branch (恒泰证券股份有限公司上海徐家匯路證券營業部)	Room 19C, No. 555 Xujiahui Road, Huangpu District, Shanghai (上海市黃浦區徐家匯路555號19C室)	2015.9.21	Li Jingjing (李晶晶)	021-63083060
89	Hengtai Securities Co., Ltd Yantai Yingchun Avenue Securities Branch (恒泰证券股份有限公司煙臺迎春大街證券營業部)	Rooms 1903 & 1904, 19/F, Block One, Runhua Building, No. 177 Yingchun Avenue, Laishan District, Yantai, Shandong (山東省煙臺市萊山區迎春大街177號潤華大廈一號樓19樓1903和1904室)	2015.9.23	Xing Xiaoliang (邢曉亮)	0535-2106601
90	Hengtai Securities Co., Ltd Zhuhai Jiuzhou Avenue Fuhuali Securities Branch (恒泰证券股份有限公司珠海九洲大道富華里證券營業部)	No. 01, 7/F, Block A, Fuhuali Center Office, 2021 Jiuzhou Avenue West, Zhuhai, Guangdong (廣東省珠海市九洲大道西2021號富華里中心寫字樓A座7層01號)	2015.9.30	Guo Xiangfu (郭相甫)	0756-8626355
91	Hengtai Securities Co., Ltd Shijiazhuang Huaian Road Securities Branch (恒泰证券股份有限公司石家莊槐安路證券營業部)	No. 1805, Ximei Wuzhou Building, Yaqing Street, Yuhua District, Shijiazhuang, Hebei (河北省石家莊市裕華區雅清街西美五洲大廈1805號)	2015.10.9	Lv Haijun (呂海軍)	0311-66500778
92	Hengtai Securities Co., Ltd Shenzhen Longcheng Street Securities Branch (恒泰证券股份有限公司深圳龍城大道證券營業部)	Unit 1208, Zhengzhong Times Building, No.89 Longcheng Avenue, Longcheng Street, Shenzhen, Guangdong (廣東省深圳市龍崗區龍城街道龍城大道89號正中時代大廈1208單元)	2015.10.9	Long Xiaoling (龍小玲)	0755-89452231

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
93	Hengtai Securities Co., Ltd Shenzhen Fuzhong Road North Securities Branch (恒泰证券股份有限公司深圳福中路北證券營業部)	Room 1603, New World Center, No.6009, Yitian Road, Lianhua Street, Futian District, Shenzhen, Guangdong (廣東省深圳市福田區蓮花街道益田路6009號新世界商務中心1603室)	2015.10.9	Shen Jing (沈靜)	0755-23909699
94	Hengtai Securities Co., Ltd Jiaxing Nanhu Avenue Securities Branch (恒泰证券股份有限公司嘉興南湖大道證券營業部)	Room B1601, Building 1, Business & Finance Tower, Economic and Technological Development Zone, Jiaxing, Zhejiang (浙江省嘉興市經濟技術開發區商務金融大廈1幢辦B1601)	2015.10.13	Zheng Yi (鄭逸)	0573-82513531
95	Hengtai Securities Co., Ltd Taiyuan Pingyang Road Securities Branch (恒泰证券股份有限公司太原平陽路證券營業部)	Shops 1001,1002 & 1003, 3/F, 14#, No. 65, Pingyang Road, Xiaodian District, Taiyuan, Shanxi (山西省太原市小店區平陽路65號14#三層1001、1002、1003號商舖)	2015.10.13	Xie Yueqing (謝岳卿)	0351-3958073
96	Hengtai Securities Co., Ltd Shanghai Huanyuan Road Securities Branch (恒泰证券股份有限公司上海花園路證券營業部)	Room 1717, No. 16 Huayuan Road, Hongkou District, Shanghai (上海市虹口區花園路16號1717室)	2015.10.13	Zhang Baichuan (張柏川)	021-66081821
97	Hengtai Securities Co., Ltd Shanghai Shangzhong Road Securities Branch (恒泰证券股份有限公司上海上中路證券營業部)	Room 509, 5th Floor, Block B, No. 495 Shangzhong Road, Xuhui District, Shanghai (上海市徐匯區上中路495號B座5樓509室)	2015.10.19	Huang Dan (黃丹)	021-64321658
98	Hengtai Securities Co., Ltd Liuzhou Tianshan Road Securities Branch (恒泰证券股份有限公司柳州天山路證券營業部)	2-2-9 Tianshangcheng Community, No.245 Shuinan Road, Liuzhou, Guangxi (廣西省柳州市水南路245號天山上城小區2-2-9號)	2015.10.21	Yu Jing (于婧)	0772-8807519
99	Hengtai Securities Co., Ltd Nanning Minzu Avenue Securities Branch (恒泰证券股份有限公司南寧民族大道證券營業部)	Rooms 2207 and 2208, 22/F, Bogongguoji, No.127 Minzu Avenue, Qingxiu District, Nanning, Guangxi (廣西省南寧市青秀區民族大道127號鉑宮國際22樓2207、2208號房)	2015.10.27	Qu Chi (區馳)	0771-5535796
100	Hengtai Securities Co., Ltd Beijing Dongsanhuan North Road Securities Branch (恒泰证券股份有限公司北京東三環北路證券營業部)	06A09, 5/F, No. 2 Dongsanhuan North Road, Chaoyang District, Beijing (北京市朝陽區東三環北路2號5層06A09)	2015.11.2	Lin Pu (蘭璞)	010-84464188

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
101	Hengtai Securities Co., Ltd Shanghai Qihe Road Securities Branch (恒泰证券股份有限公司上海齊河路證券營業部)	Block B, 1/F, 251 Qihe Road, Pudong District, Shanghai (上海市浦東新區齊河路251號一層B座)	2015.11.3	Feng Qiang (馮強)	021-50308398
102	Hengtai Securities Co., Ltd Hangzhou Wujiang Road Securities Branch (恒泰证券股份有限公司杭州婺江路證券營業部)	Room 1806, Building 1, No. 217 Wujiang Road, Shangcheng District, Hangzhou, Zhejiang (浙江省杭州市上城區婺江路217號1號樓1806室)	2015.11.3	Wang Bao (王寶)	0571-86979032
103	Hengtai Securities Co., Ltd Rui'an Gongruishan Road Securities Branch (恒泰证券股份有限公司瑞安拱瑞山路證券營業部)	No. 422 and 424 Gongruishan Road Anyang Street, Rui'an, Zhejiang (浙江省瑞安市安陽街道拱瑞山路422、424號)	2015.11.9	Jin Hairu (金海茹)	0577-66889168
104	Hengtai Securities Co., Ltd Beijing Xinhua Avenue Securities Branch (恒泰证券股份有限公司北京新華大街證券營業部)	Room 2302,23/F, Building 3, No.58 Xinhua West Street, Tongzhou District, Beijing (北京市通州區新華西街58號院3號樓23層2302)	2015.11.11	Feng Zhaojin (封照金)	010-85772321
105	Hengtai Securities Co., Ltd Wuhan Guanggu International Square Securities Branch (恒泰证券股份有限公司武漢光穀國際廣場證券營業部)	Room 1706, 17/F, Rongzhong International Office Building, the north of Luoyu Road and the west of Lumo Road, East Lake High-Tech Development Zone, Wuhan, Hubei (湖北省武漢市東湖新技術開發區珞瑜路以北，魯磨路以西融眾國際寫字樓17層1706號)	2015.11.18	Li Jing (李晶)	027-87680670
106	Hengtai Securities Co., Ltd Shenzhen Xinwen Road Securities Branch (恒泰证券股份有限公司深圳新聞路證券營業部)	Room 13C, Shenmao Commerce Center, No.59 Xinwen Road, Lianhua Street, Futian District, Shenzhen, Guangdong (廣東省深圳市福田區蓮花街道新聞路59號深茂商業中心13C)	2015.11.24	Sun Rui (孫睿)	0755-82529525
107	Hengtai Securities Co., Ltd Shanghai Boshan Road Securities Branch (恒泰证券股份有限公司上海博山路證券營業部)	Room 109B and Room C, No. 6, Lane 202, Boshan Road, China (Shanghai) Pilot Free Trade Zone (中國(上海)自由貿易試驗區博山路202弄6號109B、C室)	2015.12.9	Wang Yonghong (王勇宏)	021-68781070
108	Hengtai Securities Co., Ltd Beijing Nanhu South Road Securities Branch (恒泰证券股份有限公司北京南湖南路證券營業部)	Room 102, Building 4, No. 16 Nanhu South Road, Chaoyang District, Beijing (北京市朝陽區南湖南路16號院4號樓102室)	2015.12.12	Zhang Ge (張戈)	010-64738862
109	Hengtai Securities Co., Ltd Shenyang Hunnan Third Road Securities Branch (恒泰证券股份有限公司瀋陽渾南三路證券營業部)	Room 902, Block A, Tongfang Building, No.1-8 Hunnan Third Road, Hunnan District, Shenyang, Liaoning (遼寧省瀋陽市渾南區渾南三路1-8同方大廈A座902室)	2015.12.14	Gao Xiufeng (高秀峰)	024-82573500

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
110	Hengtai Securities Co., Ltd Beijing Wanfeng Road Securities Branch (恒泰证券股份有限公司北京萬豐路證券營業部)	Unit A2-13, 2/F, Block A, Wankai Center, No. 316 Wanfeng Road, Fengtai District, Beijing (北京市豐台區萬豐路316號萬開中心A座2層A2-13單元)	2015.12.14	Xue Fenxia (薛粉霞)	010-83669805
111	Hengtai Securities Co., Ltd Shenzhen Jintian Road Securities Branch (恒泰证券股份有限公司深圳金田路證券營業部)	30A, Shidai-Caifu Building, Futian District, Shenzhen, Guangdong (廣東省深圳市福田區福田街道福田區時代財富大廈30A)	2015.12.16	Liu Zhenfu (劉真富)	0755-23913045
112	Hengtai Securities Co., Ltd Hangzhou Fuchun Road Securities Branch (恒泰证券股份有限公司杭州富春路證券營業部)	Room 1006, Building 3, Qianjiang International Times Square, Jianggan District, Hangzhou, Zhejiang (浙江省杭州市江幹區區錢江國際時代廣場3幢1006室)	2015.12.16	Yan Yueping (嚴躍平)	0571-87899209
113	Hengtai Securities Co., Ltd Shaoxing Shengli Road Securities Branch (恒泰证券股份有限公司紹興勝利路證券營業部)	Room 1301, Shimao Horizon Center, No. 379 Shengli East Road, Yuecheng District, Shaoxing, Zhejiang (浙江省紹興市越城區勝利東路379號世茂天際中心1301室)	2016.1.18	Zhang Ye (章燁)	0575-88002391
114	Hengtai Securities Co., Ltd Huizhou Bailuhu Securities Branch (恒泰证券股份有限公司惠州白鷺湖證券營業部)	Room 07, 1/F, Building 4, Hubin Fengqing Commercial Street, No. 1 Yajule Avenue, Ruhu Town, Huicheng District, Huizhou, Guangdong (廣東省惠州市惠城區汝湖鎮雅居樂大道1號湖濱風情商業街4棟1層07號)	2016.1.18	Liu Wei (劉威)	0752-7399393
115	Hengtai Securities Co., Ltd Tianjin Changjiang Avenue Securities Branch (恒泰证券股份有限公司天津長江道證券營業部)	Room 602, Rongqiao Center Office Building, the intersection of Changjiang Avenue and Nankai Sixth Road, Nankai District, Tianjin (天津市南開區長江道與南開六馬路交口融橋中心寫字樓602室)	2016.1.19	Li Qiang (李強)	022-83698158
116	Hengtai Securities Co., Ltd Shenzhen Jintian Road Golden Central Tower Securities Branch (恒泰证券股份有限公司深圳金田路金中環證券營業部)	Room 4702, Golden Central Tower, No.3037 Jintian Road, Futian Street, Futian District, Shenzhen, Guangdong (廣東省深圳市福田區福田街道金田路3037號金中環商務大廈4702房)	2016.1.21	Mai Lv (麥綠)	0755-22922980
117	Hengtai Securities Co., Ltd Shaoxing Zhongxing South Road Securities Branch (恒泰证券股份有限公司紹興中興南路證券營業部)	103 & 105, 1/F, Zhongxing South Road, Yuecheng District, Shaoxing, Zhejiang (浙江省紹興市越城區中興南路103、105一層)	2016.1.27	Shen Liuyue (沈柳月)	0575-85223533

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
118	Hengtai Securities Co., Ltd Shanghai Xinjinjiao Road Securities Branch (恒泰证券股份有限公司上海新金桥路证券营业部)	Room 303, Unit 7, No. 1599 Xinjinjiao Road, China (Shanghai) Pilot Free Trade Zone, Shanghai (上海市中国(上海)自由贸易试验区新金桥路1599号7幢303室)	2016.1.28	Fu Lei (付磊)	021-60758505
119	Hengtai Securities Co., Ltd Changsha Jinxing Road Securities Branch (恒泰证券股份有限公司长沙金星路证券营业部)	Room 1806, 18/F, Office Building, Jiaying International Grand Hotel, No. 67 Xianjiahu West Road, Yuelu District, Changsha, Hunan (湖南省长沙市岳麓区咸嘉湖西路67号佳兴国际大酒店写字楼18楼1806房)	2016.1.29	ZhouGuanliang (周冠良)	0731-83091899
120	Hengtai Securities Co., Ltd Shanghai Zhongshan West Road Securities Branch (恒泰证券股份有限公司上海中山西路证券营业部)	Room 904, No.1065 Zhongshan West Road, Changning District, Shanghai (上海市长宁区中山西路1065号904室)	2016.2.2	Feng Yuangang (冯元刚)	021-23560170
121	Hengtai Securities Co., Ltd Zhengzhou Nanyang Road Securities Branch (恒泰证券股份有限公司郑州南阳路证券营业部)	Room 1, East of 1/F and 2/F, Building 24, No. 206 Nanyang Road, Jinshui District, Zhengzhou, Henan (河南省郑州市金水区南阳路206号24号楼1-2层东1号)	2016.2.15	Shi Jin (史进)	0371-55268382
122	Hengtai Securities Co., Ltd Shenzhen Qianhai Securities Branch (恒泰证券股份有限公司深圳前海证券营业部)	Room 201, Block A, 1 Qianwan First Road, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen, Guangdong (9J, Fengye Tower, Nanshan Avenue, Nanshan District, Shenzhen) (广东省深圳市前海深港合作区前湾一路1号A栋201室(深圳市南山区南山大道枫莱大厦9J))	2016.2.24	He Ling (何玲)	0755-86969582
123	Hengtai Securities Co., Ltd Dalian Huizhan Road Securities Branch (恒泰证券股份有限公司大连会展路证券营业部)	Rooms 2 and 3, 11/F, Building 3, No. 67 Huizhan Road, Shahekou District, Dalian, Liaoning (辽宁省大连市沙河口区会展路67号3单元11层2、3号)	2016.3.16	Wang Yu (王钰)	0411-82310300
124	Hengtai Securities Co., Ltd Zibo Jinjing Road Securities Branch (恒泰证券股份有限公司淄博金晶路证券营业部)	Shop 22, Yijielongfengyuan Community, Jinjing Road, Boshan District, Zibo, Shangdong (山东省淄博市博山区金晶路益杰龙凤缘小区二十二号商铺)	2016.3.17	Li Lei (李雷)	0533-4913277

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
125	Hengtai Securities Co., Ltd Linyi Guangzhou Road Securities Branch (恒泰证券股份有限公司临沂广州路证券营业部)	North side of 3/F, Block A of Yanjie Building, Daguanyuan Community, Intersection of Guangzhou Road and Menghe Road, Liuqing Avenue, Lanshan District, Linyi, Shandong (山東省臨沂市蘭山區柳青街道廣州路與蒙河路交匯大官苑沿街樓A區三樓北側)	2016.3.17	Wang Jingbao (王京寶)	0539-8606369
126	Hengtai Securities Co., Ltd Xianyou 825 Street Securities Branch (恒泰证券股份有限公司仙游八二五大街证券营业部)	3/F, Lanxihuayuan Premises, No. 45 825 Street, Licheng Avenue, Xianyou County, Putian, Fujian (福建省莆田市仙遊縣鯉城街道八二五大街45號蘭溪花園樓盤第三層)	2016.3.25	Zheng Zhangwen (鄭章文)	0594-8097766
127	Hengtai Securities Co., Ltd Xi'an Gaoxin Third Road Securities Branch (恒泰证券股份有限公司西安高新三路证券营业部)	Room 1803, PICC (Shaanxi) Financial Building, No. 12 Gaoxin Third Road, Zhangba Street Office, Gaoxin District, Xi'an, Shaanxi (陝西省西安市高新區丈八街辦高新三路12號中國人保大廈(陝西)金融大廈1803室)	2016.3.29	Wang Hao (王浩)	029-89132956
128	Hengtai Securities Co., Ltd Shenzhen Xianglin Road Securities Branch (恒泰证券股份有限公司深圳香林路证券营业部)	11LMN, Block A, Haoming Fortune Plaza, No. 7002 Shennan Blvd, Xiangmihu Avenue, Futian District, Shenzhen, Guangdong (廣東省深圳市福田區香蜜湖街道深南大道7002浩銘財富廣場A座11LMN)	2016.4.6	Wu Gang (吳剛)	0755-83980166
129	Hengtai Securities Co., Ltd Dongguan Huangjiang Securities Branch (恒泰证券股份有限公司东莞黄江证券营业部)	No.1007, 10/F, Fukang Commercial Building, Fukang Garden, Banhu Village, Huangjiang Town, Dongguan, Guangdong (廣東省東莞市黃江鎮板湖村富康花園富康商業大廈10樓1007號)	2016.4.6	Li Sutao (李蘇濤)	0769-82226576
130	Hengtai Securities Co., Ltd Wenzhou Jinxiu Road Securities Branch (恒泰证券股份有限公司温州锦绣路证券营业部)	Room 515, Building 1, Zhixin Center, No. 1067 Jinxiu Road, Lucheng District, Wenzhou, Zhejiang (浙江省温州市鹿城區錦繡路1067號置信中心1幢515室)	2016.4.8	Feng Xiao (馮笑)	0577-85228658
131	Hengtai Securities Co., Ltd Shenzhen Gaoxinnan No. 1 Road Securities Branch (恒泰证券股份有限公司深圳高新南一道证券营业部)	Room 104, Block A, Skyworth Building, No. 8 Gaoxinnan No. 1 Road, Yuehai Avenue, Nanshan District, Shenzhen, Guangdong (廣東省深圳市南山區粵海街道高新南一道008號創維大廈A座104室)	2016.4.12	Yin Wenzhu (印文柱)	0755-26911575

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
132	Hengtai Securities Co., Ltd Guangzhou Tianhe North Road Securities Branch (恒泰证券股份有限公司廣州天河北路證券營業部)	Room 1505, Office Tower, CITIC Plaza, No. 233 Tianhe North Road, Tianhe District, Guangzhou, Guangdong (廣東省廣州市天河區天河北路233號中信廣場辦公大樓1505室)	2016.4.13	Liu Haitao (劉海濤)	020-38909661
133	Hengtai Securities Co., Ltd Fuzhou Software Avenue Securities Branch (恒泰证券股份有限公司福州軟件大道證券營業部)	Room B, 24/F, Building 3, Block F, Fuzhou Software Park, No.89 Software Avenue, Gulou District, Fuzhou, Fujian (福建省福州市鼓樓區軟件大道89號福州軟件園F區3號樓24層B)	2016.4.14	Zhou Xin (周頌)	0591-83300507
134	Hengtai Securities Co., Ltd Beijing Jiancaicheng West Road Securities Branch (恒泰证券股份有限公司北京建材城西路證券營業部)	Room 1005, Unit 2, 10/F, Building 2, No. 87 Jiancaicheng West Road, Huilongguan Town, Chanping District, Beijing (北京市昌平區回龍觀鎮建材城西路87號2號樓10層2單元1005)	2016.4.15	Zhang Xiaoming (張曉明)	010-82916166
135	Hengtai Securities Co., Ltd Beijing Qingnian Road Securities Branch (恒泰证券股份有限公司北京青年路證券營業部)	Room 31804, 18/F, Building 3, No. 7 Courtyard, Qingnian Road, Chaoyang District, Beijing (北京市朝陽區青年路7號院3號樓18層31804房)	2016.4.22	Zhang Weiqing (張偉清)	010-87141707
136	Hengtai Securities Co., Ltd Shenzhen Longxiang Blvd Securities Branch (恒泰证券股份有限公司深圳龍翔大道證券營業部)	Room 1308, Vanke Tower, Longxiang Blvd, Longcheng Avenue, Longgang District, Shenzhen, Guangdong (廣東省深圳龍崗區龍城街道龍翔大道萬科大廈1308)	2016.4.25	Zhu Ming (朱明)	0755-88312899
137	Hengtai Securities Co., Ltd Shanghai Haichao Road Securities Branch (恒泰证券股份有限公司上海海潮路證券營業部)	Rooms 1242 & 1243, No.133 Haichao Road, Huangpu District, Shanghai (上海市黃浦區海潮路133號1242、1243室)	2017.2.17	Shi Hui (施輝)	021-58358085
138	Hengtai Securities Co., Ltd Ningbo Yongjiang Avenue Securities Branch (恒泰证券股份有限公司寧波甬江大道證券營業部)	(2-2) Block 005, No. 48, Block 6, No. 168 Yongjiang Avenue, Yinzhou District, Ningbo, Zhejiang (浙江省寧波市鄞州區甬江大道168號6幢48號005幢(2-2)號)	2017.2.24	Chen Lin (陳麟)	0574-55337786
139	Hengtai Securities Co., Ltd Beijing Jianguomen Nei Avenue Securities Branch (恒泰证券股份有限公司北京建國門內大街證券營業部)	Room 0510, Zhongfang Building, No. 19 Jianguomen Nei Avenue, Dongcheng District, Beijing (北京市東城區建國門內大街19號中紡大廈0510室)	2017.2.27	Wu Xiaohui (伍小輝)	010-65262718

Appendix Particulars of Securities Branches (Continued)

No.	Name	Office address (in China)	Date of incorporation	Person in charge	Contact No. (+86)
140	Hengtai Securities Co., Ltd Beijing Financial Street Second Securities Branch (恒泰证券股份有限公司北京金融大街第二證券營業部)	Room 1001, 10/F, Building 17, Nos. 17, 17A, 17B, and 17C Financial Street, Xicheng District, Beijing (北京市西城區金融大街17號、甲17號、乙17號、丙17號17號樓10層1001)	2017.3.6	Dong Feng (董峰)	010-83270881
141	Hengtai Securities Co., Ltd Beijing Guang'an Road Securities Branch (恒泰证券股份有限公司北京廣安路證券營業部)	Rooms 0414-0415, 4/F, Building 3, No. 9 Guang'an Road, Fengtai District, Beijing (北京市豐台區廣安路9號院3號樓4層0414、0415室)	2017.3.17	Liu Yuqing (劉宇清)	010-63361221
142	Hengtai Securities Co., Ltd Chengdu Renmin South Road Securities Branch (恒泰证券股份有限公司成都人民南路證券營業部)	No. 1001, Building 2, Shangshan Guoji, No.46-1 Renmin South Road Forth Portion, Wuhou District, Chengdu, Sichuan (四川省成都市武侯區人民南路四段46號附1號上善國際2棟1001號)	2017.4.24	Peng Yan (彭彥)	028-85011007
143	Hengtai Securities Co., Ltd Beijing Beichen West Road Securities Branch (恒泰证券股份有限公司北京北辰西路證券營業部)	1009, Unit 4, 9-10/F, No.69 Beichen West Road, Chaoyang District, Beijing (北京市朝陽區北辰西路69號9至10層4單元1009)	2017.5.8	Li Jian Jun (李建軍)	010-58772228
144	Hengtai Securities Co., Ltd Shenzhen Tonggu Road Securities Branch (恒泰证券股份有限公司深圳銅鼓路證券營業部)	Unit 34E1,Block E,Building 6, Dachong Business Center (Block E, CR Land Building), No. 9672 Shennan Blvd, Shahe Street, Nanshan District, Shenzhen, Guangdong (廣東省深圳市南山區沙河街道深南大道9672號大沖商務中心6號樓E座(華潤置地大廈E座)34E1單元)	2017.5.10	Hao Ying (郝瑩)	0755-86713626

Independent Auditor's Report

TO THE SHAREHOLDERS OF HENGTUO SECURITIES

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

OPINION

We have audited the consolidated financial statements of Hengtou Securities (the "Company") and its subsidiaries (the "Group") set out on pages 194 to 326, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS

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

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

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><u>Consolidation of assets management schemes</u></p> <p>Refer to Note 55 to the consolidated financial statements.</p> <p>The Group has investments in a number of assets management schemes where it acts as manager (the "Schemes").</p> <p>Generally, the Group will have power over the relevant activities of the Schemes under the authority delegated to it through the management agreements and will be exposed to variability of returns through its remuneration, including management and performance fees, and its investments in the Schemes.</p> <p>In order to determine whether the Group has control over the Schemes, IFRS 10 "Consolidated Financial Statements" ("IFRS 10") requires that management assess whether the Group has the ability to use its power to affect its returns from its involvement with the Schemes ("Linkage"). In making this assessment, management mainly focuses on two key indicators of Linkage: the strength of any kick-out rights held by other parties in the Schemes and the Group's aggregate economic interests in the Schemes (including both its remuneration and investments). The assessment involves significant management estimation and judgement in evaluating whether the combination of kick-out rights and aggregate economic interests result in control of the Schemes.</p>	<p>Our procedures in relation to consolidation of the Schemes included:</p> <ul style="list-style-type: none">• Assessing each arrangement against the relevant requirements in IFRS 10 to determine whether management's treatment in the consolidated financial statements was appropriate;• For significant arrangements, reviewing the key contractual provisions of the relevant legal documents including the management agreements; and• For significant arrangements, checking the data adopted and the accuracy of the calculations made by management in assessing the variability associated with the Group's aggregate economic interests relative to the total variability of returns of the Schemes.

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter

Fair value measurements

Refer to Note 60 to the consolidated financial statements.

As at 31 December 2018, the Group's financial assets at fair value through profit or loss categorised as level 3 amounted to approximately RMB363,674 million. Determination of their fair values involves significant management estimation, particularly the selection of unobservable inputs. At each reporting date, the financial assets at fair value through profit or loss are measured at fair value. These fair value measurements have significant impact to the financial performance and position of the Group.

How our audit addressed the Key Audit Matter

Our procedures in relation to fair value measurements included:

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

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter

IT system and control

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

How our audit addressed the Key Audit Matter

Our procedures in relation to IT system and control included:

- Meeting with the persons responsible for the Group's IT matters and reviewing relevant documents to understand the general IT control environment, in particular controls over the system development, management of system change, system maintenance and data security;
- Understanding the design and operation of controls over IT applications related to the trading and margin financing systems;
- Reviewing the suitability of the design of the general IT controls; and
- Performing test of the operating effectiveness surrounding management controls over the trading and margin financing systems.

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter

Impairment of financial assets

As at 31 December 2018, the Group has financial assets at fair value through other comprehensive income, financial assets held under resale agreements, margin account receivables and refundable deposits (collectively known as "other financial assets") with carrying amounts of RMB55.426 million, RMB1,161.988 million, RMB3,237.924 million and RMB480.502 million respectively.

The Group has adopted IFRS 9 on 1 January 2018. The key changes arising from the adoption of IFRS 9 are that the Group's credit losses are now estimated based on an expected loss model rather than an incurred loss model.

The expected credit loss model requires the Group to recognise a loss allowance based on either 12-month expected credit losses ("ECLs") or lifetime ECLs depending on whether there has been a significant increase in credit risk on the other financial assets since initial recognition.

The Group considers past due status and other reasonable and supportable information that is available without undue cost or effort in assessing significant increases in credit risk.

The Group measures ECLs applying a probability of default approach using KMV model.

The determination of whether there has been a significant increase in credit risk on the other financial assets since initial recognition and the calculation of ECLs involves significant management judgements and estimates.

How our audit addressed the Key Audit Matter

Our procedures in relation to the impairment assessment of other financial assets included:

- Understanding management impairment provisioning policy in respect of other financial assets;
- Evaluating management's assessment of significant increases in credit risk;
- Assessing the appropriateness of the impairment model used by management and testing the evidence supporting the inputs to the model with the assistance of our in-house impairment valuation specialists; and
- Evaluating the adequacy of the disclosures in respect of impairment of other financial assets in the financial statements.

Independent Auditor's Report (Continued)

OTHER INFORMATION

The directors are responsible for the Other Information. The Other Information comprises all the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

Independent Auditor's Report (Continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report (Continued)

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Independent Auditor's Report (Continued)

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

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

The engagement partner on the audit resulting in this independent auditor's report is Liu Eugene.

RSM Hong Kong

Certified Public Accountants

Hong Kong

22 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	2018	2017
Fees and commission income	7	1,475,729	1,945,058
Interest income	8	790,041	862,421
Net investment (loss)/income	9	(180,418)	1,313,637
Other income and gains	10	14,302	113,247
Total operating income		2,099,654	4,234,363
Fees and commission expenses	11	(147,339)	(156,585)
Interest expenses	12	(535,691)	(743,113)
Staff costs	13	(863,721)	(1,086,402)
Depreciation and amortisation	14	(97,149)	(93,074)
Taxes and surcharges		(16,130)	(19,373)
Other operating expenses	15	(669,579)	(766,092)
Impairment losses	16	(152,078)	(35,423)
Fair value losses from financial assets at fair value through profit or loss and derivative financial instruments		(436,719)	(319,710)
Total operating expenses		(2,918,406)	(3,219,772)
Operating (loss)/profit		(818,752)	1,014,591
Share of profits less losses of associates		(1,668)	(1,686)
(Loss)/profit before tax		(820,420)	1,012,905
Income tax credit/(expense)	17	184,440	(243,834)
(Loss)/profit for the year		(635,980)	769,071
Attributable to:			
Ordinary shareholders of the Company		(673,446)	706,202
Non-controlling interests		37,466	62,869
		(635,980)	769,071
(Loss)/earnings per share			
Basic and diluted	18	RMB(0.30)	RMB0.23

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	2018	2017
(Loss)/profit for the year		(635,980)	769,071
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss:</i>			
Available-for-sale financial assets:			
– Net movement in the investment revaluation reserve		–	302,534
Other comprehensive income for the year, net of tax	21	–	302,534
Total comprehensive income for the year		(635,980)	1,071,605
Attributable to:			
Ordinary shareholders of the Company		(673,446)	1,009,159
Non-controlling interests		37,466	62,446
		(635,980)	1,071,605

Consolidated Statement of Financial Position

As at 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	2018	2017
Non-current assets			
Property and equipment	23	521,781	516,773
Investment properties	24	42,758	18,288
Goodwill	25	43,739	43,739
Intangible assets	26	115,268	117,464
Interests in associates	28	12,557	16,101
Available-for-sale financial assets	29	–	1,343,855
Financial assets held under resale agreements	30	–	614,910
Refundable deposits	31	480,502	614,506
Deferred tax assets	32	231,103	112,194
Other non-current assets	33	41,033	66,495
Total non-current assets		1,488,741	3,464,325
Current assets			
Margin account receivables	34	3,237,924	5,322,835
Other current assets	35	559,242	585,448
Available-for-sale financial assets	29	–	396,444
Financial assets held under resale agreements	30	1,161,988	1,046,749
Financial assets at fair value through other comprehensive income	36	55,426	–
Financial assets at fair value through profit or loss	37	11,840,596	12,997,560
Cash held on behalf of brokerage clients	38	7,475,631	9,491,666
Clearing settlement funds	39	980,059	773,387
Cash and bank balances	40	3,115,472	2,338,573
Total current assets		28,426,338	32,952,662
Total assets		29,915,079	36,416,987
Current liabilities			
Debt instruments	42	3,853,082	1,500,000
Placements from a financial institution	43	500,000	700,000
Account payables to brokerage clients	44	7,691,497	10,028,333
Employee benefit payables	45	287,689	415,732
Contract liabilities	46	34,331	–
Other current liabilities	47	1,616,090	3,626,753
Current tax liabilities		10,280	74,330
Financial assets sold under repurchase agreements	48	3,742,325	5,065,778
Total current liabilities		17,735,294	21,410,926
Net current assets		10,691,044	11,541,736
Total assets less current liabilities		12,179,785	15,006,061

Consolidated Statement of Financial Position (Continued)

As at 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	2018	2017
Non-current liabilities			
Debt instruments	42	2,218,236	3,344,857
Financial assets sold under repurchase agreements	48	–	590,000
Deferred revenue		–	6,938
Deferred tax liabilities	32	16,728	121,834
Total non-current liabilities		2,234,964	4,063,629
NET ASSETS		9,944,821	10,942,432
Equity			
Share capital	49(a)	2,604,567	2,604,567
Share premium	49(b)	1,665,236	1,665,236
Perpetual capital securities	50	1,500,000	1,500,000
Reserves	51	3,766,606	4,801,474
Total equity attributable to ordinary shareholders of the Company and holders of perpetual capital securities		9,536,409	10,571,277
Non-controlling interests		408,412	371,155
TOTAL EQUITY		9,944,821	10,942,432

Approved by the Board of Directors on 22 March 2019 and are signed on its behalf by:

Pang Jiemin

Chairman of Board of Directors

Wu Yigang

Vice Chairman of Board of Directors

Yang Shufei

Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to ordinary shareholders of the Company and holders of perpetual capital securities										
	Share capital	Share premium	Perpetual capital securities	Surplus reserve	General risk reserve	Transaction risk reserve	Investment revaluation reserve	Retained profits	Total	Non-controlling interests	Total equity
	Note 49(a)	Note 49(b)	Note 50	Note 51(a)	Note 51(b)	Note 51(c)	Note 51(d)				
At 1 January 2017	2,604,567	1,665,236	1,500,000	449,200	598,597	547,291	87,350	2,208,719	9,660,960	275,245	9,936,205
Total comprehensive income for the year	-	-	-	-	-	-	302,957	706,202	1,009,159	62,446	1,071,605
Dividends paid (Note 22)	-	-	-	-	-	-	-	(102,000)	(102,000)	-	(102,000)
Appropriation to surplus reserve	-	-	-	59,706	-	-	-	(59,706)	-	-	-
Appropriation to general risk reserve	-	-	-	-	110,644	-	-	(110,644)	-	-	-
Appropriate to transaction risk reserve	-	-	-	-	-	62,708	-	(62,708)	-	-	-
Capital contribution to a subsidiary	-	-	-	-	-	-	-	3,158	3,158	(3,158)	-
Capital contribution by non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	37,440	37,440
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(818)	(818)
Changes in equity for the year	-	-	-	59,706	110,644	62,708	302,957	374,302	910,317	95,910	1,006,227
At 31 December 2017	2,604,567	1,665,236	1,500,000	508,906	709,241	609,999	390,307	2,583,021	10,571,277	371,155	10,942,432
At 1 January 2018	2,604,567	1,665,236	1,500,000	508,906	709,241	609,999	390,307	2,583,021	10,571,277	371,155	10,942,432
Adjustment on initial application of IFRS 9 (Note 2)	-	-	-	224	251	221	(390,307)	390,646	1,035	(209)	826
Restated balance at 1 January 2018	2,604,567	1,665,236	1,500,000	509,130	709,492	610,220	-	2,973,667	10,572,312	370,946	10,943,258
Total comprehensive income for the year	-	-	-	-	-	-	-	(673,446)	(673,446)	37,466	(635,980)
Dividends paid (Note 22)	-	-	-	-	-	-	-	(362,457)	(362,457)	-	(362,457)
Appropriation to surplus reserve	-	-	-	-	-	-	-	-	-	-	-
Appropriation to general risk reserve	-	-	-	-	24,893	-	-	(24,893)	-	-	-
Appropriate to transaction risk reserve	-	-	-	-	-	904	-	(904)	-	-	-
Changes in equity for the year	-	-	-	-	24,893	904	-	(1,061,700)	(1,035,903)	37,466	(998,437)
At 31 December 2018	2,604,567	1,665,236	1,500,000	509,130	734,385	611,124	-	1,911,967	9,536,409	408,412	9,944,821

Consolidated Statement of Cash Flows

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	(820,420)	1,012,905
Adjustments for:		
Interest expenses	535,691	743,113
Share of profits less losses of associates	1,668	1,686
Depreciation and amortisation	97,149	93,074
Impairment losses	152,078	35,423
Loss on disposal of property and equipment and intangible assets	3,631	609
Gain on disposal of an associate	(17)	–
Foreign exchange losses	–	1,663
Net realised gains from disposal of available-for-sale financial assets	–	(320,093)
Dividend income and interest income from available-for-sale financial assets	–	(1,239)
Net changes in fair value of financial instruments at fair value through profit or loss, net	436,169	222,683
Gain on disposal of subsidiaries	–	(14,635)
Operating profit before working capital changes	405,949	1,775,189
Refundable deposits	134,004	(147,796)
Receivables and prepayments	140,581	88,955
Margin account receivables	2,103,618	(178,356)
Financial assets held under resale agreements	7,149	200,934
Financial assets at fair value through profit or loss	1,486,544	(4,897,308)
Financial assets at fair value through other comprehensive income	745,328	–
Cash held on behalf of brokerage clients	2,016,035	2,455,993
Restricted bank deposits	(39,365)	(53,885)
Placements from other financial institutions	(200,000)	(200,000)
Account payables to brokerage clients	(2,336,836)	(2,173,004)
Employee benefit payables	(128,043)	(92,360)
Other payables and accruals	(2,003,907)	1,947,583
Contract liabilities	19,099	–
Financial assets sold under repurchase agreements	(1,913,453)	62,592
Cash generated from/(used in) operations	436,703	(1,211,463)
Income tax paid	(156,417)	(302,050)
Interest paid for operating activities	(272,971)	(456,583)
Net cash generated from/(used in) operating activities	7,315	(1,970,096)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

	<i>Note</i>	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment and intangible assets		314	1,066
Proceeds from disposal of an associate		204	–
Dividend income and interest income received from available-for-sale financial assets		–	3,767
Dividend income received from an associate		1,689	–
Proceeds from disposal of available-for-sale financial assets		–	3,392,639
Purchases of property and equipment, intangible assets and other non-current assets		(129,959)	(118,468)
Purchases of available-for-sale financial assets		–	(517,899)
Proceeds from disposal of subsidiaries	61(a)	–	7,840
Other net cash flows from investing activities		(115,700)	20,000
Net cash (used in)/generated from investing activities		(243,452)	2,788,945
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution by non-controlling shareholders of a subsidiary		–	37,440
Proceeds from issuance of debt instruments		2,946,630	3,100,000
Repayment of debt instruments		(1,740,000)	(4,400,000)
Interest paid for financing activities		(236,805)	(280,215)
Dividends paid		(362,457)	(102,000)
Other net cash flows from financing activities		(4,325)	(78,969)
Net cash generated from/(used in) financing activities		603,043	(1,723,744)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		366,906	(904,895)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		3,632,643	4,539,201
Effect of foreign exchange rate changes		(899)	(1,663)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	41	3,998,650	3,632,643

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

1. GENERAL INFORMATION

The Company was set up in Inner Mongolia Autonomous Region by Inner Mongolia Branch of People's Bank of China ("PBOC") in 1988. The Company has restructured into a joint stock company with limited liability pursuant to the approvals by the China Securities Regulatory Commission ("CSRC") in 2008. The Company has obtained securities institution license No. Z20815000 and business licence No. 150000000001019. The registered address of the Company is 14-18/F, Everbright Bank Building, Oriental Junzuo Block D, Chile Chuan Avenue, Saihan District, Hohhot, Inner Mongolia Autonomous Region. As at 31 December 2018, the share capital of the Company is RMB2,604,567,412.

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

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

2. ADOPTION OF NEW AND REVISED IFRSs

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out in Note 3.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED IFRSs (CONTINUED)

(b) Application of new and revised IFRSs

The IASB has issued a number of new and revised IFRSs that are first effective for annual periods beginning on or after 1 January 2018, of these the following developments are relevant to the Group's consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

The adoption of IFRS 9 resulted in the following changes to the Group's accounting policies:

(i) *Classification*

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL"), and
- those to be measured at amortised cost.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED IFRSs (CONTINUED)

(b) Application of new and revised IFRSs (Continued)

IFRS 9 Financial Instruments (Continued)

(i) *Classification (Continued)*

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

(ii) *Measurement*

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures its financial assets at its fair value plus, in the case of financial assets not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED IFRSs (CONTINUED)

(b) Application of new and revised IFRSs (Continued)

IFRS 9 Financial Instruments (Continued)

(ii) *Measurement (Continued)*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVTOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment losses are presented as separate line item in the statement of profit or loss.
- **FVTPL:** Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED IFRSs (CONTINUED)

(b) Application of new and revised IFRSs (Continued)

IFRS 9 Financial Instruments (Continued)

(ii) *Measurement (Continued)*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(iii) *Impairment*

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables (i.e. fee, commission and other receivables), the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Meanwhile, other financial assets (i.e. financial assets at fair value through other comprehensive income, financial assets held under resale agreements, margin account receivables and refundable deposits) are adopting general approach.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED IFRSs (CONTINUED)

(b) Application of new and revised IFRSs (Continued)

IFRS 9 Financial Instruments (Continued)

(iii) Impairment (Continued)

Set out below is the impact of the adoption of IFRS 9 on the Group.

The following table summarise the impact on the Group's opening retained profits as at 1 January 2018 is as follows:

	<i>RMB'000</i>
Reclassification of investment revaluation reserve	390,307
(Increase)/decrease in impairment loss for:	
– margin account receivables (<i>note b</i>)	22,832
– financial assets held under resale agreements (<i>note b</i>)	(22,590)
– other current assets (<i>note b</i>)	858
Related reserves which were determined based on net profits	(696)
Related deferred tax	(274)
Adjustment to retained profits from adoption of IFRS 9 on 1 January 2018	<u>390,437</u>
Attributable to:	
– ordinary shareholders of the Company	390,646
– non-controlling interests	(209)
	<u>390,437</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED IFRSs (CONTINUED)

(b) Application of new and revised IFRSs (Continued)

IFRS 9 Financial Instruments (Continued)

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Classification under IAS 39	Classification under IFRS 9	Carrying amounts under IAS 39	Carrying amounts under IFRS 9
Equity investments (<i>note a</i>)	Available-for-sale	FVTPL	1,740,299	1,740,299
Equity investments	FVTPL	FVTPL	4,246,338	4,246,338
Debt investments	FVTPL	FVTPL	7,952,583	7,952,583
Debt investments (<i>note b</i>)	FVTPL	FVOCI	798,639	798,639
Financial assets held under resale agreements (<i>note c</i>)	Loans and receivables	Amortised cost	1,661,659	1,639,069
Refundable deposits	Loans and receivables	Amortised cost	614,506	614,506
Other non-current assets	Loans and receivables	Amortised cost	66,495	46,195
Other non-current assets	Loans and receivables	FVTPL	20,300	20,300
Margin account receivables (<i>note c</i>)	Loans and receivables	Amortised cost	5,322,835	5,345,667
Other current assets (<i>note c</i>)	Loans and receivables	Amortised cost	585,448	586,306
Cash held on behalf of brokerage clients	Loans and receivables	Amortised cost	9,491,666	9,491,666
Clearing settlement funds	Loans and receivables	Amortised cost	773,387	773,387
Cash and bank balances	Loans and receivables	Amortised cost	2,338,573	2,338,573

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED IFRSs (CONTINUED)

(b) Application of new and revised IFRSs (Continued)

IFRS 9 Financial Instruments (Continued)

The impact of these changes on the Group's equity is as follows:

	Effect on surplus reserve	Effect on general risk reserve	Effect on transaction risk reserve	Effect on investment revaluation reserve	Effect on retained profits
Opening balance – IAS 39	508,906	709,241	609,999	390,307	2,583,021
Reclassification of trading equity investments from available-for-sale to financial assets at FVTPL (<i>note a</i>)	–	–	–	(390,307)	390,307
(Increase)/decrease in impairment loss for:					
– margin account receivables (<i>note c</i>)	–	–	–	–	17,124
– financial assets held under resale agreements (<i>note c</i>)	–	–	–	–	(16,942)
– other current assets (<i>note c</i>)	–	–	–	–	853
Appropriation to related reserves	224	251	221	–	(696)
	224	251	221	(390,307)	390,646
Opening balance – IFRS 9	509,130	709,492	610,220	–	2,973,667

Notes:

- Under IFRS9 equity investments are generally measured at FVTPL. As a result, assets with a fair value of approximately RMB1,740 million were reclassified from available-for-sale financial assets to financial assets at FVTPL and fair value gains of RMB390.307 million were reclassified from the investment revaluation reserve to retained profits on 1 January 2018.
- These debt investments represent investments that are held for collection of contractual cash flows and for selling, where the assets' cash flows represent solely payments of principal and interest ("SPPI"). Under IFRS 9 these debt investments are measured at FVOCI.
- Financial assets held under resale agreements, other current assets and margin account receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. A net decrease of RMB1.035 million in the allowance for impairment over these receivables was recognised in opening retained profits at 1 January 2018 on transition to IFRS 9.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED IFRSs (CONTINUED)

(b) Application of new and revised IFRSs (Continued)

IFRS 9 Financial Instruments (Continued)

The Group has determined that the application of IFRS 9 impairment model requirements at 1 January 2018 results as follows:

	<i>RMB'000</i>
Impairment allowance at 31 December 2017 under IAS 39	52,449
Addition/(reversal) of impairment recognised as at 1 January 2018 on:	
– margin account receivables	(22,832)
– financial assets held under resale agreements	22,590
– other current assets	(858)
Impairment allowance at 1 January 2018 under IFRS 9	<u>51,349</u>

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method with the effect of initially applying this standard recognised at the date of initial application. Accordingly, the information presented for 2017 has not been restated, i.e. it is presented, as previously reported, under IAS 18 and related interpretations.

The adoption of IFRS 15 did not result any significant changes to the Group's accounting policies. The following adjustments were made to the amounts recognized in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED IFRSs (CONTINUED)

(b) Application of new and revised IFRSs (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

	Carrying amount previously reported at 31 December 2017	Reclassification <i>(Note)</i>	Carrying amount under HKFRS 15 at 1 January 2018
Current liabilities			
– Other current liabilities	3,626,753	(8,294)	3,618,459
– Contract liabilities	–	15,232	15,232
Non-current liabilities			
– Deferred revenue	6,938	(6,938)	–

Note:

As at 1 January 2018, receipts in advance of RMB8.294 million previously included in current liabilities and deferred revenue of RMB6.938 million were reclassified to contract liabilities.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED IFRSs (CONTINUED)

(c) New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2018. These new and revised IFRSs include the following which may be relevant to the Group.

		Effective for accounting periods beginning on or after
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IAS 19	“Employee benefits” on plan amendment, curtailment or settlement	1 January 2019
Amendments to IFRS 3	Definition of a Business	1 January 2020
Amendment to IFRS 9	Financial Instruments on prepayment features	1 January 2019
Amendments to IFRS 10 and IAS 28	Sales or contribution of assets between and investor and its associate or joint venture	To be determined
Amendments and IAS 28	Long Term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2019
Annual Improvements to IFRS Standards	2015–2017 Cycle	1 January 2019

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED IFRSs (CONTINUED)

(c) New and revised IFRSs in issue but not yet effective (Continued)

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). IFRS 16 carries forward the accounting requirements for lessors in IAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under IFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED IFRSs (CONTINUED)

(c) New and revised IFRSs in issue but not yet effective (Continued)

IFRS 16 Leases (Continued)

As disclosed in Note 54, as at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to RMB220.753 million. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statements from 2019 onwards.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation of IAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis, unless mentioned otherwise in the accounting policies below (e.g. financial instruments that are measured at fair value).

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interests in associates.

(2) Functional and presentation currency

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

(3) Use of estimates and judgments

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

Judgments that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the subsequent period are discussed in Note 4.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) Basis of consolidation

(i) Business combination

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

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

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

(ii) Subsidiaries and non-controlling interests

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) Basis of consolidation (Continued)

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

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

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 3(8)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 3(4)(iii)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 3(14)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) Basis of consolidation (Continued)

(iii) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 3(5) and 3(14)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. If the associate or the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) Basis of consolidation (Continued)

(iii) Associates and joint ventures (Continued)

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 3(8)).

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

(5) Goodwill

Goodwill represents the excess of:

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(5) Goodwill (Continued)

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 3(14)).

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

(6) Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(6) Foreign currency (Continued)

(ii) Transactions and balances in each entity's financial statements (Continued)

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

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

(7) Cash and cash equivalents

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(8) Financial instruments

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(8) Financial instruments (Continued)

(ii) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt investments

Debt investments held by the Group are classified into one of the following measurement categories:

- **Amortised cost:** if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.
- **FVTOCI:** recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- **FVTPL:** if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(8) Financial instruments (Continued)

(ii) Financial assets (Continued)

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVTOCI, are recognised in profit or loss as other income.

Policy prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVTPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the investment revaluation reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired, the cumulative gain or loss recognised in equity was reclassified to profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(9) Margin financing and securities lending

Margin financing and securities lending refer to the lending of funds by the Group to customers for purchase of securities, or lending of securities by the Group to customers for securities selling, for which the customers provide the Group with collateral.

The Group recognises margin financing receivables as receivables carried at amortised cost, and recognises interest income using effective interest rate method. Securities lent are not derecognised when the risk and rewards are not transferred, and interest income is recognised using effective interest rate method.

Securities trading on behalf of margin financing or securities lending customers are accounted for as securities brokerage business.

(10) Financial assets held under resale agreements and sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the consolidated statements of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the consolidated statements of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(11) Property and equipment and construction in progress

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses (see Note 3(14)). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Costs of construction in progress are determined based on the actual expenditures incurred which include all necessary expenditures incurred during the construction period, borrowing costs eligible for capitalisation and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(11) Property and equipment and construction in progress (Continued)

(ii) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the transfers do not change the carrying amount of property transferred and do not change the cost of that property for measurement or disclosure purpose.

(iii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iv) Depreciation

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives.

Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

Types of assets	Estimated useful lives	Estimated residual values	Depreciation rates
Buildings	35 years	3%	2.77%
Motor vehicles	5 years	0%	20%
Electronic equipment	4 years	0%	25%
Furniture and fixtures	5 years	0%	20%

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(11) Property and equipment and construction in progress (Continued)

(iv) Depreciation (Continued)

Construction in progress represents buildings under construction, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(12) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is initially measured at its cost, which includes expenditure that is directly attributable to the acquisition of items. Subsequent to initial recognition, the investment property is accounted for using the cost model and stated in the consolidated financial statement at cost less accumulated depreciation, and impairment losses (see Note 3(14)). The cost of investment property, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life, unless the investment property is classified as held for sale.

Types of assets	Estimated useful lives	Estimated residual values	Depreciation rates
Investment property	35 years	3%	2.77%

The gain or loss in disposal of an investment property is the difference between the net sale proceeds and the carrying amount of property, and is recognised in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(13) Intangible assets

Intangible assets are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment loss (see Note 3(14)). For an intangible asset with finite useful life, its cost less impairment loss is amortised on the straight-line method over its estimated useful life.

The respective amortisation periods for intangible assets are as follows:

Types of assets	Estimated useful lives
Trading rights	5 years
Software	5 years

Both the period and method of amortisation are reviewed annually.

(14) Impairment

(i) Impairment of non-financial assets

Internal and external sources of information are reviewed at each reporting date to identify indications that the following assets may be impaired or, except goodwill, an impairment loss recognised previously no longer exists or may have decreased:

- property and equipment
- investment properties
- intangible assets
- equity investment in subsidiaries and associates
- goodwill
- leasehold improvements and long-term prepaid expenses

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(14) Impairment (Continued)

(i) Impairment of non-financial assets (Continued)

The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets (i.e. a cash-generating unit, or CGU). Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(14) Impairment (Continued)

(ii) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, trade receivables (i.e. fee and commission receivables) and other receivables (i.e. margin account receivables, financial assets held under resale agreements and refundable deposits). The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(14) Impairment (Continued)

(ii) Impairment of financial assets (Continued)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(14) Impairment (Continued)

(ii) Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (a) The financial instrument has a low risk of default,
- (b) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (c) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of “investment grade” in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of “performing”. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(14) Impairment (Continued)

(ii) Impairment of financial assets (Continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(14) Impairment (Continued)

(ii) Impairment of financial assets (Continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(14) Impairment (Continued)

(ii) Impairment of financial assets (Continued)

Measurement and recognition of ECL (Continued)

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Policy prior to 1 January 2018

At the end of each reporting period, the Group assesses whether its financial assets (other than those at fair value through profit or loss) are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the investment below its cost is considered also to be objective evidence of impairment.

In addition, for trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(15) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

Pursuant to the relevant laws and regulations in the People's Republic of China ("PRC"), the Group participated in the social pension schemes for employees arranged by local government labour and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amount stipulated by the government. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(16) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income, in which case the relevant amounts of tax are recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(16) Income tax (Continued)

(ii) Deferred tax (Continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(17) Operating leases

(i) Operating lease charges

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

(ii) Assets leased out under operating leases

Property and equipment leased out under operating leases are depreciated in accordance with the Group's depreciation policies described in Note 3(11)(iv). Impairment losses are recognised in accordance with the accounting policies described in Note 3(14). Income derived from operating leases is recognised in the profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent rentals are recognised as income in the accounting period in which they are earned.

(18) Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(19) Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

(20) Revenue recognition

Revenue from contracts with customers is recognised by reference to each distinct performance obligation in the contract with the customer. Revenue from contracts with customers is measured at the transaction price, being the amount of consideration which the Group expects to be entitled to in exchange for transferring the promised goods or services to the customer, net of taxes. The transaction price is allocated to each performance obligation of each distinct good or service promised in the contract. The basis of allocation is that allowed by IFRS 15. Depending on the substance of the contract, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time.

(i) Commission income from brokerage business

Brokerage commission income is recognised at a single point in time, i.e. on a trade date when the relevant transactions are executed. Handling and settlement fee income arising from brokerage business is recognised when the related services are rendered.

(ii) Underwriting and sponsor fees

Underwriting and sponsor fees are recognised at a single point in time when the performance obligation is satisfied, that is, the economic interests may flow into the Group and the relevant revenue and costs may be calculated reliably.

(iii) Assets management, advisory and custody fees

Assets management, advisory and custody fees are recognised over time as services rendered.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(20) Revenue recognition (Continued)

(iv) Rental income

Rental income is recognised on a straight-line basis over the lease terms.

(v) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(21) Equity instruments

An equity instrument is any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(22) Dividend distribution

Dividends or profit distributions proposed in the profit appropriation plan, which will be authorised and declared after the reporting date, are not recognised as a liability at the end of the year but disclosed in the notes to the financial statements separately.

(23) Government grants

Government grants related to purchase of asset are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(24) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose financial performance are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and for which consolidated financial statement regarding financial position, financial performance and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each products and service, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

(25) Events after reporting date

Events after the reporting date that provide additional information about the Group's position at the end of the reporting year are adjusting events and are reflected in the consolidated financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(1) Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of investors' returns. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For assets management schemes where the Group involves as the manager, the Group assesses whether the combination of investments it holds, if any, together with its remuneration creates exposure to variability of returns from the activities of the assets management schemes that is of such significance indicating that the Group is a principal. The assets management schemes shall be consolidated if the Group acts in the role of principal.

Details of interest in assets management schemes is disclosed in Note 55 to the consolidated financial statements.

(2) Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or FVTOCI that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(3) Significant increase in credit risk

As explained in note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

(4) Fair value of financial instruments

Financial instruments at fair value through profit or loss are measured at fair value at the reporting date and it is usually possible to determine their fair values within a reasonable range of estimates.

For part of the above financial instruments, quoted market prices are readily available. However, the determination of fair value for financial assets and liabilities for which there is no observable market price, requires the use of valuation technique. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. Details of fair value measurements are disclosed in Note 60 to the consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(5) Impairment of financial assets

The measurement of impairment losses of receivables under IFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

Details of impairment of receivables are disclosed in Notes 30, 31, 34, 35 and 36 to the consolidated financial statements.

(6) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is recognised.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption. During the year, no impairment (2017: Nil) was recognised for non-financial assets.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(7) Income taxes

Determining income tax provision involves judgement on the future tax treatment of certain transactions. The Group evaluates carefully tax implication of transaction and tax provision are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered. The amount of income tax recognised in profit or loss based on the estimated profit from operations was disclosed in note 17 to the consolidated financial statement.

(8) Depreciation and amortisation

Property and equipment, investment property, intangible assets, leasehold improvements and long-term deferred expenses are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting date. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised. The depreciation and amortisation charged for the year were disclosed in Note 14 to the consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

5. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER 2018

	2018	2017
Non-current assets		
Property and equipment	487,319	454,307
Investment properties	11,532	12,097
Intangible assets	98,966	102,082
Investments in subsidiaries	1,996,583	1,996,583
Available-for-sale financial assets	–	59,090
Financial assets held under resale agreements	–	614,910
Refundable deposits	200,040	165,438
Deferred tax assets	260,809	76,330
Other non-current assets	25,739	32,084
Total non-current assets	3,080,988	3,512,921
Current assets		
Margin account receivables	3,237,924	5,322,835
Other current assets	424,790	328,112
Available-for-sale financial assets	–	212,206
Financial assets held under resale agreements	1,084,889	479,132
Financial assets at fair value through profit or loss	8,729,918	9,117,843
Cash held on behalf of brokerage clients	7,133,835	8,680,182
Clearing settlement funds	711,108	741,963
Cash and bank balances	1,908,182	1,129,951
Total current assets	23,230,646	26,012,224
Total assets	26,311,634	29,525,145

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

5. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER 2018 (CONTINUED)

	2018	2017
Current liabilities		
Debt instruments	2,161,070	1,500,000
Placements from a financial institution	500,000	700,000
Account payables to brokerage clients	6,916,864	8,798,554
Employee benefit payables	175,784	276,061
Contract liabilities	1,569	–
Other current liabilities	290,442	248,754
Current tax liabilities	–	56,169
Financial assets sold under repurchase agreements	3,491,425	4,329,701
Total current liabilities	13,537,154	15,909,239
Net current assets	9,693,492	10,102,985
Total assets less current liabilities	12,774,480	13,615,906
Non-current liabilities		
Debt instruments	3,910,248	3,304,857
Financial assets sold under repurchase agreements	–	500,000
Deferred revenue	–	6,938
Total non-current liabilities	3,910,248	3,811,795
Net assets	8,864,232	9,804,111

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

5. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER 2018 (CONTINUED)

	2018	2017
Equity		
Share capital	2,604,567	2,604,567
Share premium	1,665,236	1,665,236
Perpetual capital securities	1,500,000	1,500,000
Reserves	3,094,429	4,034,308
Total equity attributable to ordinary shareholders of the Company and holders of perpetual capital securities	8,864,232	9,804,111

Approved by the Board of Directors on 22 March 2019 and is signed on its behalf by:

Pang Jiemin
Chairman of Board of Directors

Wu Yigang
Vice Chairman of Board of Directors

Yang Shufei
Chief Financial Officer

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

6. TAXATION

The Group's main applicable taxes and tax rates are as follows:

Tax type	Tax basis	Tax rate
Corporate income tax	Based on taxable profits	25%
Value added tax ("VAT")	Based on taxable revenue	4% – 6%
City maintenance and construction tax	Based on business tax and VAT	7%
Education surcharge and local education surcharge	Based on business tax and VAT	2% – 3%

7. FEES AND COMMISSION INCOME

	2018	2017
Fees and commission income arising from:		
– Securities brokerage business	624,216	868,100
– Assets management business	548,784	619,254
– Underwriting and sponsoring business	115,114	162,910
– Financial advisory business	58,231	115,543
– Futures brokerage business	61,279	70,668
– Investment advisory business	17,220	62,721
– Custody business	50,885	45,862
Revenue from contracts with customers within the Scope of IFRS 15	1,475,729	1,945,058

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

7. FEES AND COMMISSION INCOME (CONTINUED)

(a) The following table shows revenue disaggregation by timing of revenue recognition:

	Securities and futures brokerage businesses <i>RMB'000</i>	Assets management, financial and investment advisory businesses <i>RMB'000</i>	Underwriting and sponsoring business <i>RMB'000</i>	Custody business <i>RMB'000</i>	Total <i>RMB'000</i>
For year ended					
31 December 2018					
Timing of revenue recognition					
Over time	-	624,235	-	50,885	675,120
Point in time	685,495	-	115,114	-	800,609

(b) Transaction price allocated to the remaining performance obligations

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue as follows:

	Securities and futures brokerage businesses <i>RMB'000</i>	Assets management, financial and investment advisory businesses <i>RMB'000</i>	Underwriting and sponsoring business <i>RMB'000</i>	Custody business <i>RMB'000</i>	Total <i>RMB'000</i>
Within one year	-	32,914	-	1,417	34,331

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

8. INTEREST INCOME

	2018	2017
Interest income arising from:		
– Margin financing and securities lending	370,799	396,770
– Deposits in financial institutions	318,953	376,183
– Financial assets held under resale agreements	85,792	88,944
– Others	14,497	524
	790,041	862,421

9. NET INVESTMENT (LOSS)/INCOME

	2018	2017
Net realised gains from disposal of available-for-sale financial assets	–	320,093
Dividend income and interest income from available-for-sale financial assets	–	1,239
Net gain on disposal of financial assets at fair value through other comprehensive income	896	–
Dividend income from financial instruments at FVTPL and derivative financial instruments	474,050	707,943
Net realised (losses)/gains from disposal of financial instruments at FVTPL and derivative financial instruments	(656,176)	271,186
Gain on disposal of subsidiaries	–	14,635
Gain on disposal of an associate	17	–
Others	795	(1,459)
	(180,418)	1,313,637

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

10. OTHER INCOME AND GAINS

	2018	2017
Foreign exchange losses	(899)	(1,663)
Rental income		
– Investment properties	2,238	2,125
– Others	779	890
Government grants	14,006	7,139
Loss on disposal of property and equipment and intangible assets	(3,631)	(609)
Gain from financial instruments at FVTPL and derivative financial instruments	550	98,027
Others	1,259	7,338
	14,302	113,247

Government grants were received from several local government authorities for supporting the Group's operation, of which the entitlement was unconditional.

11. FEES AND COMMISSION EXPENSES

	2018	2017
Expenses arising from:		
– Securities brokerage business	121,823	155,056
– Underwriting and sponsoring business	25,472	1,529
– Custody business	44	–
	147,339	156,585

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

12. INTEREST EXPENSES

	2018	2017
Interest expenses arising from:		
– Account payables to brokerage clients	33,700	41,892
– Placements from other financial institutions	28,282	37,139
– Financial assets sold under repurchase agreements	235,143	239,203
– Debt instruments	262,720	284,507
– Other investors under the assets management schemes	(18,959)	134,344
– Limited partners under limited partnerships	(5,483)	6,028
– Others	288	–
	535,691	743,113

13. STAFF COSTS

	2018	2017
Short-term benefits	791,296	1,028,368
Defined contribution plan	72,425	58,034
	863,721	1,086,402

The Group is required to participate in pension schemes in the PRC whereby the Group is required to pay contributions for its employees at certain rates of the wages of employees. The Group has no other material obligations for payment of retirement benefits to its employees beyond the contributions described above.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

14. DEPRECIATION AND AMORTISATION

	2018	2017
Depreciation of:		
– property and equipment (Note 23)	40,736	36,924
– investment properties (Note 24)	826	826
Amortisation of:		
– intangible assets (Note 26)	38,640	35,271
– leasehold improvements and long-term prepaid expenses (Note 33)	16,947	20,053
	97,149	93,074

15. OTHER OPERATING EXPENSES

	2018	2017
Auditors' remuneration	4,804	5,481
Business entertainment expenses	27,227	27,426
Business travel expenses	38,032	44,068
Consulting fees	82,037	49,496
Electronic equipment operating expenses	76,629	87,513
Miscellaneous office expenses	9,362	15,442
Other commission expenses	82,750	80,633
Postal and communication expenses	18,902	20,973
Rental expenses	118,485	119,878
Securities investor protection funds	9,055	54,150
Utilities and building management fees	17,880	14,850
Others	184,416	246,182
	669,579	766,092

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

16. IMPAIRMENT LOSSES

	2018	2017
Impairment losses/(reversal of impairment losses) on:		
– margin financing and securities lending	4,125	664
– available-for-sale financial assets	–	19,679
– financial assets at fair value through other comprehensive income	58	–
– financial assets held under resale agreements	7,433	(587)
– other current assets	140,462	2,330
– other non-current assets	–	13,337
	152,078	35,423

17. INCOME TAX (CREDIT)/EXPENSE

	2018	2017
Current tax	39,851	251,832
Deferred tax (<i>Note 32</i>)	(224,291)	(7,998)
	(184,440)	243,834

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

17. INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

The provision for the PRC corporate income tax is calculated based on the statutory income tax rate of 25% (2017: 25%). Reconciliation between income tax expense and accounting profit at applicable tax rate:

	2018	2017
(Loss)/profit before tax	(820,420)	1,012,905
Tax at the PRC statutory income tax rate of 25% (2017: 25%)	(205,105)	253,226
Tax effect of non-deductible expenses	7,716	9,150
Tax effect of non-taxable income	(2,624)	(19,596)
Tax exemption	(2,500)	583
Others	18,073	471
Income tax (credit)/expense	(184,440)	243,834

18. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue.

	2018	2017
Earnings		
(Loss)/profit for the year attributable to ordinary shareholders of the Company	(673,446)	706,202
Less: Dividends for cumulative perpetual capital securities required	(102,000)	(102,000)
	(775,446)	604,202
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share calculation	2,604,567	2,604,567

For the year ended 31 December 2018, there were no dilutive potential ordinary shares (2017: Nil), hence the diluted earnings per share were the same as the basic earnings per share.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

19. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and supervisors' remuneration

	2018				Total emoluments before tax
	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Contributions to social pension schemes	
Executive directors					
Pang Jiemin	–	1,888	–	55	1,943
Wu Yigang	–	871	–	49	920
Non-executive directors					
Zhang Tao	75	–	–	–	75
Sun Chao	75	–	–	–	75
Dong Hong ¹	75	–	–	–	75
Gao Liang ²	69	–	–	–	69
Independent non-executive directors					
Zhou Jianjun	150	–	–	–	150
Lam Sek Kong	150	–	–	–	150
Lv Wendong ³	150	–	–	–	150
Supervisors					
Guo Liwen	–	750	–	49	799
Wang Hui	–	518	–	52	570
Pei Jingjing	45	–	–	–	45
	789	4,027	–	205	5,021

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

19. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(a) Directors' and supervisors' remuneration (Continued)

	2017				Total emoluments before tax
	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Contributions to social pension schemes	
Executive directors					
Pang Jiemin	–	1,883	4,764	51	6,698
Wu Yigang	–	866	4,235	20	5,121
Non-executive directors					
Zhang Tao	50	–	–	–	50
Chen Guanglei ⁴	50	–	–	–	50
Sun Chao	50	–	–	–	50
Independent non-executive directors					
Zhou Jianjun	100	–	–	–	100
Peng Diyun ⁵	100	–	–	–	100
Lam Sek Kong	100	–	–	–	100
Supervisors					
Guo Liwen	–	745	4,235	20	5,000
Wang Hui	–	505	340	51	896
Pei Jingjing	30	–	–	–	30
	480	3,999	13,574	142	18,195

¹ On 5 January 2018, Ms. Dong Hong was appointed to be non-executive director.

² On 31 January 2018, Ms. Gao Liang was appointed to be non-executive director.

³ On 5 January 2018, Mr. Lv Wendong was appointed to be independent non-executive director.

⁴ On 22 November 2017, Mr. Chen Guanglei ceased to be non-executive director.

⁵ On 22 December 2017, Mr. Peng Diyun ceased to be independent non-executive director.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

19. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Directors' and supervisors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director or supervisor of the Company and the director's or supervisor's connected party had a material interest, whether directly or indirectly, subsisted at the reporting date or at any time during the year.

20. INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, excluding amounts paid or payable by way of commission of sales generated by the individuals, the five highest paid individuals include one director (2017: one), whose emoluments are disclosed in Note 19. The emoluments for the rest of the five highest paid individuals during the year are as follows:

	2018	2017
Salaries and allowances	1,860	4,319
Discretionary bonuses	9,633	38,707
Employer's contribution to pension schemes	213	188
	11,706	43,214

The emoluments of the other individuals with the highest emoluments mentioned above are within the following bands:

	2018	2017
HKD2,500,001 to HKD3,000,000	1	–
HKD3,000,001 to HKD3,500,000	2	–
HKD4,500,001 to HKD5,000,000	1	–
HKD8,500,001 to HKD9,000,000	–	1
HKD9,000,001 to HKD9,500,000	–	2
HKD22,500,001 to HKD23,000,000	–	1

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Company or as compensation for loss of office during the year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

21. OTHER COMPREHENSIVE INCOME FOR THE YEAR

The components of other comprehensive income, including reclassification adjustments are as follows:

	2018	2017
Fair value gain on available-for-sale financial assets	–	405,078
Less: Transfer to profit or loss upon disposal	–	(1,680)
Tax effect (<i>Note 32</i>)	–	(100,864)
	–	302,534

22. DIVIDENDS

	2018	2017
Final dividend in respect of the financial year ended 31 December 2017 of RMB0.10 per ordinary share (<i>Note i</i>)	260,457	–
Dividend paid to holders of perpetual capital securities (<i>Note ii</i>)	102,000	102,000
	362,457	102,000

Notes:

- (i) The dividends paid for year ended 31 December 2018 was approximately RMB260.457 million being final dividend of RMB0.10 per ordinary shares in respect of the year ended 31 December 2017.
- (ii) The dividend paid for the year ended 31 December 2018 was approximately RMB102 million (2017: RMB102 million) being dividend calculated at 6.8% per annum on the nominal value of perpetual capital securities.

The directors do not recommend the payment of dividend for the year ended 31 December 2018.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

23. PROPERTY AND EQUIPMENT

	Buildings	Motor vehicles	Electronic equipment	Furniture and fixtures	Construction in progress	Total
Cost						
As at 1 January 2017	179,482	25,733	192,813	25,955	303,795	727,778
Additions	–	1,976	26,879	2,351	32,154	63,360
Transfer in/(out)	(150)	343	2,288	–	(20,544)	(18,063)
Disposals	–	(2,285)	(18,604)	(3,460)	–	(24,349)
Disposal of subsidiaries	–	–	(81)	–	–	(81)
At 31 December 2017	179,332	25,767	203,295	24,846	315,405	748,645
Additions	–	1,102	16,613	3,496	65,597	86,808
Transfer	145,861	–	11,897	1,134	(214,818)	(55,926)
Disposals	–	(3,370)	(17,139)	(1,636)	–	(22,145)
At 31 December 2018	325,193	23,499	214,666	27,840	166,184	757,382
Accumulated depreciation						
At 1 January 2017	(48,886)	(21,449)	(128,047)	(17,926)	–	(216,308)
Charge for the year	(4,919)	(1,455)	(27,935)	(2,615)	–	(36,924)
Disposals	–	1,055	18,245	3,443	–	22,743
Disposal of subsidiaries	–	–	21	–	–	21
At 31 December 2017	(53,805)	(21,849)	(137,716)	(17,098)	–	(230,468)
Charge for the year	(6,861)	(1,312)	(29,470)	(3,093)	–	(40,736)
Disposals	–	3,299	16,990	1,440	–	21,729
Transfer	15,260	–	–	–	–	15,260
At 31 December 2018	(45,406)	(19,862)	(150,196)	(18,751)	–	(234,215)
Impairment						
As at 1 January 2017	(719)	–	(627)	(68)	–	(1,414)
Disposals	–	–	2	8	–	10
At 31 December 2017	(719)	–	(625)	(60)	–	(1,404)
Disposals	–	–	15	3	–	18
At 31 December 2018	(719)	–	(610)	(57)	–	(1,386)
Carrying amount						
At 31 December 2018	279,068	3,637	63,860	9,032	166,184	521,781
At 31 December 2017	124,808	3,918	64,954	7,688	315,405	516,773

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

23. PROPERTY AND EQUIPMENT (CONTINUED)

As at 31 December 2018, the carrying amount of buildings without title deeds is amounted to RMB23.37 million (2017: RMB24.27 million). The Group is still in the midst of applying for the outstanding title deeds of these premises. The management of the Group expected that there would be no significant cost in obtaining the title deeds.

24. INVESTMENT PROPERTIES

	2018	2017
Cost		
As at 1 January	29,664	29,664
Transfer	40,556	–
As at 31 December	70,220	29,664
Accumulated depreciation		
As at 1 January	(11,376)	(10,550)
Charge for the year	(826)	(826)
Transfer	(15,260)	–
As at 31 December	(27,462)	(11,376)
Carrying amount		
As at 31 December	42,758	18,288

The fair value of the Group's investment properties as at 31 December 2018 amounted to RMB295.37 million (2017: RMB214.04 million). The fair value was derived using direct comparison approach with reference to comparable sale transactions for similar properties in the same location and condition. This is categorised as level 3 fair value measurement.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

25. GOODWILL

	<i>Notes</i>	2018	2017
As at 1 January and 31 December		43,739	43,739
Funds management	(1)	30,604	30,604
Futures brokerage	(2)	13,135	13,135
		43,739	43,739

(1) In 2015, the Group further acquired equity interest in New China Fund Management Co., Ltd. ("New China Fund"), and resulted New China Fund and its subsidiary became subsidiaries instead of associates of the Group. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill arising from funds management CGU.

(2) In 2009, the Group acquired the entire equity interest in Hengtai Futures Co., Ltd ("Hengtai Futures"). The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the futures brokerage CGU.

As at 31 December 2018, the Group performed goodwill impairment assessment. The recoverable amounts of the CGUs are determined based on fair value less costs of disposal using market approach by reference to market comparable transactions. This categorised as level 3 fair value measurement. No impairment losses were recognised for the goodwill related to futures brokerage CGU and funds management CGU as the recoverable amount exceeded their carrying amount.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

26. INTANGIBLE ASSETS

	Trading rights	Software	Others	Total
Cost				
As at 1 January 2017	9,589	206,748	5,307	221,644
Transfer	–	16,404	–	16,404
Additions	–	36,614	20	36,634
Disposals	–	(2)	(19)	(21)
Disposal of subsidiaries	–	–	(20)	(20)
As at 31 December 2017	9,589	259,764	5,288	274,641
Transfer	–	13,662	–	13,662
Additions	–	26,328	–	26,328
Disposals	–	(3,639)	–	(3,639)
As at 31 December 2018	9,589	296,115	5,288	310,992
Accumulated amortisation				
As at 1 January 2017	(9,289)	(107,331)	(5,307)	(121,927)
Charge for the year	–	(35,270)	(1)	(35,271)
Disposals	–	1	19	20
Disposal of subsidiaries	–	–	1	1
As at 31 December 2017	(9,289)	(142,600)	(5,288)	(157,177)
Charge for the year	–	(38,640)	–	(38,640)
Disposals	–	93	–	93
As at 31 December 2018	(9,289)	(181,147)	(5,288)	(195,724)
Carrying amount				
As at 31 December 2018	300	114,968	–	115,268
As at 31 December 2017	300	117,164	–	117,464

The remaining amortisation period of trading rights and software ranged from 1 to 5 years (2017: 1 to 5 years).

The amortisation charge for the year is included in “other operating expenses” in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

27. INVESTMENTS IN SUBSIDIARIES

	2018	2017
Unlisted shares, at cost	1,996,583	1,996,583

Details of principal subsidiaries are as follows:

Name of company	Place of incorporation/ establishment	Registered capital	Equity interest directly held by the Company		Principal activity	Statutory auditor
			2018	2017		
Hengtai Changcai Securities Co., Ltd. 恒泰長財證券有限公司 ¹ ("Hengtai Changcai")	Changchun, PRC	RMB200 million	100%	100%	Securities underwriting and sponsoring business, securities investment fund marketing	Ruihua Certified Public Accountants LLP 瑞華會計師事務所 (特殊普通合夥) ("Ruihua")
Hengtai Futures 恒泰期貨股份有限公司 ¹	Shanghai, PRC	RMB125 million	80%	80%	Futures brokerage business	Ruihua
New China Fund 新華基金管理股份有限公司 ¹	Chongqing, PRC	RMB217.5 million	58.62%	58.62%	Funds management	Ruihua
Hengtai Pioneer Investments Co., Ltd. 恒泰先鋒投資有限公司 ¹ ("Hengtai Pioneer")	Beijing, PRC	RMB100 million	100%	100%	Investment, advisory and business management	Ruihua
Hengtai Capital Investment Co., Ltd. 恒泰資本投資有限公司 ^{1,2} ("Hengtai Capital")	Shenzhen, PRC	RMB1,200 million	100%	100%	Equity investment, and funds management	Ruihua

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

27. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Apart from the above subsidiaries, the Company has consolidated certain structured entities which are controlled by the Company.

- 1 The English translation of the names is for reference only. The official names of these entities are in Chinese.
- 2 On 22 August 2018, Hengtai Capital completed the industrial and commercial registration for the change of registered capital from RMB1.5 billion to RMB1.2 billion.

28. INTERESTS IN ASSOCIATES

	2018	2017
Share of net assets	12,557	16,101

Details of the Group's principal associates are as follows:

Name	Place of incorporation/ registration	Registered capital	Percentage of ownership interest/voting power/ profit sharing		Principal activities
			2018	2017	
Yifeng Internet Financial Information Services (Shanghai) Co., Ltd	Shanghai, PRC	RMB9.8 million	49%	49%	Internet financial services
Beijing Hengtai Puhui Information Service Co., Ltd.	Beijing, PRC	RMB10.0 million	30%	30%	Investment management and consultancy

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

28. INTERESTS IN ASSOCIATES (CONTINUED)

The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

	2018	2017
At 31 December:		
Carrying amounts of interests	12,557	16,101
Year ended 31 December:		
Profit less losses from operations	(1,668)	(1,686)
Other comprehensive income	-	-
Total comprehensive income	(1,668)	(1,686)

29. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018	2017
Available-for-sale financial assets:		
– Current	-	396,444
– Non-current	-	1,343,855
	-	1,740,299
At fair value:		
– Equity securities	-	1,595,761
– Assets management schemes	-	71,060
– Investment funds	-	73,478
	-	1,740,299
Analysed into:		
– Listed outside Hong Kong	-	623,108
– Unlisted	-	1,117,191
	-	1,740,299

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

30. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	2018	2017
Financial assets held under resale agreements:		
– Non-current	–	614,910
– Current	1,161,988	1,046,749
	1,161,988	1,661,659
Analysis by collateral type:		
– Equity securities	753,157	849,125
– Debt securities	443,100	816,780
Less: Impairment losses	(34,269)	(4,246)
	1,161,988	1,661,659
Analysis by market:		
– Shenzhen Stock Exchange	753,157	917,370
– Shanghai Stock Exchange	341,100	293,670
– Interbank	102,000	450,312
– Others	–	4,553
Less: Impairment losses	(34,269)	(4,246)
	1,161,988	1,661,659

As at 31 December 2018, the Group did not hold any collateral under resale agreements for which the Group was permitted to sell or repledge in the absence of default for the transactions (2017: Nil).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

31. REFUNDABLE DEPOSITS

	2018	2017
Deposits with stock exchanges		
China Securities Depository and Clearing Corporation Limited:		
– Shanghai Branch	39,262	47,709
– Shenzhen Branch	28,962	31,582
– Beijing Branch	999	1,240
	69,223	80,531
Deposits with futures and commodity exchanges		
– China Financial Futures Exchange	146,983	266,702
– Shanghai Futures Exchange	88,791	107,797
– Shanghai International Energy Exchange	13,926	–
– Dalian Commodity Exchange	44,439	47,808
– Zhengzhou Commodity Exchange	28,438	22,522
	322,577	444,829
Deposits with other institution		
– China Securities Finance Corporation Limited	88,702	89,146
	480,502	614,506

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

32. DEFERRED TAXATION

The components of deferred tax recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred taxation arising from:	Note	Impairment losses	Employee benefit payables	Changes in fair value of financial instruments at fair value through profit or loss	Changes in fair value of available-for-sale financial assets	Others	Total
At 1 January 2017		19,429	114,377	(39,586)	(29,116)	23,746	88,850
Recognised in profit or loss	17	7,713	(23,878)	9,096	–	15,067	7,998
Recognised in other comprehensive income	21	–	–	–	(100,864)	–	(100,864)
Disposal of subsidiaries	61(a)	(3,334)	(2,290)	–	–	–	(5,624)
As at 31 December 2017		23,808	88,209	(30,490)	(129,980)	38,813	(9,640)
Adjustment on initial application of IFRS 9		(276)	–	(129,980)	129,980	–	(276)
As at 1 January 2018		23,532	88,209	(160,470)	–	38,813	(9,916)
Recognised in profit or loss	17	28,082	(27,930)	170,203	–	53,936	224,291
As at 31 December 2018		51,614	60,279	9,733	–	92,749	214,375

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

32. DEFERRED TAXATION (CONTINUED)

(a) Reconciliation to the consolidated statement of financial position

	2018	2017
Net deferred tax assets recognised in the consolidated statement of financial position	231,103	112,194
Net deferred tax liabilities recognised in the consolidated statement of financial position	(16,728)	(121,834)
	214,375	(9,640)

(b) Deferred tax assets not recognised

The Group has no material unrecognised deferred tax assets or liabilities as at 31 December 2018 (2017: Nil).

33. OTHER NON-CURRENT ASSETS

	2018	2017
Leasehold improvements and long-term prepaid expenses (<i>note</i>)	32,710	38,954
Prepayments	8,323	7,241
Investments classified as receivables	–	33,637
Less: Impairment losses	–	(13,337)
	41,033	66,495

Note:

The movements of leasehold improvements and long-term prepaid expenses are as below:

	2018	2017
At 1 January	38,954	37,411
Transfer	–	3,122
Additions	10,703	18,474
Amortisation	(16,947)	(20,053)
At 31 December	32,710	38,954

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

34. MARGIN ACCOUNT RECEIVABLES

	2018	2017
Individual receivables	3,227,675	5,237,910
Institution receivables	21,005	114,387
Less: Impairment losses	(10,756)	(29,462)
	3,237,924	5,322,835

The fair value of collaterals for margin financing and securities lending business is analysed as follows:

	2018	2017
Equity securities	8,070,585	13,998,678
Cash	567,343	761,903
	8,637,928	14,760,581

The Group evaluates the collectability of receivables from margin clients based on management's assessment on the credit rating, collateral value and the past collection history of each margin client.

35. OTHER CURRENT ASSETS

	2018	2017
Fees and commission receivables (<i>note a</i>)	209,215	115,103
Interest receivables (<i>note b</i>)	222,056	332,874
Prepaid expenses	13,130	12,059
Other receivables (<i>note c</i>)	114,841	125,412
	559,242	585,448

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

35. OTHER CURRENT ASSETS (CONTINUED)

Notes:

(a) Fees and commission receivables

The ageing analysis of fees and commission receivables, based on the invoice date, is as follows:

	2018	2017
Within one year	324,820	114,094
Over one year	865	1,009
Less: Impairment losses	(116,470)	–
	209,215	115,103

(b) Interest receivables

	2018	2017
Interest receivables arising from:		
– Financial assets at fair value through profit or loss	179,273	257,718
– Margin financing and securities lending	48,299	75,137
– Bank deposits	8,505	3,950
– Financial assets held under resale agreements	9,678	2,669
Less: Impairment losses	(23,699)	(6,600)
	222,056	332,874

(c) Other receivables

	2018	2017
Other receivables	139,617	144,153
Less: Impairment losses	(24,776)	(18,741)
	114,841	125,412

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

36. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018	2017
Current:		
– Debt securities	55,426	–
Analysis into:		
– Unlisted	55,426	–

37. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
Held for trading:		
– Debt securities	6,398,431	8,306,950
– Equity securities	3,617,252	2,432,186
– Investment funds	1,228,268	789,992
– Assets management schemes	596,645	1,024,160
	11,840,596	12,553,288
Financial assets designated at fair value through profit or loss:		
– Debt securities	–	444,272
	11,840,596	12,997,560
Analysis into:		
– Listed in Hong Kong	75,805	488,262
– Listed outside Hong Kong	6,390,496	7,809,250
– Unlisted	5,374,295	4,700,048
	11,840,596	12,997,560

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

38. CASH HELD ON BEHALF OF BROKERAGE CLIENTS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of business. The Group classified the brokerage clients' monies as cash held on behalf of brokerage clients under the current assets section, and recognised the corresponding account payables to the respective brokerage clients on the grounds that the Group is liable for any loss or misappropriation of their brokerage clients' monies. Cash held for brokerage clients for their transaction and settlement purposes is subject to regulatory oversight by third-party depository institutions in accordance with CSRC regulations.

39. CLEARING SETTLEMENT FUNDS

	2018	2017
Deposits with stock exchanges		
China Securities Depository and Clearing Corporation Limited:		
– Shanghai Branch	464,694	393,663
– Shenzhen Branch	365,204	286,926
– Beijing Branch	51,200	28,039
Deposits with futures and commodity exchanges	98,961	64,759
	980,059	773,387

As at 31 December 2018, the clearing settlement funds arising from consolidated assets management schemes are amounted to RMB15.873 million (2017: RMB18.202 million).

40. CASH AND BANK BALANCES

	2018	2017
Cash in hand	82	79
Bank balances	3,115,390	2,338,494
	3,115,472	2,338,573

As at 31 December 2018, the cash and bank balances arising from consolidated assets management schemes are amounted to RMB14.079 million (2017: RMB26.206 million).

Bank balances comprise time and demand deposits which bear interests at the prevailing market rates.

Notes to the Consolidated Financial Statements (Continued)

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41. CASH AND CASH EQUIVALENTS

	2018	2017
Cash in hand	82	79
Bank balances with original maturity within three months	2,799,690	2,138,494
Clearing settlement funds	980,059	773,387
Financial assets held under resale agreements with original maturity within three months	443,257	905,756
Less: restricted bank deposits	(224,438)	(185,073)
	3,998,650	3,632,643

42. DEBT INSTRUMENTS

	2018	2017
Beneficiary certificates	3,071,318	1,604,857
Subordinated bonds	1,500,000	1,740,000
Long-term corporate bond	1,500,000	1,500,000
	6,071,318	4,844,857
Analysis by remaining maturity:		
Current		
Within one year	3,853,082	1,500,000
Non-current		
Between one year and two years	718,236	1,604,857
Between two years and five years	1,500,000	1,740,000
	2,218,236	3,344,857
	6,071,318	4,844,857

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

42. DEBT INSTRUMENTS (CONTINUED)

Beneficiary certificates:

Name	Par value	Issuance date	Due date	Interest rate	2018					
					Par value			As at 31 December 2018	Accrued Interest	Book value as at 31 December 2018
					As at 1 January 2018	Issuance	Redemption			
恒創泰富No.6	100,000	24.02.2017	22.02.2019	5.70%	104,857	-	-	104,857	5,700	110,557
恒創泰富No.8	300,000	08.03.2017	08.03.2018	5.20%	300,000	-	(300,000)	-	-	-
恒創泰富No.9	200,000	10.03.2017	09.03.2018	5.20%	200,000	-	(200,000)	-	-	-
恒創泰富No.11	500,000	27.06.2017	27.06.2018	5.78%	500,000	-	(500,000)	-	-	-
恒創泰富No.12	500,000	21.07.2017	20.07.2018	5.45%	500,000	-	(500,000)	-	-	-
恒創泰富No.13	500,000	14.03.2018	14.03.2019	6.20%	-	500,000	-	500,000	-	500,000
恒創泰富No.14	500,000	04.07.2018	04.07.2019	5.85%	-	500,000	-	500,000	-	500,000
恒創泰富No.15	500,000	25.07.2018	25.07.2019	5.50%	-	500,000	-	500,000	-	500,000
恒創泰富No.16	80,000	31.08.2018	28.11.2019	5.40%	-	80,000	-	80,000	1,456	81,456
恒創泰富No.17	300,000	27.09.2018	26.09.2019	5.40%	-	300,000	-	300,000	-	300,000
恒創泰富No.19	300,000	16.11.2018	16.11.2020	5.75%	-	300,000	-	300,000	2,174	302,174
恒富No.14	60,130	18.01.2018	17.01.2019	5.50%	-	60,130	-	60,130	-	60,130
恒富No.17	140,940	27.06.2018	26.06.2019	5.60%	-	140,940	-	140,940	-	140,940
恒富No.19	160,000	25.07.2018	24.07.2019	5.60%	-	160,000	-	160,000	-	160,000
恒富No.16	140,140	11.04.2018	13.04.2020	6.20%	-	140,140	-	140,140	6,308	146,448
恒富No.18	148,350	11.07.2018	08.01.2020	5.80%	-	148,350	-	148,350	4,102	152,452
恒富No.20	85,090	26.12.2018	21.12.2020	5.00%	-	85,090	-	85,090	70	85,160
恒富No.21	31,980	27.12.2018	22.12.2020	5.00%	-	31,980	-	31,980	21	32,001
					1,604,857	2,946,630	(1,500,000)	3,051,487	19,831	3,071,318

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

42. DEBT INSTRUMENTS (CONTINUED)

Beneficiary certificates: (Continued)

Name	Par value	Issuance date	Due date	Interest rate	2017					
					Par value			Accrued Interest		Book value as at 31 December 2017
					As at 1 January 2017	Issuance	Redemption	As at 31 December 2017	December 2017	
Hengfu No. 9	300,000	06.05.2015	04.05.2017	6.55%	332,624	-	(332,624)	-	-	-
恒創泰富No. 1	500,000	12.09.2016	13.03.2017	3.50%	500,000	-	(500,000)	-	-	-
恒創泰富No. 2	500,000	14.09.2016	15.03.2017	3.60%	500,000	-	(500,000)	-	-	-
恒創泰富No. 3	500,000	17.11.2016	17.11.2017	3.70%	500,000	-	(500,000)	-	-	-
恒創泰富No. 4	500,000	18.11.2016	17.11.2017	3.80%	500,000	-	(500,000)	-	-	-
恒創泰富No. 5	500,000	23.11.2016	23.11.2017	3.80%	500,000	-	(500,000)	-	-	-
恒創泰富No. 6	100,000	24.02.2017	22.02.2019	5.70%	-	100,000	-	100,000	4,857	104,857
恒創泰富No. 8	300,000	08.03.2017	08.03.2018	5.20%	-	300,000	-	300,000	-	300,000
恒創泰富No. 9	200,000	10.03.2017	09.03.2018	5.20%	-	200,000	-	200,000	-	200,000
恒創泰富No. 11	500,000	27.06.2017	27.06.2018	5.78%	-	500,000	-	500,000	-	500,000
恒創泰富No. 12	500,000	21.07.2017	20.07.2018	5.45%	-	500,000	-	500,000	-	500,000
					2,832,624	1,600,000	(2,832,624)	1,600,000	4,857	1,604,857

Notes to the Consolidated Financial Statements (Continued)

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42. DEBT INSTRUMENTS (CONTINUED)

Subordinated bonds:

Name	Par value	Issuance date	Due date	Nominal interest rate	2018			
					Book value as at 1 January 2018	Issuance	Redemption	Book value as at 31 December 2018
14 恒泰債(123262)	200,000	30.01.2015 (with early redemption option on 30.01.2018)	30.01.2020	6.70%	200,000	-	(200,000)	-
恒泰證券股份有限公司2017次級債	1,500,000	01.11.2017 (with early redemption option on 01.11.2020)	01.11.2022	5.90%	1,500,000	-	-	1,500,000
恒泰期貨股份有限公司次級債	40,000	15.08.2016 (with early redemption option on 15.08.2018)	15.08.2020	6.00%	40,000	-	(40,000)	-
					1,740,000	-	(240,000)	1,500,000

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

42. DEBT INSTRUMENTS (CONTINUED)

Subordinated bonds: (Continued)

Name	Par value	Issuance date	Due date	Nominal interest rate	2017			
					Book value as at 1 January 2017	Issuance	Redemption	Book value as at 31 December 2017
14 恒泰債(123321)	1,000,000	11.11.2014 (with early redemption option on 11.11.2017)	11.11.2019	6.90%	1,000,000	-	(1,000,000)	-
14 恒泰債(123291)	300,000	16.12.2014 (with early redemption option on 16.12.2017)	16.12.2019	6.54%	300,000	-	(300,000)	-
14 恒泰債(123262)	200,000	30.01.2015 (with early redemption option on 30.01.2018)	30.01.2020	6.70%	200,000	-	-	200,000
恒泰證券股份有限 公司2017次級債	1,500,000	01.11.2017 (with early redemption option on 01.11.2020)	01.11.2022	5.90%	-	1,500,000	-	1,500,000
恒泰期貨股份有限 公司次級債	40,000	15.08.2016 (with early redemption option on 15.08.2018)	15.08.2020	6.00%	40,000	-	-	40,000
					1,540,000	1,500,000	(1,300,000)	1,740,000

As approved by CSRC, the Company issued 5-year subordinated bonds with a nominal value of RMB1.0 billion on 11 November 2014, RMB300 million on 16 December 2014 and RMB200 million on 30 January 2015. These subordinated bonds were listed at Shanghai Stock Exchange.

As approved by CSRC, the Group issued 4-year subordinated bond with nominal value of RMB40 million on 15 August 2016 and 5-year subordinated bond with nominal value of RMB1.5 billion on 1 November 2017. These subordinated bonds were unlisted.

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42. DEBT INSTRUMENTS (CONTINUED)

Short-term corporate bonds:

Name	Issuance date	Due date	Nominal interest rate	2017			
				Book value as at		Book value as at	
				1 January 2017	Issuance	Redemption	31 December 2017
恒泰短债D3	14.09.2016	14.09.2017	3.7%	300,000	-	(300,000)	-

Long-term corporate bond:

Name	Issuance date	Due date	Nominal interest rate	2018			
				Book value as at		Book value as at	
				1 January 2018	Issuance	Redemption	31 December 2018
14恒泰05(136215)	29.01.2016	29.01.2019	3.42%	1,500,000	-	1,500,000	-

Name	Issuance date	Due date	Nominal interest rate	2017		
				Book value as at		Book value as at
				1 January 2017	Issuance	31 December 2017
14恒泰05(136215)	29.01.2016	29.01.2019	3.42%	1,500,000	-	1,500,000

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

43. PLACEMENTS FROM A FINANCIAL INSTITUTION

	2018	2017
Placements from China Securities Finance Corporation Limited	500,000	700,000

As at 31 December 2018, the placements from China Securities Finance Corporation Limited bear interests ranging from 4.6% to 5.5% (2017: 5.4% to 5.5%) per annum, with remaining maturities within 1 and 3 months (2017: within 1 and 2 months).

44. ACCOUNT PAYABLES TO BROKERAGE CLIENTS

	2018	2017
Clients' deposits for:		
– margin financing and securities lending	574,109	794,279
– other brokerage business	7,117,388	9,234,054
	7,691,497	10,028,333

Account payables to brokerage clients represent the monies received from and repayable to brokerage clients. Account payables to brokerage clients are interest bearing at the prevailing interest rate.

The majority of the account payables balances are repayable on demand except where certain account payables to brokerage clients represent monies received from clients for the margin financing activities under normal course of business, such as margin financing and securities lending. Only the amounts in excess of the required amount of margin deposits and cash collateral are repayable on demand.

No ageing analysis is disclosed as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of these businesses.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

45. EMPLOYEE BENEFIT PAYABLES

	2018			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Short-term benefits	415,243	791,296	(919,174)	287,365
Defined contribution plans	489	72,425	(72,590)	324
	415,732	863,721	(991,764)	287,689

	2017				
	As at 1 January	Accrued for the year	Payments made	Disposal of subsidiaries (Note 61(a))	As at 31 December
Short-term benefits	514,864	1,028,368	(1,121,092)	(6,897)	415,243
Defined contribution plans	488	58,034	(57,670)	(363)	489
	515,352	1,086,402	(1,178,762)	(7,260)	415,732

46. CONTRACT LIABILITIES

Contract liabilities represent receipt in advance from customers and deferred revenue. The increase in contract liabilities in 2018 was mainly due to the increase in advances received from customers in relation to provision of assets management services at the end of the year.

During the year ended 31 December 2018, the Group has recognised revenue of RMB15.08 million that was included in the contract liabilities balance at the beginning of the year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

47. OTHER CURRENT LIABILITIES

	2018	2017
Payables to:		
– other investors of consolidated structural entities	1,196,788	3,254,570
– limited partners of consolidated limited partnerships	8,434	18,242
Other payables	212,343	163,695
Interest payables	175,252	148,884
Taxes and surcharges payables	23,273	41,362
	1,616,090	3,626,753

48. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2018	2017
Analysis by collateral type:		
Non-current		
– Equity securities	–	90,000
– Rights and interests in margin financing	–	500,000
	–	590,000
Current		
– Debt securities	3,197,325	2,465,778
– Equity securities	45,000	–
– Rights and interests in margin financing	500,000	2,600,000
	3,742,325	5,065,778
	3,742,325	5,655,778

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

48. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (CONTINUED)

	2018	2017
Analysis by market:		
Non-current		
– Bank and other financial institutions	–	590,000
Current		
– Inter-bank market	968,825	713,080
– Shanghai Stock Exchange	1,783,000	1,362,884
– Shenzhen Stock Exchange	347,500	389,814
– Bank and other financial institutions	643,000	2,600,000
	3,742,325	5,065,778
	3,742,325	5,655,778
Analysis by transaction type:		
Non-current		
– Pledged	–	590,000
Current		
– Pledged	3,538,750	4,915,998
– Sold	203,575	149,780
	3,742,325	5,065,778
	3,742,325	5,655,778

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

48. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (CONTINUED)

As at 31 December 2018, the carrying amount of the financial assets at fair value through profit or loss and margin account receivables that had been placed as financial assets sold under repurchase agreements of the Group are listed as below:

	2018	2017
Financial assets at fair value through profit or loss	4,016,882	2,872,498
Margin account receivables	559,372	3,465,247
	4,576,254	6,337,745

49. SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital

All shares issued by the Company are fully paid ordinary shares. The par value per share is RMB1. The Company's number of shares issued and their nominal value are as follows:

	2018	2017
At 1 January and 31 December	2,604,567	2,604,567

In October 2015, a total of 356,400,000 H shares with a par value of RMB1 each were issued by the Company at a subscription price of HKD3.92 per share, through the H share initial public offering to Hong Kong and overseas investors. In November 2015, a total of 53,460,000 H shares with a par value of RMB1 each were issued by the Company at a subscription price of HKD3.92 per share, as a result of the exercise of the over-allotment option.

(b) Share premium

Share premium arising from the issuance of new shares at prices in excess of face value.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

50. PERPETUAL CAPITAL SECURITIES

On 29 June 2015, the Group issued a perpetual subordinated debt (the “Debt”) with nominal value of RMB1,500 million. The Debt is undated and bears a 6.80% coupon rate until the first redemption date on 29 June 2020. The coupon rate will be reset every five years if the Debt are not redeemed.

The Group does not have any contractual obligation to deliver cash or other financial assets to redeem the Debt. The redemption of the Debt is solely at the discretion of the Group.

51. RESERVES

(a) Surplus reserve

Under the relevant PRC Laws, the Company and its subsidiaries in PRC are required to appropriate 10% of its net profit, as determined under the PRC Generally Accepted Accounting Principles (“PRC GAAP”), to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. Subject to the approval of shareholders, statutory surplus reserve may be used to make good prior year losses, if any, and may convert into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital before such capitalisation.

(b) General risk reserve

- (i) In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No. 320) issued on 18 December 2007, the Company and its subsidiary, Hengtai Changcai, appropriate 10% of its annual net profit, as determined under PRC GAAP, to the general risk reserve.
- (ii) In accordance with the requirements of the CSRC Interim Measures for Supervision and Administration on Risk Reserve for Public Securities Investment Fund Raising (Zhengjianhui Ling [No. 94]), the Group’s subsidiary, New China Fund, appropriate 10% of its annual net profit, as determined under PRC GAAP, to the general risk reserve.
- (iii) In accordance with the requirements of the Ministry of Finance Circular regarding the Issuance of Implementation Guidance on Financial Planning of Financial Institutions (Caijin [2007] No. 23) issued on 30 March 2007, the Group’s subsidiary, Hengtai Futures, appropriate 10% of its annual net profit, as determined under PRC GAAP, to the general risk reserve.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

51. RESERVES (CONTINUED)

(c) Transaction risk reserve

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No. 320) issued on 18 December 2007 and in compliance with the Securities Law, for the purpose of covering securities trading losses, the Company and its subsidiary, Hengtai Changcai, appropriate 10% of its annual net profit, as determined under PRC GAAP, to the transaction risk reserve.

(d) Investment revaluation reserve

	2018	2017
As at 1 January	390,307	87,350
Changes in fair value recognised in other comprehensive income	–	405,501
Less: deferred tax	–	(101,375)
Transfer to profit or loss upon disposal	–	(1,680)
Less: deferred tax	–	511
Adjustment on initial application of IFRS 9	(390,307)	–
As at 31 December	–	390,307

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

52. RESERVES MOVEMENT IN COMPANY EQUITY

	Share capital	Share premium	Perpetual capital securities	Surplus reserve	General risk reserve	Transaction risk reserve	Investment revaluation reserve	Retained profits	Total equity
As at 1 January 2017	2,604,567	1,665,236	1,500,000	449,200	515,466	503,260	30,291	2,069,634	9,337,654
Total comprehensive income for the year	-	-	-	-	-	-	(28,609)	597,066	568,457
Dividend paid (<i>Note 22</i>)	-	-	-	-	-	-	-	(102,000)	(102,000)
Appropriation to:									
- surplus reserve	-	-	-	59,706	-	-	-	(59,706)	-
- general risk reserve	-	-	-	-	59,706	-	-	(59,706)	-
- transaction risk reserve	-	-	-	-	-	59,706	-	(59,706)	-
At 31 December 2017	2,604,567	1,665,236	1,500,000	508,906	575,172	562,966	1,682	2,385,582	9,804,111
As at 1 January 2018	2,604,567	1,665,236	1,500,000	508,906	575,172	562,966	1,682	2,385,582	9,804,111
Adjustment on initial application of IFRS 9 (<i>Note 2</i>)	-	-	-	224	224	223	(1,682)	(861)	(1,872)
Restated balance at 1 January 2018	2,604,567	1,665,236	1,500,000	509,130	575,396	563,189	-	2,384,721	9,802,239
Total comprehensive loss for the year	-	-	-	-	-	-	-	(575,550)	(575,550)
Dividend paid (<i>Note 22</i>)	-	-	-	-	-	-	-	(362,457)	(362,457)
At 31 December 2018	2,604,567	1,665,236	1,500,000	509,130	575,396	563,189	-	1,446,714	8,864,232

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

53. TRANSFERRED FINANCIAL ASSETS

In the normal course of business, the Group enters into certain transactions in which it transfers recognised financial assets to third parties or customers. If these transfers qualify for derecognition, the Group derecognises all or part of the financial assets where appropriate. If the Group has retained substantially all the risks and rewards on these assets, the Group continues to recognise these assets.

Transferred financial assets that do not qualify for derecognition include securities lent to customers for securities selling, for which the customers provide the Group with collaterals that could fully cover the credit risk exposure of the securities lent. The customers have an obligation to return the securities according to the contracts. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised.

	2018		2017	
	Carrying amount of transferred assets	Carrying amount of related liabilities	Carrying amount of transferred assets	Carrying amount of related liabilities
Repurchase agreements	207,016	203,575	145,387	149,780

54. COMMITMENTS

Capital commitments

As at 31 December 2018, the capital commitments outstanding not provided for in the consolidated financial statements are as follows:

	2018	2017
Acquisition of property and equipment	369,396	374,600
Acquisition of intangible assets	146,400	147,280
	515,796	521,880

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

54. COMMITMENTS (CONTINUED)

Lease commitments

The Group as lessee

As at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018	2017
Within 1 year (inclusive)	94,937	99,806
1–2 years (inclusive)	62,240	48,572
2–3 years (inclusive)	42,231	15,700
After 3 years	21,345	7,011
	220,753	171,089

The Group as lessor

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2018	2017
Within 1 year (inclusive)	350	1,400
1–2 years (inclusive)	–	350
	350	1,750

Underwriting commitments

As at 31 December 2018, according to the relevant underwriting agreements, underwriting commitments taken but not provided for by the Group are amounted to RMB46,347 million (2017: RMB50,020 million).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

55. INTERESTS IN STRUCTURED ENTITIES

(a) Interests in structured entities consolidated by the Group

Structured entities consolidated by the Group mainly stand for the assets management schemes where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of the assets management schemes to a level of such significance that it indicates that the Group is a principal.

As at 31 December 2018, the total assets of the consolidated assets management schemes are RMB1,574.61 million (2017: RMB4,595.50 million), and the carrying value of interests held by the Group in the consolidated assets management schemes are RMB57.812 million (2017: RMB86.85 million), which are accounted for as financial assets at fair value through profit or loss in respective financial statements of the entities.

(b) Structured entities sponsored by third party institutions in which the Group holds an interest

The types of structured entities that the Group does not consolidate but in which it holds an interest include assets management schemes, trust schemes, wealth management products, investment funds and asset-backed securities products issued by banks and other financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These vehicles are financed through the issuance of investment units to investors.

As at 31 December 2018, the carrying amount of the related accounts in the consolidated statement of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions, which are listed as below:

	2018
	Financial assets at fair value through profit or loss
Assets management schemes	3,874
Investment funds	304,702
	308,576

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

55. INTERESTS IN STRUCTURED ENTITIES (CONTINUED)

(b) Structured entities sponsored by third party institutions in which the Group holds an interest (Continued)

	2017		Total
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	
Assets management schemes	10,250	1,123,960	1,134,210
Investment funds	585	150,163	150,748
Asset-backed securities products	–	724,234	724,234
	10,835	1,998,357	2,009,192

(c) Structured entities sponsored by the Group

Structured entities for which the Group served as general partner or manager, therefore has power over them during the year are assets management schemes and investment funds. Except for the structured entities that the Group has consolidated as set out in Note 55(a), the Group's exposure to the variable returns in the structured entities in which the Group has interest are not significant. The Group therefore did not consolidate these structured entities.

As at 31 December 2018, the details of these unconsolidated structured entities managed by the Group are as follows:

	2018	2017
Total assets of unconsolidated structured entities	40,669,350	32,383,585
Carrying amount of the investments held by the Group	643,192	474,227
Fees receivables by the Group	12,188	11,658

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

56. CONTINGENT LIABILITIES

As at 31 December 2018, the Group involved in the following legal, arbitration or administrative proceedings:

- (i) Since June 2018, the Company has successively received the civil indictments brought by Xinyuan Fund Management Limited (鑫元基金管理有限公司), Galaxy Jinhui Securities Assets Management Co., Ltd. (銀河金匯證券資產管理有限公司), Goldstate Capital Fund Management Co., Ltd. (金元順安基金管理有限公司), Bank of Nanjing Co., Ltd. (南京銀行股份有限公司), Chuangjin Hexin Fund Management Limited (創金合信基金管理有限公司) and Tianhong Asset Management Co., Ltd. (天弘基金管理有限公司), the preferential holders of the Qinghui Leasing asset-backed specialized schemes Phase I (collectively the "Plaintiffs"), claiming for the repayment of the outstanding principals (i.e., RMB20 million, RMB60 million, RMB130 million, RMB100 million, RMB40 million and RMB35 million, respectively), and the interest payable and relevant charges by the Company. The Plaintiffs claimed that the Company, as the manager of the Special Scheme, had failed to perform its responsibilities in accordance with the laws and regulations as well as the requirements under the agreements and documents in relation to the Special Scheme, and therefore shall be liable for compensation to the Plaintiffs. Since August 2018, the Company has made counterplea against the Plaintiffs at the competent courts according to the time schedule of the competent courts in succession.

On 20 December 2018, Beijing Second Intermediate People's Court ruled and rejected the lawsuit filed by Galaxy Jinhui Securities Assets Management Co., Ltd., Goldstate Capital Fund Management Co., Ltd. and Bank of Nanjing Co., Ltd. On 29 December 2018, the above three companies appealed to the People's High Court of Beijing. On 27 November 2018, the lawsuit against the Company filed by Xinyuan Fund Management Limited, Chuangjin Hexin Fund Management Limited and Tianhong Asset Management Co., Ltd. was heard at the Finance Street People's Court of the People's Court of the Xicheng District in Beijing and is currently pending for judgment/ruling.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

56. CONTINGENT LIABILITIES (CONTINUED)

- (ii) The Company set up the Hengtai Tianxing Targeted Additional Issuance No. 1 Collective Assets Management Scheme (“TXTI No. 1”) and Hengtai Tianxing Targeted Additional Issuance No. 2 Collective Assets Management Scheme (“TXTI No. 2”) on 19 June 2015 and 30 June 2015, respectively, and invested in the Donghai Ruijing – Ruixiang NEEQ No. 1 special assets management scheme (“Ruixiang No. 1”) and Donghai Ruijing – Ruixiang NEEQ No. 2 of the special assets management scheme (“Ruixiang No. 2”) issued by Donghai Ruijing Asset Management (Shanghai) Co., Ltd. (東海瑞京資產管理(上海)有限公司) (“Donghai Ruijing”), respectively. TXTI No. 1 and TXTI No. 2 fell due and expired on 28 June 2017 and 5 July 2017. However, since TXTI No. 1 and TXTI No. 2 failed to be cashed out due to the failure of selling off of the assets of Ruixiang No. 1 and Ruixiang No. 2, into which the investment was made, the Company has yet to allocate the entrusted property so far. In July 2018, the Company received the notice of appearance from the court, pursuant to which, on the grounds that the Company failed to perform its legal obligations and agreements under contracts in the course of management, 25 principals of TXTI No. 1 and TXTI No. 2 had initiated court proceedings against the Company, claiming for compensation totaling approximately RMB150 million and claiming that all litigation fees be borne by the Company. Since August 2018, the Company has made counterplea against the principals at the competent courts according to the time scheduled by the competent courts in succession. Meanwhile, Donghai Ruijing has taken proceedings in respect of the disputes involving the assets into which it made investment. The Company will allocate the entrusted property to the principals after cashing out the underlying assets under TXTI No. 1 and TXTI No. 2. The People’s Court of the Xincheng District in Hohhot issued the written judgment on 19 December 2018, rejected the claim of Ms. Chu Xiuqin, the principal of TXTI No. 1, and the plaintiff made no appeals. In addition, the lawsuits against the Company filed by the other 24 principals have been heard in the competent courts. So far, all of the 24 principals have withdrawn the lawsuits.

The Group considers the above cases to be probable that the judgement will be in its favour and has therefore not recognised a provision in relation to these claims.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

57. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Relationship of related parties

(i) Major shareholders

Major shareholders include shareholders of the Company with 5% or above ownership as below.

	2018	2017
Baotou Huazi Industry Co., Ltd (“Baotou Huazi”)*	11.83%	11.83%
Beijing Qingyun Intercontinental Technology Co., Ltd	8.71%	8.71%
Beijing Financial Street Xihuan Properties Co., Ltd	8.12%	8.12%
Beijing Huijin Jiaye Investment Ltd	7.92%	7.92%
Beijing Financial Street Investment (Group) Co., Ltd	6.35%	6.35%
Beijing Huarong Infrastructure Investment Co., Ltd	5.95%	5.95%
Beijing Hongzhi Huitong Industrial Co., Ltd	5.91%	5.91%
Tibet Dazi Huifa Investment Co., Ltd	5.91%	5.91%
Zhongchang Hengyuan Holding Co., Ltd (“Zhongchang Hengyuan”)*	2.88%	2.88%
Shanghai Yida Technology Investment Co., Ltd (“Shanghai Yida”)*	2.33%	2.33%

* Baotou Huazi is held by Tomorrow Holding Limited Company (“Tomorrow Holding”) as to approximately 54.32%. Tomorrow Holding, Zhongchang Hengyuan and Shanghai Yida, being direct or indirect shareholders of the Company, entered into an acting-in-concert agreement. As at 31 December 2018, Baotou Huazi, Zhongchang Hengyuan and Shanghai Yida aggregately are interested in approximately 17.04% of the Company’s share capital.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

57. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(a) Relationship of related parties (Continued)

(ii) Subsidiaries of the Company

The details information of the Company's subsidiaries is set out in Note 27.

(iii) Associates

The details information of the Group's associates is set out in Note 28.

(iv) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the board of supervisors and senior management, and close family members of such individuals.

(b) Related parties transactions and balances

Transactions/balances between the Group and major shareholders:

	2018	2017
Balances as at reporting date:		
– Account payables to brokerage clients	8,754	15,064
– Other current assets	–	342
Transactions during the year:		
– Fees and commission income	3	338
– Interest expenses	39	65
– Rental expenses	8,047	7,993

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

57. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) Key management personnel remuneration

Key management personnel are those persons who have the power to, directly or indirectly, plan, direct and control the activities of the Group, including members of the Board of Directors, board of supervisors and other members of the senior management.

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 19 and certain of the highest paid employees as disclosed in Note 20, is as follows:

	2018	2017
Short-term benefits		
Fees, salaries, allowance and bonus	24,779	49,299
Post-employment benefit		
Contribution to pension schemes	906	707
	25,685	50,006

Total remuneration is included in "staff costs" as disclosed in Note 13.

(d) Applicability of the listing rules related to connected transactions

The related party transactions in respect of rental expenses above constitute connected transactions as defined in Chapter 14A of the Listing Rules. Those transactions are complied with the disclosure requirements in accordance with Chapter 14A of the Main Board Listing Rules.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

58. SEGMENT REPORTING

The Group manages and conducts its business activities by business segments. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has identified the following segments:

- (a) Brokerage and wealth management segment engages in the trading of stocks, funds, bonds and futures on behalf of the clients, and also providing investment and financing solutions to high-end, professional and institutional clients, including sale of financial products, margin financing and securities lending, securities-backed lending;
- (b) Investment banking segment provides corporate finance services, including financial advisory, equity underwriting and debt underwriting services as well as New Over-the-Counter Board-related services to institutional clients; Also, as chief agency broker, provides services to companies entering into National Equities Exchange and Quotations for share quotation and transfer;
- (c) Proprietary trading segment engages in trading of equities, bonds, funds, and derivatives for the Group;
- (d) Investment management segment includes businesses on assets management, private equity investments and alternative investments; and
- (e) Other segment mainly represents other operations of head office, including investments in associates, as well as interest income and interest expenses arising from general working capital.

Segment profit or loss represents the profit earned or loss incurred by each segment without the allocation of income tax expense and the share of profits less losses of its associates. Segment assets and liabilities are allocated to each segment, excluding deferred tax assets or liabilities.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

58. SEGMENT REPORTING (CONTINUED)

	Brokerage and wealth management	Investment banking	Proprietary trading	Investment management	Others	Total
For the year ended 31 December 2018						
Revenue						
– External	1,330,443	190,661	(303,064)	806,802	60,510	2,085,352
– Inter-segment	(4)	–	4	–	–	–
Other income and gains	(3,804)	984	8	597	16,517	14,302
Segment revenue and other income	1,326,635	191,645	(303,052)	807,399	77,027	2,099,654
Segment expenses	(1,213,107)	(166,918)	(516,071)	(836,829)	(185,481)	(2,918,406)
Segment operating (loss)/profit	113,528	24,727	(819,123)	(29,430)	(108,454)	(818,752)
Share of profits less losses of associates	–	–	–	–	(1,668)	(1,668)
(Loss)/profit before tax	113,528	24,727	(819,123)	(29,430)	(110,122)	(820,420)
Other segment information:						
Interest income	642,083	17,316	30,528	39,604	60,510	790,041
Interest expenses	(270,864)	–	(262,206)	(2,621)	–	(535,691)
Depreciation and amortisation (Impairment losses)/reversal of impairment losses	(68,036)	(2,192)	(175)	(18,009)	(8,737)	(97,149)
Capital expenditure	(18,307)	(135)	(131,781)	(2,236)	381	(152,078)
	80,017	151	58	8,060	41,988	130,274
At 31 December 2018						
Segment assets	7,919,787	484,808	8,627,943	4,311,548	8,339,890	29,683,976
Deferred tax assets						231,103
Total assets						29,915,079
Segment liabilities	10,845,336	67,897	7,038,564	1,803,715	198,018	19,953,530
Deferred tax liabilities						16,728
Total liabilities						19,970,258

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

58. SEGMENT REPORTING (CONTINUED)

	Brokerage and wealth management	Investment banking	Proprietary trading	Investment management	Others	Total
For the year ended						
31 December 2017						
Revenue						
– External	1,988,455	297,414	887,788	869,916	77,543	4,121,116
– Inter-segment	(16,908)	–	1	16,907	–	–
Other income and gains	1,732	734	–	105,157	5,624	113,247
Segment revenue and other						
income	1,973,279	298,148	887,789	991,980	83,167	4,234,363
Segment expenses	(1,797,211)	(227,247)	(298,405)	(706,715)	(190,194)	(3,219,772)
Segment operating profit/(loss)	176,068	70,901	589,384	285,265	(107,027)	1,014,591
Share of profits less losses of associates	–	–	–	–	(1,686)	(1,686)
Profit/(loss) before tax	176,068	70,901	589,384	285,265	(108,713)	1,012,905
Other segment information:						
Interest income	711,463	14,454	17,718	41,243	77,543	862,421
Interest expenses	(359,278)	–	(208,757)	(175,078)	–	(743,113)
Depreciation and amortisation (Impairment losses)/reversal of impairment losses	(67,520)	(2,542)	(265)	(15,999)	(6,748)	(93,074)
Capital expenditure	(28,227)	–	18,153	(25,349)	–	(35,423)
	68,729	354	111	27,702	21,572	118,468
At 31 December 2017						
Segment assets	17,952,096	492,156	8,892,666	7,425,721	1,542,154	36,304,793
Deferred tax assets						112,194
Total assets						36,416,987
Segment liabilities	16,620,584	102,730	4,208,419	4,296,017	124,971	25,352,721
Deferred tax liabilities						121,834
Total liabilities						25,474,555

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

58. SEGMENT REPORTING (CONTINUED)

The Company and its subsidiaries mainly operate in the PRC. The Group's operating assets are substantially situated in the PRC. As a result, no segment analysis based on geographical locations of the customers and assets is provided.

59. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group monitors and controls key exposures to the credit risk, liquidity risk, market risk and operational risk from its use of financial instruments.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group.

During the year, the Group was exposed to three types of credit risk:

- (i) default risk of the issuer or counterparty in debt securities trading;
- (ii) risk of losses arising from default of customers in credit business such as margin financing and securities lending, securities-backed lending and stock repurchases; and
- (iii) risk of losses to the funds of the Company or customers arising from default of the financing party in innovative credit business.

The Group uses its risk management systems to monitor its credit risk on a real time basis, keep track of the credit risk of the Group's business products and its transaction counterparties, provide analyses and pre-warning reports, and adjust its credit limits in a timely manner. The Group will also measure the credit risks of its major operations through stress test and sensitivity analysis.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

59. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

For credit risk in debt securities trading, the Group monitors the issuer and bonds during the year. The Group established the credit rating framework and conducted research on the debt securities held by the Group. The Group also assessed the creditability of counterparties to mitigate related default risk. In respect of margin financing and securities lending, securities-backed lending and stock repurchases business, the Group evaluates the customers, aiming to have a thorough picture of the customers' credit level and risk tolerance and determines the customers' credit rating. Penalties for defaults were specified in contracts and risk disclosure statements. The Group monitors the collateral of the margin financing and securities lending, securities-backed lending and stock repurchases business and promptly communicated with customers on any abnormalities identified to avoid defaults. In respect of innovative credit business, preliminary due diligence was performed with a comprehensive project feasibility report and a due diligence report submitted for approval by the Group before a project can be launched.

(i) The maximum exposure to credit risk of the Group without taking account of any collateral and other credit enhancements:

	2018	2017
Refundable deposits	480,502	614,506
Other current assets	546,104	573,389
Margin account receivables	3,237,924	5,322,835
Financial assets at fair value through other comprehensive income	55,426	–
Financial assets at fair value through profit of loss	6,398,431	8,751,222
Financial assets held under resale agreements	1,161,988	1,661,659
Clearing settlement funds	980,059	773,387
Cash held on behalf of brokerage clients	7,475,631	9,491,666
Bank balances	3,115,390	2,338,494
	23,451,455	29,527,158

(ii) Risk concentrations

The Group's major credit exposures are with counterparties domiciled in the PRC as of 31 December 2018.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

59. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(iii) Credit rating analysis of financial assets

The Group adopts credit rating method to monitor the credit risk of the debt securities portfolio. Rating of debt securities is referred from major rating institutions in which debt issuers located. The carrying amount of debt securities at the reporting date are categorised by rating distribution as follows:

	2018	2017
Rating		
– AAA	2,568,950	1,941,397
– From AA- to AA+	2,897,825	5,538,389
– A-1	–	239,224
	5,466,775	7,719,010
– B	64,800	–
– C	7,292	–
Non-rating	914,990	1,032,212
	6,453,857	8,751,222

(iv) Expected credit loss measurement

The Group measures loss allowances for trade and other receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

59. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(iv) Expected credit loss measurement (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for fees and commission receivables as at 31 December 2018:

	Expected loss rate	Gross carrying amount	Loss allowance
Within one year	35.75%	324,820	116,114
Over one year	41.16%	865	356
		325,685	116,470

Expected loss rates are based on actual loss experience over the past two years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Prior to 1 January 2018

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment.

The Group's fee and commission receivables were neither past due nor impaired. The amount related to a range of receivables with low credit risk and there was no recent history of default.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

59. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(iv) Expected credit loss measurement (Continued)

Movement in the loss allowance account in respect of fees and commission receivables during the year is as follows:

	2018	2017
At 31 December under IAS 39	–	–
Impact on initial application of IFRS9	832	–
Adjusted balance at 1 January	832	–
Impairment losses recognised for the year	115,638	–
At 31 December	116,470	–

Financial assets at FVTOCI

All of the Group's investments at FVTOCI are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12-month expected losses. Management considers 'low credit risk' for listed debit securities to be an investment grade credit rating with at least one major rating agency. Other instruments are considered to be low credit risk when they have a low of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

59. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(iv) Expected credit loss measurement (Continued)

Financial assets at FVTOCI includes listed debt securities. The loss allowance for debt investment at FVTOCI is recognised in profit or loss and reduces the fair value loss otherwise recognised in other comprehensive income.

The loss allowance for financial assets at FVTOCI as at 31 December 2017 reconciles to the opening loss allowance on 1 January 2018 and to the closing allowance as at 31 December 2018 as follows:

	2018
At 31 December 2017 under IAS 39	–
Impact on initial application of IFRS9	–
Adjusted balance at 1 January 2018	–
Impairment losses recognised for the year	58
At 31 December 2018	58

The Group is also exposed to credit risk in relation to debt investments that are measured at FVTPL. The maximum exposure at the end of the reporting period is the carrying amount of these investments of RMB6,398.431 million (2017: RMB8,751.222 million).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

59. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

Liquidity risk arises in the investment activities, financing activities and capital management of the Group. Liquidity risk includes:

- (1) market liquidity risk of being unable to make a large size transaction at a reasonable price while trading volume in market is comparatively small;
- (2) funding liquidity of being unable to meet financial obligations when they come due.

The following tables show the details of the remaining contractual maturities at the reporting date of the Group's non-derivative financial liabilities. Analysis of non-derivative financial liabilities are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay:

	2018							Total
	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 1 year but less than 5 years	More than 1 year but less than 5 years	More than 5 years	
Financial liabilities								
Debt instruments	6,071,318	-	1,504,076	677,868	1,811,422	2,547,923	-	6,541,289
Placements from a financial institution	500,000	-	200,386	302,647	-	-	-	503,033
Account payables to brokerage clients	7,691,497	7,691,497	-	-	-	-	-	7,691,497
Other current liabilities	1,616,090	1,309,822	98,566	55,335	116,512	31,793	4,062	1,616,090
Financial assets sold under repurchase agreements	3,742,325	-	3,699,324	483	47,174	-	-	3,746,981
	19,621,230	9,001,319	5,502,352	1,036,333	1,975,108	2,579,716	4,062	20,098,890

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

59. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (Continued)

	2017							Total
	Carrying amount	Repayable on demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	
Financial liabilities								
Debt instruments	4,844,857	-	5,177	504,801	1,103,052	3,986,150	-	5,599,180
Placements from a financial institution	700,000	-	702,728	-	-	-	-	702,728
Account payables to brokerage clients	10,028,333	10,028,333	-	-	-	-	-	10,028,333
Other current liabilities	3,626,753	51,859	35,237	115,138	3,424,519	-	-	3,626,753
Financial assets sold under repurchase agreements	5,655,778	1,729,701	736,560	966	2,698,710	535,044	-	5,700,981
	24,855,721	11,809,893	1,479,702	620,905	7,226,281	4,521,194	-	25,657,975

(c) Market risk

Market risk is the risk of loss, in respect of the Group's income and value of financial instruments held, arising from the adverse market movements such as changes in interest rates, stock prices, foreign exchange rates and so on. The objective of market risk management is to monitor and control the market risk within the acceptable range and to maximise the risk adjusted return. The Group monitors the market risk for proprietary trading portfolios. Stress testing is conducted regularly, and the potential movements of risk and operating indicators in a variety of scenarios are calculated.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

59. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(c) Market risk (Continued)

(i) Interest rate risk of proprietary trading portfolios

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

For those financial instruments held by the Group which expose the Group to fair value interest rate risk at the reporting date, the Group adopts sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net profit. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

	Sensitivity of net profit	
	2018	2017
Change in basis points		
Increase 100 basis points	(129,161)	(139,146)
Decrease 100 basis points	138,882	145,074

(ii) Currency risk

Currency risk is the risk arising from foreign exchange business of the Group, which is attributable to the fluctuation of foreign exchange rates.

The Group's currency risk primarily relates to the Group's operating activities whose settlements and payments are denominated in foreign currencies different from the functional currency of the Group.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

59. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(c) Market risk (Continued)

(iii) Price risk

The Group is exposed to equity price changes arising from equity investments concluded in financial assets at fair value through profit or loss financial instruments. Price risk facing by the Group is mainly the fluctuation in the Group's net profits due to the price fluctuation of the financial assets at fair value through profit or loss (2017: proportionate fluctuation in the Group's net profits and other comprehensive income).

The analysis below is performed to show the impact in the Group's net profit (2017: net profit and other comprehensive income) due to change in the prices of equity securities by 10% with all other variables held constant.

	Sensitivity of net profit	
	2018	2017
Increase by 10%	408,162	318,475
Decrease by 10%	(408,162)	(318,475)

	Sensitivity of net other comprehensive income	
	2018	2017
Increase by 10%	–	130,522
Decrease by 10%	–	(130,522)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

59. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(d) Capital management

The Group's and the Company's objectives of capital management are:

- (i) To safeguard the Group's and the Company's ability to continue as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders;
- (ii) To support the Group's and the Company's stability and growth;
- (iii) To maintain a strong capital base to support the development of their business; and
- (iv) To comply with the capital requirements under the PRC regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2016) (the "Administrative Measures") issued by the CSRC, the Company is required to meet the following standards for risk control indicators on a continual basis:

- (i) Risk coverage ratio (the ratio of net capital divided by the sum of its various risk capital provisions) shall be no less than 100% ("Ratio 1");
- (ii) Capital leverage ratio (the ratio of net core capital divided by total assets on and off statement of financial position) shall be no less than 8% ("Ratio 2");
- (iii) Liquidity coverage ratio (the ratio of high quality liquid assets divided by net cash outflows in the coming 30 days) shall be no less than 100% ("Ratio 3");
- (iv) Net stable funding ratio (the ratio of stable funds available divided by stable funds required) shall be no less than 100% ("Ratio 4");
- (v) The ratio of net capital divided by net assets shall be no less than 20% ("Ratio 5");
- (vi) The ratio of net capital divided by liabilities shall be no less than 8% ("Ratio 6");
- (vii) The ratio of net assets divided by liabilities shall be no less than 10% ("Ratio 7");
- (viii) The ratio of the value of proprietary equity securities and derivatives held divided by net capital shall not exceed 100% ("Ratio 8"); and

Notes to the Consolidated Financial Statements (Continued)

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59. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(d) Capital management (Continued)

- (ix) The ratio of the value of proprietary non-equity securities and derivatives held divided by net capital shall not exceed 500% ("Ratio 9").

Net capital refers to net assets after risk adjustments on certain types of assets as defined in the Administrative Measures.

As at 31 December 2018, the Company maintained the above ratios as follows:

	2018	2017
Net Capital	6,104,858	7,834,239
Ratio 1	255.50%	203.78%
Ratio 2	23.25%	26.25%
Ratio 3	244.24%	520.72%
Ratio 4	162.58%	154.83%
Ratio 5	67.77%	78.82%
Ratio 6	57.62%	71.19%
Ratio 7	85.02%	90.32%
Ratio 8	42.61%	33.28%
Ratio 9	112.80%	86.58%

Similar to the Company, certain subsidiary of the Group is also subject to capital requirements set by the CSRC, and it has complied with the capital requirements as at 31 December 2018.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

59. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(e) Categories of financial instruments

	2018	2017
Financial assets:		
Financial assets at fair value through profit or loss:		
– Held for trading	11,840,596	12,553,288
– Designated at fair value through profit or loss	–	444,272
Financial assets at amortised cost (including cash and cash equivalents)	17,006,611	20,803,556
Available-for-sale financial assets	–	1,740,299
Financial liabilities:		
Financial liabilities at amortised cost	19,597,957	24,806,065

60. FAIR VALUE MEASUREMENTS

The Group adopts the following methods and assumptions when evaluating fair values:

- (i) Financial assets including cash and bank balances, cash held for brokerage clients, clearing settlement funds, financial assets held under resale agreements, and financial liabilities including placements from other financial institutions and financial assets sold under repurchase agreements are mainly short-term financing or floating interest rate instruments. Accordingly, the carrying amounts approximate their fair values.
- (ii) Financial assets at fair value through profit or loss and derivatives financial assets are stated at fair value. For the financial instruments traded in active open markets, the Group uses market prices or markets rates as the best estimate for their fair values. For the financial instruments without any market price or market rate, the Group determines the fair values of these financial assets and financial liabilities by discounted cash flow or other valuation methods.
- (iii) The fair values of debt instruments are determined with reference to the available market prices or quotes from brokers or agents. If there is no quoted market price in an active market, the Group refers to the yield of financial instruments with similar characteristics such as credit risk and maturity, to estimate the fair values using pricing models or discounted cash flow.
- (iv) Margin account receivables and other current assets, account payables to brokerage clients are within one year. Accordingly, the carrying amounts approximate their fair values.

Notes to the Consolidated Financial Statements (Continued)

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60. FAIR VALUE MEASUREMENTS (CONTINUED)

The carrying amount and fair value of debt instruments which are not presented at fair value are listed as below:

	2018	2017
Carrying amount of financial liabilities:		
– subordinated bonds	1,500,000	1,740,000
– long-term corporate bond	1,500,000	1,500,000
	3,000,000	3,240,000

	2018			Total
	Level 1	Level 2	Level 3	
Fair value of financial liabilities:				
– subordinated bonds	–	1,509,325	–	1,509,325
– long-term corporate bond	–	1,498,827	–	1,498,827
	–	3,008,152	–	3,008,152

	2017			
	Level 1	Level 2	Level 3	Total
Fair value of financial liabilities:				
– subordinated bonds	–	1,681,301	40,000	1,721,301
– long-term corporate bond	–	1,466,613	–	1,466,613
	–	3,147,914	40,000	3,187,914

Except as disclosed above, the directors of the Company considers that the carrying amount of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

60. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three level inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy:

	2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements:				
<i>Assets</i>				
Financial assets at fair value through profit or loss:				
– Debt securities	1,024,180	5,255,130	119,121	6,398,431
– Equity securities	2,495,734	1,002,593	118,925	3,617,252
– Investment funds	765,467	337,173	125,628	1,228,268
– Assets management schemes	–	596,645	–	596,645
	4,285,381	7,191,541	363,674	11,840,596
Financial assets at fair value through other comprehensive income				
– Debt securities	–	55,426	–	55,426
	4,285,381	7,246,967	363,674	11,896,022

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

60. FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Disclosures of level in fair value hierarchy: (Continued)

	2017			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements:				
<i>Assets</i>				
Financial assets at fair value through profit or loss:				
– Debt securities for trading purpose	1,852,906	6,417,044	37,000	8,306,950
– Equity securities	2,283,316	111,232	37,638	2,432,186
– Investment funds	312,331	458,661	19,000	789,992
– Assets management schemes	–	1,024,160	–	1,024,160
– Debt securities designated at fair value through profit or loss	100,704	343,568	–	444,272
	4,549,257	8,354,665	93,638	12,997,560
Available-for-sale financial assets				
– Equity securities	280,688	388,270	926,803	1,595,761
– Investment funds	–	33,163	40,315	73,478
– Assets management schemes	–	71,060	–	71,060
	280,688	492,493	967,118	1,740,299
	4,829,945	8,847,158	1,060,756	14,737,859

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

60. FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Disclosures of level in fair value hierarchy: (Continued)

There were no significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy except for:

2018

Two equity securities with fair value of RMB877.214 million which were successfully listed during the period was transferred from Level 3 to Level 2 and two equity securities with fair value of RMB5.348 million were transferred from level 3 to level 1 due to resumption of trading listed.

2017

Two equity securities with fair value of RMB103.458 million which were successfully listed during the year were transferred from Level 3 to Level 1 and Level 2.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

60. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Reconciliation of financial assets measured at fair value based on Level 3:

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive Income	Total
At 1 January 2018	1,060,756	-	1,060,756
Reclassification on initial application of IFRS 9			
– from financial assets at FVTPL to financial assets at FVTOCI	(37,000)	37,000	-
– from other non-current assets to financial assets at FVTPL	20,300	-	20,300
Losses for the year	(1,752)	-	(1,752)
Changes in fair value recognised in profit or loss	(52,612)	-	(52,612)
Purchases	111,050	-	111,050
Transfer	(705,973)	-	(705,973)
Sales and settlements	(31,095)	(37,000)	(68,095)
At 31 December 2018	363,674	-	363,674
Total gains or losses included in profit or loss for financial assets during the year	(54,364)	-	(54,364)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

60. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Reconciliation of financial assets measured at fair value based on Level 3: (Continued)

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
At 1 January 2017	411,624	675,785	1,087,409
Losses for the year	(11,337)	–	(11,337)
Changes in fair value recognised in other comprehensive income	–	338,604	338,604
Purchases	19,000	60,997	79,997
Transfers	–	(103,458)	(103,458)
Sales and settlements	(325,649)	(4,810)	(330,459)
At 31 December 2017	93,638	967,118	1,060,756
Total gains or losses included in profit or loss for financial assets during the year	–	–	–

The total gains or losses recognised in profit or loss including the financial assets held during the year are presented in net investment income in the consolidated statement of profit or loss.

In year 2017, the total gains or losses recognised in other comprehensive income are presented in fair value gain on available-for-sale financial assets in the consolidated statement of profit or loss and other comprehensive income.

Notes to the Consolidated Financial Statements (Continued)

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60. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements as at 31 December 2018

The Group's financial market department is responsible for the fair value measurements of financial assets and liabilities required for financial reporting purposes, including Level 3 fair value measurements. The financial market department reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial market department and the Board of Directors periodically.

Certain of the financial assets at fair value through profit or loss classified as Level 2 consist of debt securities and bond investments trading in the inter-bank bond market and the over-the-counter market. Fair values are determined based on recent transaction prices in inactive markets and using valuation techniques. The remaining of the financial assets through profit or loss classified as Level 2 consist of restricted shares, close-end funds and collective assets management schemes. Fair values of restricted shares are determined by the quoted market prices of the shares with an adjustment of discount for lack of marketability. Fair values of close-end funds are determined by trading price which is based on the net asset value as at the reporting date. Fair values of collective assets management schemes are determined based on the fair value of the underlying investments in each portfolio.

For financial instruments in Level 3, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

60. FAIR VALUE MEASUREMENTS (CONTINUED)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2018 (Continued)

Level 3 fair value measurements

Description	2018		
	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs
Unlisted equity investments	Market comparable companies	Discount rate for lack of marketability	Decrease
	Net assets value	N/A	N/A
Debt securities	Discounted cash flow	Risk adjusted discount rate	Decrease

Description	2017		
	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs
Unlisted equity investments	Market comparable companies	Discount rate for lack of marketability	Decrease
	Net assets value	N/A	N/A

There were no changes in the valuation techniques used.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

61. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Disposal of subsidiaries

(i) Disposal of Shenzhen Hengtai Xihe Equity Investment Fund Management Co., Ltd.

Pursuant to an agreement dated 22 March 2017 entered into between a subsidiary of the Company, Hengtai Capital Investment Co., Ltd. (恒泰資本投資有限責任公司, "Hengtai Capital") and an independent third party, Hengtai Capital disposed its interest in a 51%-owned subsidiary, Shenzhen Hengtai Xihe Equity Investment Fund Management Co., Ltd. (深圳恒泰義和股權投資基金管理有限公司, "Hengtai Xihe") for a cash consideration of RMB0.85 million. The consideration was the same as the net assets value of Hengtai Xihe attributable to the Group, resulting in no gain or loss on disposal of Hengtai Xihe.

Hengtai Xihe was engaged in investment consulting, investment management, entrusted management of equity, investment funds, equity investment in unlisted companies, entrusted assets management and equity investment during the period. The disposal was completed on 30 March 2017.

(ii) Disposal of Beijing Hengtai Puhui Information Service Co., Ltd.

On 13 February 2017, a subsidiary of the Company, Hengtai Pioneer Investments Co., Ltd. (恒泰先鋒投資有限公司, "Hengtai Pioneer"), entered into an agreement to dispose 70% equity interests of its wholly owned subsidiary, Beijing Hengtai Puhui Information Service Co., Ltd. (北京恒泰普惠信息服務有限公司, "Hengtai Puhui"), at a consideration of RMB20.790 million. The disposal was completed on 1 August 2017, and the Group recorded a sum of gain on disposal amounted to RMB14.635 million.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

61. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(a) Disposal of subsidiaries (Continued)

As of the disposal date, the net assets of the above disposed subsidiaries were as follows:

Property and equipment	60
Intangible assets	19
Deferred tax assets	5,624
Other non-current assets	20,155
Other current assets	2,023
Available-for-sale financial assets	2,100
Financial assets held under resale agreements	150
Cash and bank balances	13,802
Employee benefit payables	(7,260)
Other current liabilities	(19,221)
Current tax liabilities	(717)
Non-controlling interests	(818)
Net assets disposed of	15,917
Gain on disposal of subsidiaries (Note 9)	14,635
Total consideration	30,552
Consideration satisfied by:	
– Cash consideration	21,642
– Fair value of remaining equity interest	8,910
	30,552
Net cash inflow arising on disposal:	
Cash consideration received	21,642
Cash and cash equivalents disposed of	(13,802)
	7,840

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018 (Expressed in thousands of Renminbi, unless otherwise stated)

61. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Debt instruments <i>Note 42</i>	Interest payable	Total
At 1 January 2017	6,172,624	91,426	6,264,050
Financing cash flows	(1,332,624)	(247,591)	(1,580,215)
Non-cash changes:			
Interest expenses	4,857	279,650	284,507
At 31 December 2017	4,844,857	123,485	4,968,342
Financing cash flows	1,206,630	(236,805)	969,825
Non-cash changes:			
Interest expenses	19,831	242,889	262,720
At 31 December 2018	6,071,318	129,569	6,200,887

62. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The changes included the reclassification of fair value gain of financial instruments from "net investment income" to "other income and gains" and fair value loss of financial instruments from "net investment" to "other operating expenses". The new classification of the accounting items was considered to provide a more appropriate presentation of the state of affairs of the Group. The comparative other income and gains have been re-presented to include those changes in the current year.