



# 中信建投証券股份有限公司 CSC FINANCIAL CO., LTD.

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

Stock Code: 6066

2019  
Annual Report

# CONTENTS

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Definitions . . . . .	2
Chairman's Statement . . . . .	6
Section 1 Important Notice . . . . .	8
Section 2 Company Information . . . . .	10
Section 3 Financial Summary . . . . .	31
Section 4 Management Discussion and Analysis . . . . .	37
Section 5 Report of Directors . . . . .	109
Section 6 Other Significant Events . . . . .	129
Section 7 Changes in Shares and Information on Substantial Shareholders . . . . .	139
Section 8 Directors, Supervisors, Senior Management and Employees . . . . .	144
Section 9 Corporate Governance Report . . . . .	182
Section 10 Environmental, Social and Governance Report . . . . .	215
Annex Independent Auditor's Report and Notes to the Consolidated Financial Statements . . . . .	250

# DEFINITIONS

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Unless the context otherwise requires, the following expressions have the following meanings in this annual report:

“A Share(s)”	listed domestic shares in the share capital of our Company with a nominal value of RMB1.00 each, listed on the Shanghai Stock Exchange and traded in RMB
“Articles of Association” or “Articles”	the articles of association of CSC Financial Co., Ltd.
“Board” or “Board of Directors”	the Board of Directors of our Company
“BSCOMC”	Beijing State-owned Capital Operation and Management Center (北京國有資本經營管理中心)
“Central Huijin”	Central Huijin Investment Limited (中央匯金投資有限責任公司)
“Century Jinyuan”	Century Jinyuan Investment Group Limited (世紀金源投資集團有限公司)
“China Jianyin”	China Jianyin Investment Limited (中國建銀投資有限責任公司)
“China Securities Capital”	China Capital Management Limited (中信建投資本管理有限公司)
“China Securities Funds”	China Securities Funds Management Limited (中信建投基金管理有限公司)
“China Securities Futures”	China Futures Co., Ltd. (中信建投期貨有限公司)
“China Securities International”	China Securities (International) Finance Holding Company Limited (中信建投(國際)金融控股有限公司)
“China Securities Investment”	China Securities Investment Limited (中信建投投資有限公司)
“CIC”	China Investment Corporation (中國投資有限責任公司)
“CITIC Group”	CITIC Group Corporation Ltd. (中國中信集團有限公司)
“CITIC Limited”	CITIC Limited (中國中信股份有限公司)
“CITIC Securities”	CITIC Securities Co., Ltd. (中信證券股份有限公司)

## DEFINITIONS (Continued)

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“Company Law”	Company Law of the People’s Republic of China
“CSC” or “Company”, “our Company”, “parent company”	CSC Financial Co., Ltd.
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“CSRF”	China Structural Reform Fund Co., Ltd. (中國國有企業結構調整基金股份有限公司)
“Director(s)”	the director(s) of our Company
“E-Capital”	E-Capital Transfer Co., Ltd. (證通股份有限公司)
“Glasslake Holdings”	Glasslake Holdings Limited (鏡湖控股有限公司)
“Group”	CSC Financial Co., Ltd. and its subsidiaries
“H Share(s)”	listed overseas foreign shares in the share capital of our Company with a nominal value of RMB1.00 each, listed on the Hong Kong Stock Exchange and traded in HK dollars
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Stock Exchange” or “HKEX”	The Stock Exchange of Hong Kong Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“IPO”	Initial Public Offering
“Latest Practicable Date”	March 26, 2020, being the latest practicable date prior to the printing of this annual report for the purposes of ascertaining the information contained herein

## DEFINITIONS (Continued)

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“Listing Rules of the SSE”	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (as amended from time to time)
“Ministry of Finance”	Ministry of Finance of the People’s Republic of China
“NEEQ”	the National Equities Exchange and Quotations
“NEEQ Company”	National Equities Exchange and Quotations Co., Ltd. (全國中小企業股份轉讓系統有限責任公司)
“PRC” or “China”	the People’s Republic of China
“PwC”	PricewaterhouseCoopers
“PwC Zhong Tian”	PricewaterhouseCoopers Zhong Tian LLP
“QDII”	Qualified Domestic Institutional Investor
“QFII”	Qualified Foreign Institutional Investor
“Reporting Period”	from January 1, 2019 to December 31, 2019
“RMB” or “Renminbi”	the lawful currency of the PRC
“RQFII”	Renminbi Qualified Foreign Institutional Investor
“Securities Law”	Securities Law of the People’s Republic of China
“Shanghai and Shenzhen Stock Exchanges”	Shanghai Stock Exchange and Shenzhen Stock Exchange
“Shanghai Shangyan”	Shanghai Shangyan Investment Center (Limited Partnership) (上海商言投資中心(有限合夥))
“Share(s)”	ordinary shares in the share capital of our Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)

## DEFINITIONS (Continued)

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“SSE”	Shanghai Stock Exchange
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“SZSE”	Shenzhen Stock Exchange
“Tengyun Investment”	Xizang Tengyun Investment Management Limited (西藏騰雲投資管理有限公司) (formerly known as Xizang Shannan Century Jinyuan Investment Management Limited (西藏山南世紀金源投資管理有限公司))
“the end of the Reporting Period”	December 31, 2019
“US\$”	United States dollars, the lawful currency of the United States
“Wind Info”	Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), a joint-stock company with limited liability incorporated in the PRC and a service provider of financial data, information and software

# CHAIRMAN' S STATEMENT

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Dear Shareholders,

Year 2019 remarked the 70th Anniversary of New China, the key year to achieve the goal of the first century in building a well-off society, as well as the first full fiscal year after the listing of the Company on the A Share capital market. During the year, both domestic and international risks and challenges increased significantly, supply-side structural reform in finance industry was further deepened, the Science and Technology Innovation Board (the “**STAR Market**”) of SSE and pilot registration system were launched successfully, two-way opening of capital market was accelerated, domestic A Share market experienced dynamic transactions, and overall situation remained stable with progress.

Faced with the complex and ever-changing market environment, the Company regarded the Xi Jinping’s Thought on Socialism with Chinese Characteristics for a New Era as guidance, strived to build a first-rate customer service system, fully promoted digital transformation in the Company, implemented compliant operation, prevented and controlled risks and improved its capacity of serving the real economy, in order to promote high-quality development of the Company. In 2019, the Company had a leading position in business on STAR Market, obtained significant progress from investment banking business integration, strived to increase income from brokerage services of wealth management business and obtained the best results ever from buyer business after well-grounded development; the Company continued to improve its capabilities of serving institutional clients, accelerated transformation and upgrade of investment management business, made a good start in cross-border business integration, made steady progress in information technology and operation management, and further consolidated compliance risk control. In 2019, the Company achieved new and excellent results from its development and was rated by the CSRC as one of the “Class A Grade AA” among three securities companies for ten consecutive years.

## CHAIRMAN' S STATEMENT (Continued)

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Looking ahead, a well-off society will be built and the “thirteenth five-year” plan will be concluded in 2020, and this year also represents the 30th anniversary of capital market. Currently, the capital market is embracing rare development opportunities. Intensive development of direct financing, sustained release of potentials of real economy and rapid growth in demands of residents for wealth management all brought about higher requirement on integrated service capacity of securities companies. To this end, the Company should keep pace with the era and take active measures. In particular, the Company should seize the development opportunities brought by empowerment of financial technology and implement digital transformation strategy globally, in order to fully upgrade customer service system and improve its capacity to serve the real economy. Adhering to the core value of achievements leading to status, the Company achieved further development, sped up the development of domestic first-rate modern investment bank and wealth management institution, in order to bring greater values to clients and shareholders and make greater contributions to national economy and finance.



*Chairman*

**WANG Changqing**

March 26, 2020



## SECTION 1 IMPORTANT NOTICE

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- I. The Board of Directors, the Supervisory Committee of the Company, the Directors, the Supervisors and the senior management warrant the truthfulness, accuracy and completeness of this annual report and that there is no misrepresentation on, misleading statement in, or material omission from, this annual report, and will assume joint and several liabilities.
- II. This report was considered and approved at the twentieth meeting of the second session of the Board of Directors of the Company. All Directors of the Company attended the board meeting. No Director raised any objection to this annual report.
- III. Pricewater Coopers Zhong Tian LLP and Pricewater Coopers issued the auditor's reports with standard unqualified audit opinion, respectively.
- IV. Wang Changqing, Chairman of the Company, Li Geping, the General Manager and the Chief Financial Officer, and Zhao Ming, head of the Company's accounting department (chief accountant), warrant that the financial statements set out in this annual report are true, accurate and complete.
- V. The plans for profit distribution or capital reserve capitalization for the reporting period were considered by the board of directors

The 2019 profit distribution plan formulated by the Company is as follows: the Company proposes to distribute in the form of cash dividends, on the basis of 7,646,385,238 shares in the total issued share capital as at December 31, 2019, RMB2.35 (tax inclusive) for every 10 shares to all Shareholders. The proposal has yet to be submitted at the general meeting of the Company for approval.

- VI. Risk statement for forward-looking statements

Forward looking statements, including future plans and development strategies, contained in this report do not constitute a substantive commitment to investors by the Company. Investors should be aware of investment risks.

## SECTION 1 IMPORTANT NOTICE (Continued)

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VII. Whether there was any appropriation of funds by controlling shareholder(s) or its/their related parties for non-operating purposes

No

VIII. Whether any guarantee was made to external parties against the stipulated decision-making process

No

IX. Material risk factors

During the reporting period, no material risk matter existed in the Company. The Company has described the relevant potential risks in this report in detail. Please refer to “Potential Risks” in Section 4 Management Discussion and Analysis on Operations of this annual report.

The Company prepared this annual report in both English and Chinese. In the event of any discrepancies in interpretation between the English version and Chinese version of this annual report, the Chinese version shall prevail. In this annual report, the discrepancies in the decimal place between the sum of the amount of each sub-item and the grand total are due to rounding to the nearest integer.

## SECTION 2 COMPANY INFORMATION

### I. PROFILE

Name in Chinese	中信建投证券股份有限公司
Abbreviation in Chinese	中信建投证券
Name in English	China Securities Co., Ltd. CSC Financial Co., Ltd. (carrying on business in Hong Kong with such registered English name)
Abbreviation in English	CSC
Legal Representative	Wang Changqing
General Manager	Li Geping
Authorized Representatives	Wang Changqing, Li Geping
Joint Company Secretaries	Wang Guangxue, Huang Huiling

#### Registered Capital and Net Capital of the Company

Unit: RMB

	As at the end of the Reporting Period (December 31, 2019)	As at the end of the previous year (December 31, 2018)
Registered Capital	7,646,385,238	7,646,385,238
Net Capital	53,955,640,469.01	41,030,077,201.74

Note: As of the date of disclosure of this report, the total number of shares of the Company was 7,646,385,238, of which 6,385,361,476 were A shares and 1,261,023,762 were H shares.

#### Scope of Business and Business Qualifications for Each Individual Business of the Company

The business scope of the Company mainly includes: securities brokerage; securities investment consulting; financial advisory relating to securities trading and securities investment activities; securities underwriting and sponsoring; proprietary securities trading; securities asset management; agency sale of securities investment funds; provision of intermediary business to futures companies; margin financing and securities lending; agency sale of financial products; stock options market making; custodian for securities investment fund; sale of precious metal products.

## SECTION 2 COMPANY INFORMATION (Continued)

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In addition, the Company also possesses the following major individual business qualifications (items 47-59 were business qualifications newly obtained in 2019):

1. Bond business
2. Interbank lending
3. Direct investment
4. Fixed income securities dealer
5. Providing trading units for insurance agency investors
6. Repurchase business with collateralized bond
7. Securities and foreign exchange operation
8. Interest rate swap trading
9. Refinancing business
10. Contractual repurchase securities transaction business on Shanghai Stock Exchange
11. Contractual repurchase business of securities transaction on Shenzhen Stock Exchange
12. OTC market business of securities companies
13. Securities refinancing business
14. Entrusted management of insurance funds
15. Collateralized stock repurchase business on Shenzhen Stock Exchange
16. Collateralized stock repurchase business on Shanghai Stock Exchange
17. Swapping financial derivatives and counter trading business of OTC option
18. Agency business for precious metal spot contracts and proprietary business
19. Conducting capital consumption payment services for client securities
20. Repurchase transaction business with collateralized stock
21. Internet securities business
22. Market making business of National Equities Exchange and Quotations System
23. Gold trading membership of Shanghai Gold Exchange
24. Shanghai-Hong Kong Stock Connect business
25. CRMW instruments selling business
26. Business of financing of exercising share incentive scheme of listed companies
27. Options settlement business
28. Participants for stock options trading
29. Conducting overseas securities investment and management business by Qualified Domestic Institutional Investor
30. Foreign currency lending business
31. Gold inquiry business
32. Telecommunications and information service
33. Work units of consultation services for military confidential business
34. Private fund outsourcing business
35. Chief agency broker for National Equities Exchange and Quotations System

## SECTION 2 COMPANY INFORMATION (Continued)

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36. Class A international membership for gold trading of Shanghai International Gold Exchange Co., Ltd.
37. Shenzhen-Hong Kong Stock Connect business
38. Dealing of CRMW business
39. Issuing business of CRMW
40. Issuing business of credit-linked notes
41. Operation for market information enhancement service (online version)
42. Market maker of quotation and service system for private equity products
43. Market maker of white sugar option on Zhengzhou Commodity Exchange
44. Institution qualified to quote in the “Bond Connect”
45. Primary trader for OTC option
46. Pilot of cross-border business
47. Market maker of white sugar futures on Zhengzhou Commodity Exchange
48. Market maker of cotton futures on Zhengzhou Commodity Exchange
49. Market maker of cotton option on Zhengzhou Commodity Exchange
50. Market maker of corn option on Dalian Commodity Exchange
51. Market maker of listed fund owner option on SSE
52. General market maker of SZ50ETF option
53. Qualification of insurance brokerage granted by the Professional Insurance Brokers Association (PIBA)
54. Core dealer of credit protection contract (on SSE and SZSE)
55. Issuer of credit protection certificate (on SSE)
56. Main market maker of HS300ETF option
57. Main market maker of HS300 Index option
58. Market maker of silver futures on Shanghai Futures Exchange
59. Market maker of tin futures on Shanghai Futures Exchange

### **Events after the Reporting Period:**

As of the disclosure date of this report, the Company has obtained the following business qualifications:

1. In January 2020, the Company obtained the Operation Qualification of Settlement and Sale of Foreign Exchange Business
2. In March 2020, the Company obtained the qualification of trial business of fund investment consultancy

## SECTION 2 COMPANY INFORMATION (Continued)

### II. CONTACT PERSONS AND DETAILS

	Secretary to the Board	Securities representative
Contact Person	Wang Guangxue	Du Ningning
Contact Address	No. 188 Chaonei Avenue, Dongcheng District, Beijing	No. 188 Chaonei Avenue, Dongcheng District, Beijing
Telephone	86-10-65608107	86-10-65608107
Facsimile	86-10-65186399	86-10-65186399
Email	investorrelations@csc.com.cn	investorrelations@csc.com.cn

### III. BASIC INFORMATION

Registered Address	Unit 4, No. 66 Anli Road, Chaoyang District, Beijing
Postal Code of Registered Address	100101
Office Address	No. 188 Chaonei Avenue, Dongcheng District, Beijing
Postal Code of Office Address	100010
Place of Business in Hong Kong	18/F, Two Exchange Square, Central, Hong Kong
Website	www.csc108.com
Email	investorrelations@csc.com.cn
Telephone	86-10-85130588
Facsimile	86-10-65186399
National Customer Service Hotline	95587/4008888108
Investor Relations Hotline	86-10-65608107
United Social Credibility Code	91110000781703453H

## SECTION 2 COMPANY INFORMATION (Continued)

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### IV. INFORMATION DISCLOSURE AND AVAILABILITY PLACES

Media designated for information disclosure by the Company    China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily

Website designated by CSRC for publication of the Annual Reports    Website designated by CSRC: [www.sse.com.cn](http://www.sse.com.cn) (website of SSE)  
Website designated by the Hong Kong Stock Exchange: [www.hkexnews.hk](http://www.hkexnews.hk) (HKExnews website of the HKEX)

Places where annual reports of the Company are available    No. 188 Chaonei Avenue, Dongcheng District, Beijing  
Unit 4, No. 66 Anli Road, Chaoyang District, Beijing  
18/F, Two Exchange Square, Central, Hong Kong

### V. BRIEF INFORMATION OF THE SHARES OF THE COMPANY

Brief information of the shares of the Company				
Class of Shares	Stock Exchange of Listing	Stock Name	Stock Code	Stock name before change
A Shares	SSE	CSC	601066	Not applicable
H Shares	HKEX	CSC	6066	Not applicable

### VI. OTHER INFORMATION OF THE COMPANY

#### (I) History of the Company, mainly including reform and restructuring, increasing in share capital and other matters in prior years

##### 1. Establishment of Company

China Securities Finance Limited (中信建投證券有限責任公司) (the “CSF Limited”), the Company’s predecessor, was jointly invested and established by CITIC Securities and China Jiayin in 2005 pursuant to the Approval for Commencing Operation of China Securities Finance Limited (Zheng Jian Ji Gou Zi [2005] No. 112) 《關於同意中信建投證券有限責任公司開業的批覆》(證監機構字[2005]112號) issued by the CSRC. On November 2, 2005, CSF Limited obtained the business license of corporate legal representative from the Administration for Industry and Commerce. The registered address is Unit 4, No. 66 Anli Road, Chaoyang District, Beijing, with registered capital of RMB2,700,000,000, of which CITIC Securities and China Jiayin made cash contribution of RMB1,620,000,000 and RMB1,080,000,000, in proportion of 60% and 40%, respectively. CSF Limited was established to acquire the securities business and related assets originally owned by Huaxia Securities Co., Ltd. and then operated as a comprehensive securities firm.

##### 2. Change of Shareholding in 2010

###### (1) BSCOMC Becomes a Shareholder

On November 9, 2010, the CSRC issued the Approval for the Change of Shareholders Holding More Than 5% Equity Interests by China Securities Finance Limited (Zheng Jian Xu Ke [2010] No. 1588) 《關於核准中信建投證券有限責任公司變更持有5%以上股權的股東的批覆》(證監許可[2010]1588號) to approve the eligibility of BSCOMC as a Shareholder of the CSF Limited holding more than 5% equity interests, with no objection to the lawful transfer of RMB1,215,000,000 equity interests of the CSF Limited (representing 45% of the total capital contribution) originally held by CITIC Securities to BSCOMC. On November 15, 2010, CSF Limited completed the change of registration in relation to the change in shareholding with the Administration for Industry and Commerce.



## SECTION 2 COMPANY INFORMATION (Continued)

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### (2) *Central Huijin Becomes a Shareholder*

Pursuant to the Approval of the Ministry of Finance for Asset Transfer by China Jianyin to Central Huijin (Cai Jin Han [2009] No. 77) 《(財政部關於中國建銀投資有限責任公司向中央匯金投資有限責任公司劃轉資產的批覆》(財金函[2009]77號)), China Jianyin, a Shareholder of CSF Limited originally holding 40% equity interests, transferred its equity interests in CSF Limited to Central Huijin at nil consideration. On November 18, 2010, the CSRC issued the Approval for the Change of Shareholders Holding More Than 5% Equity Interests by China Securities Finance Limited (Zheng Jian Xu Ke [2010] No. 1659) 《(關於核准中信建投證券有限責任公司變更持有5%以上股權的股東的批覆》(證監許可[2010]1659號)) to approve the eligibility of Central Huijin as a Shareholder of the CSF Limited holding more than 5% equity interests, with no objection to the lawful transfer of RMB1,080,000,000 equity interests of the CSF Limited (representing 40% of the total capital contribution) originally held by China Jianyin to Central Huijin. On December 16, 2010, CSF Limited completed the change of registration in relation to the change in shareholding with the Administration for Industry and Commerce.

### (3) *Central Jinyuan Becomes a Shareholder*

On November 23, 2010, the CSRC issued the Approval for the Change of Shareholders Holding More Than 5% Equity Interests by China Securities Finance Limited (Zheng Jian Xu Ke [2010] No. 1693) 《(關於核准中信建投證券有限責任公司變更持有5%以上股權的股東的批覆》(證監許可[2010]1693號)) to approve the eligibility of Century Jinyuan as a Shareholder of the CSF Limited holding more than 5% equity interests, with no objection to the lawful transfer of RMB216,000,000 equity interests of the CSF Limited (representing 8% of the total capital contribution) originally held by CITIC Securities to Century Jinyuan. On December 16, 2010, CSF Limited completed the change of registration in relation to the change in shareholding with the Administration for Industry and Commerce.

## SECTION 2 COMPANY INFORMATION (Continued)

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### **3. Conversion to a Joint Stock Limited Company as a Whole in 2011**

On June 30, 2011, the CSRC issued the Approval for the Conversion of China Securities Finance Limited into a Joint Stock Limited Company (Zheng Jian Xu Ke [2011] No. 1037) (《關於核准中信建投證券有限責任公司變更為股份有限公司的批覆》(證監許可[2011]1037號)) to approve the conversion of CSF Limited into a joint stock limited company as a whole. Upon completion of the conversion, the Company was renamed CSC Financial Co., Ltd. with registered capital of RMB6,100,000,000. On September 28, 2011, the Company completed the change of registration in relation to the conversion into a joint stock limited company as a whole with the Administration for Industry and Commerce.

### **4. Change of Shareholding in 2016**

#### *(1) Xizang Shannan Century Jinyuan Investment Management Limited Becomes a Shareholder*

On March 8, 2016, Century Jinyuan entered into a Share Transfer Agreement with Xizang Shannan Century Jinyuan Investment Management Limited (the “Shannan Jinyuan”, currently known as Xizang Tengyun Investment Management Limited), which stipulated that Century Jinyuan shall transfer those 300,000,000 shares of the Company held by it to Shannan Jinyuan, representing 4.92% of the total share capital of the Company. The above transfer was completed in July 2016.

#### *(2) Shanghai Shangyan Becomes a Shareholder*

On August 22, 2016, Century Jinyuan entered into a Share Transfer Agreement with Shanghai Shangyan, which stipulated that Century Jinyuan shall transfer those 150,624,815 shares of the company held by it to Shanghai Shangyan, representing 2.47% of the total share capital of the Company. The above transfer was completed in September 2016.

## SECTION 2 COMPANY INFORMATION (Continued)

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### 5. IPO of H Shares in 2016

On November 3, 2016, the CSRC issued the Approval for Issuance of Overseas Listed Foreign Shares by CSC Financial Co., Ltd. (Zheng Jian Xu Ke [2016] No. 2529) (《關於核准中信建投證券股份有限公司發行境外上市外資股的批覆》(證監許可[2016]2529號)), which approved the overseas IPO of the Company no more than 1,237,940,000 overseas listed foreign shares, with a par value of RMB1 per share, all of which were ordinary shares.

On December 9, 2016, the Company was listed and traded on the main board of the Hong Kong Stock Exchange, with an IPO of 1,130,293,500 H Shares (including 1,076,470,000 new shares) (stock code: 6066.HK). On December 30, 2016, the Company exercised the over-allotment option partially and issued 73,411,000 additional H Shares (including 69,915,238 new shares) resulting in issuance a total of 1,203,704,500 H Shares (including 1,146,385,238 new shares) at an issue price of HKD6.81 per share.

According to the Approval for the Issues Concerning the Transfer of State-owned Shares Held by CSC Financial Co., Ltd. (Guo Zi Chan Quan [2016] No. 967) (《關於中信建投證券股份有限公司國有股轉持有關問題的批覆》(國資產權[2016]967號)) issued by the State-owned Assets Supervision and Administration Commission of the State Council, and the Letter on the Issues Concerning the Reduction and Transfer of Hong Kong-listed, State-owned Shares Held by CSC Financial Co., Ltd. (She Bao Ji Jin Fa [2016] No. 152) (《關於中信建投證券股份有限公司香港上市國有股減轉持問題的函》(社保基金發[2016]152號)) issued by the National Council for Social Security Fund of the PRC (the "NSSF"), certain existing Shareholders of the state-owned shares of the Company carried out their obligations of state-owned share reduction and have transferred an aggregate of 114,638,524 Shares of the Company to the NSSF based on 10% of the actual number of Shares issued, and such Shares were then converted into overseas listed foreign invested shares (H shares) on a one-for-one basis. According to the entrustment of the NSSF, the Company would transfer 57,319,262 Shares out of the Shares for public offering, and the proceeds would be transferred to the NSSF.

After the IPO and listing of H Shares by the Company, the total share capital was changed from 6,100,000,000 Shares to 7,246,385,238 Shares, including 5,985,361,476 domestic Shares and 1,261,023,762 H Shares.

## SECTION 2 COMPANY INFORMATION (Continued)

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### 6. IPO of A Shares in 2018

On May 18, 2018, the CSRC issued the Approval for Approving the Initial Public Offering of CSC Financial Co., Ltd. (Zheng Jian Xu Ke [2018] No. 828) 《關於核准中信建投證券股份有限公司首次公開發行股票的批覆》(證監許可[2018]828號)) to approve the public offering of no more than 400 million A Shares by the Company.

On June 20, 2018, the Company was listed on the main board of the SSE, with an IPO of 400,000,000 A Shares (stock code: 601066.SH) at an issue price of RMB5.42 per share.

After the IPO and listing of A Shares, the total share capital of the Company was changed from 7,246,385,238 Shares to 7,646,385,238 Shares, including 6,385,361,476 A Shares and 1,261,023,762 H Shares.

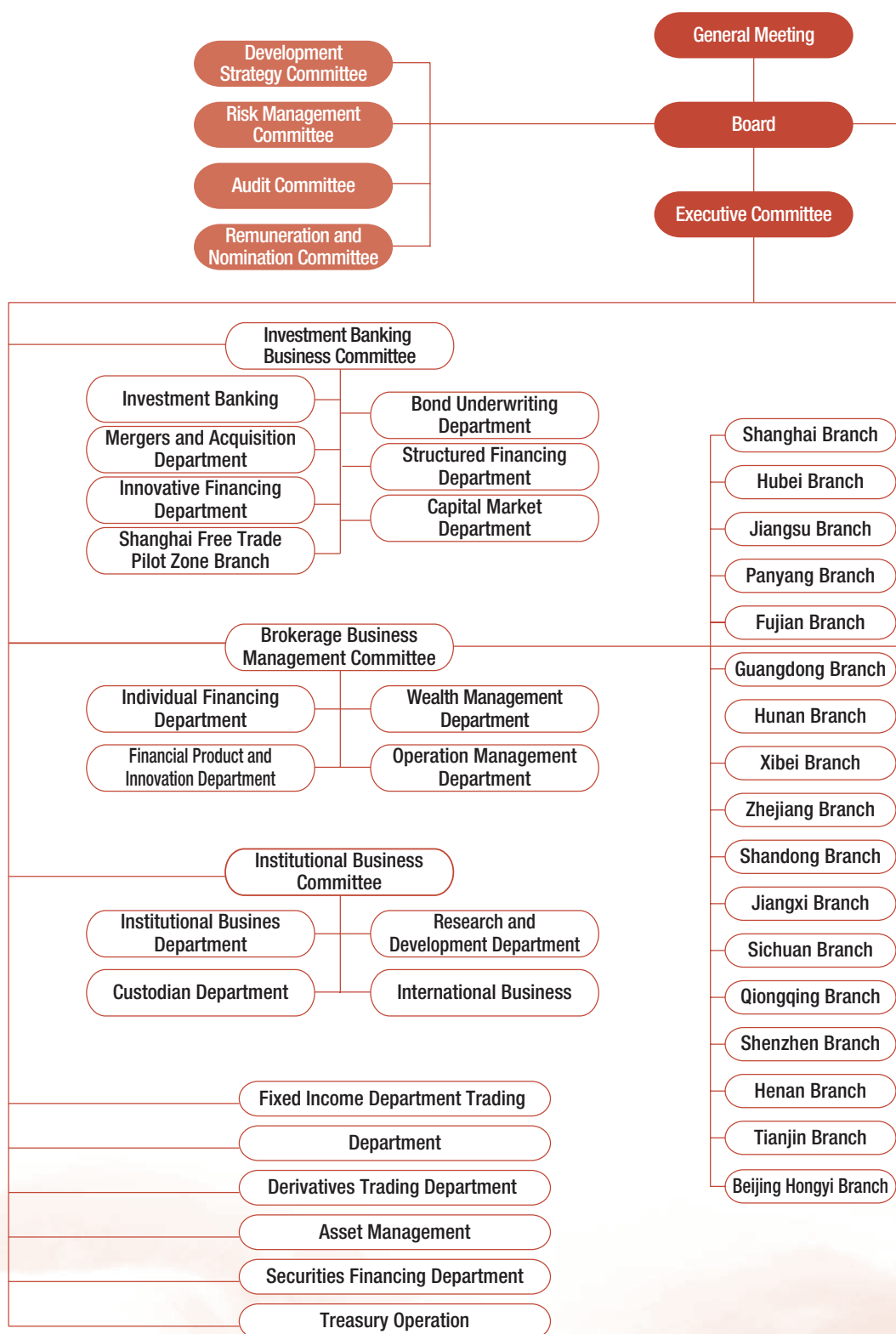
### (II) Change of Substantial Shareholders

Please refer to the “Section 2 Company Information – VI. Other Information of the Company – (I) History of the Company, mainly including reform and restructuring, increasing in share capital and other matters in prior years” of this annual report for details.

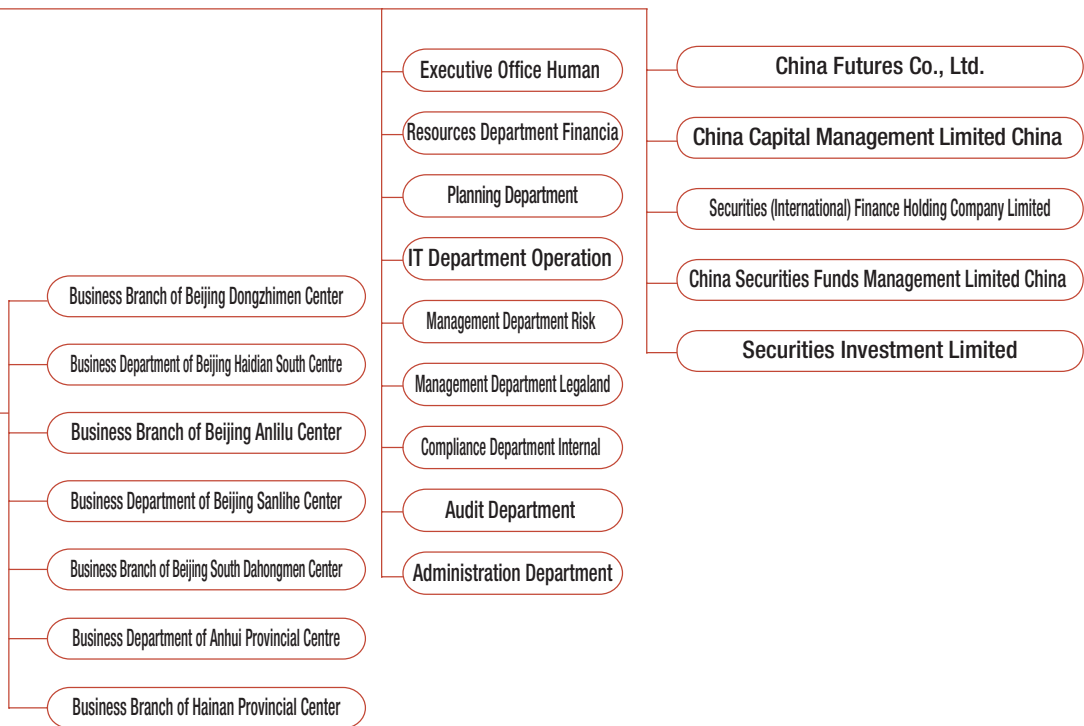
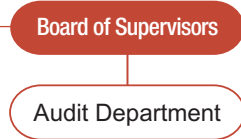
### (III) Organizational Structure of Company

In accordance with the requirements of the Company Law, the Securities Law, the Guidances for the Internal Control of Securities Companies (《證券公司內部控制指引》), the relevant rules and regulations of CSRC, the Hong Kong Listing Rules and the Articles of Association, the Company regulates its standard operation, constantly improves the operation mechanism and system establishment for its general meeting, the Board of Directors, the board of supervisors and the executive management. The Company has established standardized and scientific corporate governance structure, set up an organizational structure that meets its development needs. The organizational structure chart of the Company is as follows:

## SECTION 2 COMPANY INFORMATION (Continued)



## SECTION 2 COMPANY INFORMATION (Continued)



## SECTION 2 COMPANY INFORMATION (Continued)

As of the end of the Reporting Period, the Company has four wholly-owned subsidiaries, namely China Securities Futures, China Securities Capital, China Securities International and China Securities Investment, and one controlled subsidiary, namely China Securities Funds. Please refer to “Section 4 Management Discussion and Analysis – VII. Analysis of Principal Subsidiaries” of this report for details.

### (IV) Number and Network of Securities Branches of the Company

In 2019, the Company, according to its development strategy and branches optimization and integration, integrated resources, including clients within specific region and removed and combined relevant business divisions which are currently in the process of the business cancellations. As of December 31, 2019, the Company had established a network of 295 securities branches in total as follows:

Province/autonomous regions/municipalities	Number of branches
Beijing	53
Shanghai	18
Tianjin	6
Chongqing	11
Heilongjiang	3
Jilin	2
Liaoning	6
Hebei	7
Shandong	13
Shanxi	2
Henan	8
Anhui	4
Jiangsu	21
Hubei	16
Hunan	13
Jiangxi	15
Zhejiang	16
Fujian	16
Guangdong	30
Hainan	4
Shaanxi	10
Sichuan	9
Yunnan	1
Guizhou	1
Gansu	3
Inner Mongolia	1
Guangxi	2
Xinjiang	2
Qinghai	1
Ningxia	1
Total	295

## SECTION 2 COMPANY INFORMATION (Continued)

### (V) Number and Network of Other Branches of the Company

As of December 31, 2019, China Securities Futures, a wholly-owned subsidiary of the Company, had set up a total of 25 branches, including three branches in Shanghai, three branches in Beijing, two branches in Guangzhou, and one branch in each of the provinces including Jinan, Changsha, Dalian, Nanchang, Zhengzhou, Langfang, Zhangzhou, Chongqing, Hefei, Xi'an, Chengdu, Shenzhen, Hangzhou, Ningbo, Wuhan, Nanjing, Taiyuan.

### VII. OTHER RELEVANT INFORMATION

Accounting firm engaged by the Company (domestic)	Name Office Address	PricewaterhouseCoopers Zhong Tian LLP 11/F, PricewaterhouseCoopers Center, Link Square 2, 202 Hu Bin Road, Huangpu District, Shanghai
Accounting firm engaged by the Company (overseas)	Name of signing accountant Name Office Address	Jiang Kun, Gao Qing PricewaterhouseCoopers Certified Public Accountants Registered Public Interest Entity Auditor 22/F, Prince's Building, Central, Hong Kong
Sponsor institution that perform the duties of continuous supervision during the Reporting Period ( <i>Note</i> )	Name of signing accountant Name Office Address	Yip Siu Foon, Linda UBS Securities Co., Ltd. 12th & 15th Floors, Winland International Financial Center, No. 7 Financial Street, Xicheng District, Beijing
Sponsor institution that perform the duties of continuous supervision during the Reporting Period	Name of signing sponsor representatives Name Office Address	Liu Wencheng, Yang Jiping Great Wall Securities Co., Ltd. 10F-19F, South Tower, Energy Building, No. 2026, Jintian Road, Futian Sub-district, Futian District, Shenzhen City, Guangdong Province
Sponsor institution that perform the duties of continuous supervision during the Reporting Period	Name of signing sponsor representative Period of continuous supervision	Lin Ying, Chen Lu August 30, 2019 to December 31, 2020
Sponsor institution that perform the duties of continuous supervision during the Reporting Period	Name of signing sponsor representatives Period of continuous supervision	Ma Feng, Liu Maosen June 20, 2018 to December 31, 2020
Registrar Office Address	Office Address of A Share Registrar Office Address of H Share Registrar	China Securities Depository and Clearing Corporation Limited Computershare Hong Kong Investor Services Limited

*Note:* According to the relevant requirements of the Measures for the Administration of the Sponsorship of Securities Offering and Listing (《證券發行上市保薦業務管理辦法》) of the CSRC, if a listed company engaged another sponsor institution due to application for issuance of shares once again, the listed company shall terminate the sponsor agreement with the original sponsor institution. The sponsor institution otherwise engaged shall complete the constant supervision work yet to be done by the original sponsor institution. As such, the constant supervision work yet to be done by UBS Securities Co., Ltd. will be undertaken by Great Wall Securities Co., Ltd.. For specific details, please refer to the overseas regulatory announcement disclosed by the Company August 30, 2019.



## SECTION 2 COMPANY INFORMATION (Continued)

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### VIII. AWARDS TO THE GROUP IN 2019

#### The Company

1. Outstanding Member for Listing of Companies on SSE STAR Market  
Issued by: SSE
2. Outstanding Member for Trading Management on SSE STAR Market  
Issued by: SSE
3. Excellent Underwriting Institution for Corporate Bonds, Comprehensive Innovation Award for Corporate Bonds, Excellent Manager of Asset-backed Special Plan and ABS Integrated Innovation Award in 2019  
Issued by: SSE
4. 2019 Excellent Corporate Debt Underwriters, Excellent Bond's Duration Management Institution, Excellent Fixed Income Business Innovation Institution  
Issued by: SZSE
5. 2019 Outstanding Member for Investor Education and Best Institution of the Year  
Issued by: SSE
6. Outstanding Market Maker of ETF  
Issued by: SSE
7. Outstanding ETF Liquidity Service Provider  
Issued by: SSE
8. Silver Award of Marketing Making 2019  
Issued by: Shanghai Futures Exchange

## SECTION 2 COMPANY INFORMATION (Continued)

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9. 2019 Innovative and Outstanding Products of Participating Institutions, Outstanding Bonds of Dealers  
  
Issued by: SSE
10. 2019 Outstanding Interest Rate of Bond Undertaking Institution  
  
Issued by: SZSE
11. 2019 Core Dealers, Outstanding Bond Market Dealers, Foreign Contribution Prize  
  
Issued by: China Foreign Exchange Trading System
12. 2019 Best Contribution Institution of Local Bonds from Non-banking Underwriters  
  
Issued by: China Government Securities Depository Trust & Clearing Co. Ltd.
13. National Financial Woman Pace Maker on May 1  
  
Issued by: National Committee of Chinese Financial Workers' Union  
  
Issued by: CITIC Group
14. First Most Respected Investment Bank by Listed Companies: Top Ten Most Respected Investment Banks, Most Respected IPO Investment Bank, Most Respected M&A Investment Bank and Most Respected Capital Market Department  
  
Issued by: Securities Times
15. 2019 Junding Prize of Investment Banks and Securities Brokers in China: 2019 Junding Prize of All-around Investment Bank in China, 2019 Junding Prize of Investment Bank of Exchange Bonds in China, 2019 Junding Prize of IPO Investment Bank in China and 2019 Junding Prize of Financial Advisor in China  
  
Issued by: Securities Times

## SECTION 2 COMPANY INFORMATION (Continued)

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16. 2019 Top Ten Golden Bull Securities Companies, 2019 Golden Bull Investment Bank Team, 2019 Most Potential Research Team and 2019 CSR Award of Securities Company

Issued by: China Securities Journal

17. 12th China Best Investment Bank

Team awards:

- (1) "Best Local Investment Bank"
- (2) "Best Equity Underwriting Investment Bank"
- (3) "Best Debt Underwriting Investment Bank"
- (4) "Best Investment Bank for IPO"
- (5) "Best Investment Bank for Re-financing"
- (6) "Best Investment Bank for Mergers and Acquisitions"
- (7) "Best Investment Bank in Overseas Business"
- (8) "Best Investment Bank in TMT Sector"
- (9) "Best Investment Bank in Financial and Real Estate Sector"
- (10) "Best Investment Bank in Energy Sector"

## SECTION 2 COMPANY INFORMATION (Continued)

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Project awards:

- (1) “Best IPO Project”: Ningde Times
- (2) “Best Re-financing Project”: CCB, Visionox and Datang Power Generation
- (3) “Best Corporate Bond Project”: Special Corporate Bond for Extended Housing Rental of Longfor, Debt – Equity Swap Special Bond of China Reform
- (4) “Best Convertible Bonds Project”: Changshu Convertible Bonds
- (5) “Best Asset-backed Securitization Project”: Howell 2018 First Tranche of ABS for Micro and Small Enterprise Loan
- (6) “Best Overseas Project”: Tianhua Institute Asset Acquisition by way of Share Issue and Supporting Financing

Issued by: New Fortune Magazine

18. 2018 Caixin Capital Market Achievement Award: the Best Investment Bank for Industry in China Market, the Best Underwriter in China A-Share Capital Market, and the Best China Underwriter for Non-public Offering of A Shares

Issued by: Caixin Insight

19. 2019 International Pioneering Investment Bank, 2019 Pioneering Investment Bank for A Share IPO, 2019 Pioneering Investment Bank for Securities Underwriting, and 2019 Pioneering Investment Bank for ABS

Issued by: International Financial News

20. Courser Award – Excellent Service Provider on STAR Market

Issued by: Securities Daily

## SECTION 2 COMPANY INFORMATION (Continued)

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21. 2019 China Jinding Prize: the Best A Share Underwriter for the Year

Issued by: National Business Daily

22. The Best Service Provider for Technological Innovation

Issued by: Yi Cai

23. 2018 Capital Financial Service Innovation Prize – Case of the Year Award: Pioneering Split Share and Equity Reform and Material Asset Restructuring Project

Issued by: people.com

24. Top Ten Securities APP Recognized by Investors, Most Valuable Securities APP for Investment Advisory, Integrated Service Satisfaction Prize for Securities APP

Issued by: China Brokers

25. Outstanding Investment Advisory Prize for China Securities Companies

Issued by: JRJ.com

26. Junding Prize of China Securities Investment Advisory Team and Most Valuable Securities APP for Investment Advisory

Issued by: China Brokers

27. The Best China Brokers

Issued by: New Fortune

28. 2019 Best Partner

Issued by: Bank of China

## SECTION 2 COMPANY INFORMATION (Continued)

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### China Securities Futures

1. Top 50 Tax Contributions 2018

Issued by: People's Government of Chongqing, Yuzhong District

2. 2018 Gold Prize of Comprehensive Bond Prize for Excellent Members

Issued by: China Financial Futures Exchange

3. First Prize of 2018 Natural Rubber "Insurance + Futures" Targeted Poverty Alleviation Pilot Project

Issued by: Shanghai Futures Exchange

4. 2019 Top Ten Futures Investment Research Teams

Issued by: Dalian Commodity Exchange

5. 2019 "Outstanding Members for Market Growth" and "Outstanding Members for Industry Service Growth"

Issued by: Zhengzhou Commodity Exchange

6. 12th Best Futures Operation Institution and the Best Futures Analyst Selection in China

- (1) Best Futures Company in China

- (2) Best Service Award for Financial Futures

## SECTION 2 COMPANY INFORMATION (Continued)

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- (3) Best Outstanding Contribution to Poverty Alleviation Award
- (4) Best Award for Enterprise Brand Building and Promotion
- (5) Best Investor Education Work of the Year Award
- (6) Best IT System of Futures Award(7) Best Derivative Integrated Service Innovation Prize
- (8) Golden Management Team of Futures Companies in China
- (9) Best China Futures Branch (China Securities Futures Shenzhen Branch)

Issued by: Futures Daily, Securities Times

- 7. Award for Excellent Investor Service in the 13th National Competition of Futures Trading

Issued by: Futures Daily, Securities Times

### **China Securities Capital**

- 1. 2019 Top 50 China Private Equity Firms

Issued by: Zero2IPO Group

- 2. 2019 Top 50 China State-owned Institutional Investors

Issued by: Zero2IPO Group

## SECTION 3 FINANCIAL SUMMARY

### KEY ACCOUNTING DATA

Unit: RMB million

Items	2019	2018	Increase/ decrease as compared to the same period last year (%)	2017
Total revenue and other income	19,407	16,492	17.68	16,421
Operating profit	7,161	4,044	77.08	5,349
Profit before income tax	7,154	4,051	76.60	5,355
Net profit attributable to equity holders of the Company	5,502	3,087	78.19	4,015
Net cash flow from operating activities	17,692	10,560	67.54	-30,447

Unit: RMB million

Items	December 31, 2019	December 31, 2018	Increase/ decrease as compared to the same period last year (%)	December 31, 2017
Total assets	285,670	195,082	46.44	205,883
Total liabilities	228,775	147,219	55.40	161,885
Equity attributable to equity holders of the Company	56,582	47,577	18.93	43,754
Total share capital	7,646	7,646	–	7,246



## SECTION 3 FINANCIAL SUMMARY (Continued)

### KEY FINANCIAL INDICATORS

Items	2019	2018	Increase/ decrease as compared to the same period last year (%)	2017
Basic earnings per Share (RMB Yuan/Share)	0.67	0.37	81.08	0.51
Diluted earnings per Share (RMB Yuan/Share)	0.67	0.37	81.08	0.51
Return on weighted average equity (%)	11.54	6.78	Increased by 4.76 percentage points	9.92

Note: Earnings per Share and the return on weighted average equity above are calculated in accordance with the International Accounting Standards, and might be different from those calculated in accordance with the relevant regulations stipulated under the Standards Concerning the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision) issued by CSRC.

Items	December 31, 2019	December 31, 2018	Increase/ decrease as compared to the same period last year (%)	December 31, 2017
Net assets per Share attributable to equity holders of the Company (RMB Yuan/Share)	7.40	6.22	18.97	6.04
Gearing ratio (%)	75.37	70.09	Increased by 5.28 percentage points	73.25

Note: In calculating the gearing ratio for the Reporting Period as indicated in the table above, accounts payable to brokerage clients have been excluded from the assets and the liabilities.

In calculating the net assets per Share attributable to equity holders of the Company as indicated in the table above, the perpetual bonds issued by the Company was included in the net assets attributable to equity holders of the Company. After excluding such impact, the net assets per Share attributable to ordinary shareholders of the Company as at the end of Reporting Period was RMB6.09 (December 31, 2018: RMB5.57).

## SECTION 3 FINANCIAL SUMMARY (Continued)

### NET CAPITAL AND RELEVANT RISK CONTROL INDICATORS OF THE COMPANY

Items	December 31, 2019	December 31, 2018
Net capital ( <i>RMB million</i> )	53,956	41,030
Net assets ( <i>RMB million</i> )	54,901	46,055
Total risk capital reserves ( <i>RMB million</i> )	19,607	17,087
Risk coverage ratio (%)	275.19	240.13
Capital leverage ratio (%)	16.84	23.02
Liquidity coverage ratio (%)	252.17	525.32
Net stable funding ratio (%)	162.06	196.74
Net capital/net assets (%)	98.28	89.09
Net capital/liabilities (%)	36.28	40.89
Net assets/liabilities (%)	36.92	45.89
Proprietary equity securities and securities derivatives/ net capital (%)	16.41	9.27
Proprietary non-equity securities and securities derivatives/ net capital (%)	196.19	182.35

*Note:* All risk control indicators including net capital of the Company complied with the relevant requirements of the Administrative Measures for Risk Control Indicators of Securities Companies (Revision in 2016) (《證券公司風險控制指標管理辦法》) (2016年修訂版) issued by the CSRC.

## SECTION 3 FINANCIAL SUMMARY (Continued)

### FINANCIAL POSITION FOR THE LAST FIVE YEARS

#### Profit Status

Unit: RMB million

Items	2019	2018	2017	2016	2015
Total revenue and other income	19,407	16,492	16,421	17,584	24,512
Total expenses	12,245	12,448	11,072	10,524	13,051
Share of profits and losses of associates	-8	8	6	-3	-
Profit before income tax	7,154	4,051	5,355	7,057	11,461
Net profit attributable to equity holders of the Company	5,502	3,087	4,015	5,259	8,639

#### Assets Status

Unit: RMB million

Items	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Share capital	7,646	7,646	7,246	7,176	6,100
Total equity	56,895	47,863	43,999	41,263	30,183
Equity attributable to equity holders of the Company	56,582	47,577	43,754	41,063	30,106
Total liabilities	228,775	147,219	161,885	140,432	153,005
Accounts payable to brokerage clients	54,626	35,039	41,417	56,736	72,045
Total assets	285,670	195,082	205,883	181,695	183,188

## SECTION 3 FINANCIAL SUMMARY (Continued)

### KEY FINANCIAL INDICATORS

Items	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Dividends per Share ( <i>RMB Yuan</i> )	0.235 (budget)	0.18	0.18	0.18	–
Basic earnings per Share ( <i>RMB Yuan</i> )	0.67	0.37	0.51	0.81	1.37
Diluted earnings per Share ( <i>RMB Yuan</i> )	0.67	0.37	0.51	0.81	1.37
Return on weighted average equity (%)	11.54	6.78	9.92	18.10	40.00
Gearing ratio (%)	75.37	70.09	73.25	66.98	72.84

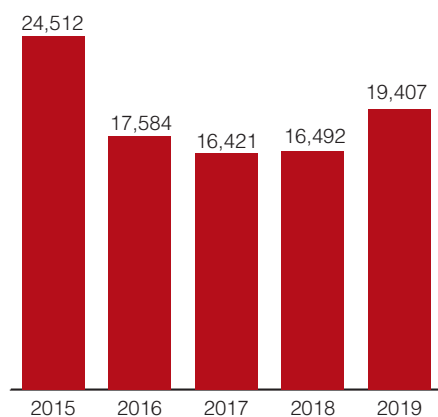
*Notes:*

- (1) Accounts payable to brokerage clients represent the amount received from and repayable to clients arising from the normal course of the Group's securities brokerage business. Such amounts are subject to regulation of third-party depository institutions.
- (2) In calculating the gearing ratio for the Reporting Period of the table above, accounts payable to brokerage clients have been excluded from the assets and the liabilities.

## SECTION 3 FINANCIAL SUMMARY (Continued)

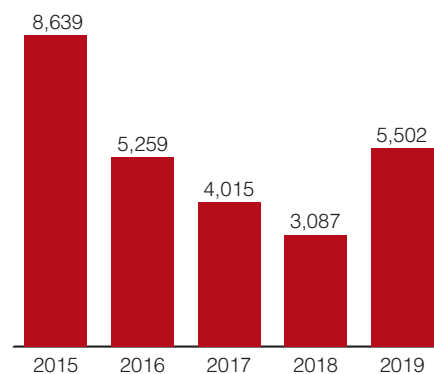
### Total revenue and other income

(Unit: RMB million)



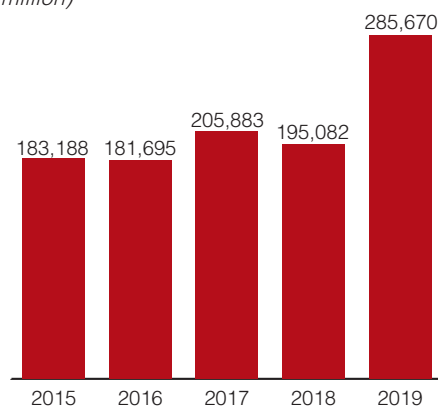
### Net profit attributable to the equity holders of the Company

(Unit: RMB million)



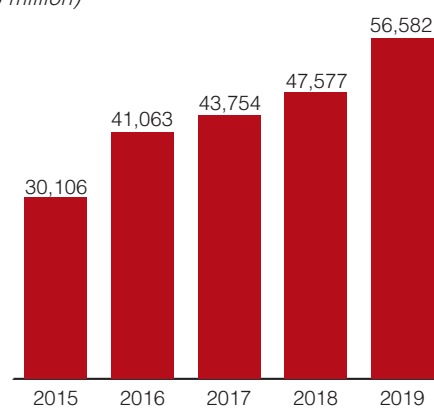
### Total assets

(Unit: RMB million)

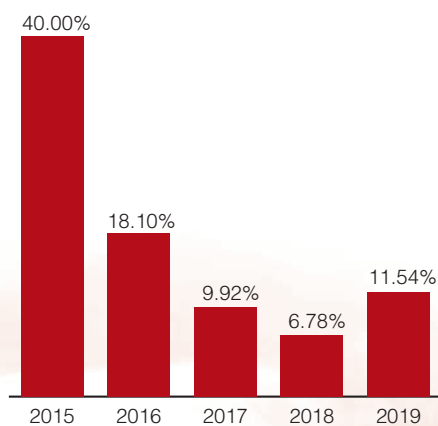


### Equity attributable to the equity holders of the Company

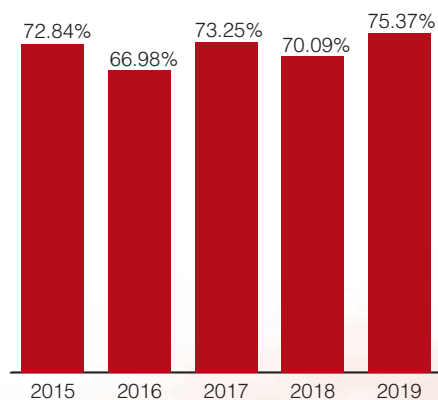
(Unit: RMB million)



### Return on weighted average equity



### Gearing ratio



## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

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### 1. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

In 2019, the Company continued to adhere to the core value of “achievements leading to status”, as well as the concepts of “risk management as priority” and “healthy development” to strive for better service for existing customers and realize mutual growth with the enterprise. In the meantime, the Company penetrated the local market and moved towards the international market to explore potential quality customers. The Company aimed at taking the advantages of investment banking business as the starting point to steadily develop innovative business, becoming a large best-in-class full-service investment bank based in the PRC with global vision leveraging the development trends in the PRC and global capital market.

**Investment banking business ranked among top five in the industry for seven consecutive years, in terms of core indicators leading the industry.** In 2019, the Company completed 1,515 stock and debt underwriting projects, with a lead underwriting amount of RMB979.792 billion, both of which ranked second in the industry and remained among top three in the industry for seven consecutive years. In 2019, the number of equity financing projects underwritten by us as a lead underwriter and the amount of lead underwriting ranked No. 2 and No. 5 in the industry, respectively. The number of bonds underwritten by us as a lead underwriter ranked No. 2 and the amount of lead underwriting ranked No. 2 in the industry, among which, both the number of projects underwritten by us as a lead underwriter and the amount of lead underwriting of corporate bonds ranked No. 1. For merger and acquisition business, the number of assets acquired by way of share issuance ranked No. 1 in the industry. The Company ranked No. 2 among lead securities brokers by the number of innovation-level companies which were listed on the NEEQ and under continuous supervision of the Company. (Source: NEEQ Company, Wind Info and statistics of the Company)

**Wealth management business remained among top ten in the industry against fierce competition.** In 2019, the net income from the securities brokerage business of the Company accounted for 3.11% of the market share, ranking No. 10 in the industry; the net income from the distribution of financial products had a market share of 3.02%, and ranked No. 9 in the industry; the market value of securities under custody for the Company’s clients accounts had a market share of 5.37%, and ranked No. 5 in the industry; average monthly active customers of Qingting Dianjin APP, a mobile application, with optimised experience, ranked No. 9 in the industry. As of the end of 2019, the balance of the Company’s margin financing and securities lending had a market share of 2.87%; interest income from margin financing and securities lending ranked No. 10 in the industry; interest income arising from collateralized stock repurchase business ranked No. 10 in the industry. (Source: the SSE, the SZSE, China Securities Depository and Clearing Corporation Limited, the Securities Association of China and statistics of the Company)

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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**Trading and institutional customer service business delivered excellent performance.** In 2019, with respect to securities trading business, the Company accurately seized segment opportunity in structural market, and obtained better absolute gains; the Company vigorously promoted off-market options business, as subsisting notional principal of off-market options, ranking No. 4 in the industry. In 2019, with respect to fixed income business, the Company continued to maintain sound proprietary investment, and kept close abreast of market trend for proprietary bond operation. By leveraging the combination of stable configuration with positive directional trading, the Company's return on investment on bonds led in the market in terms of all indexes. Bond sales remained at the leading position as before. Debenture sales of the Company ranked No.1 in terms of both sales volume and sales amount in the industry for 5 consecutive years. The Company, in addition to great efforts made to develop cross-border business, also remained among top five securities traders in terms of Bond Connect business. (Source: Wind Info and statistics of the Company)

**The Company accelerated optimization of asset management business.** Amid adverse condition of decrease in over 10% of entrusted asset under management (“AUM”) in the market, the Company proactively adjusted its business structure, leading to additional active AUM of RMB36.8 billion throughout the year; the Company strictly controlled positions and individual share-related risks for equity products, while the weighted average rate of return exceeded the industry average of similar products; as of the end of 2019, the Company had an AUM, ranking No. 6 in the industry, and an active AUM, ranking No. 6 in the industry; in 2019, net income from asset management business of the Company ranked No. 11 in the industry. As of the end of 2019, 8 out of 14 of the products of China Securities Funds participating in the ranking entered first 1/2 of the market, among which 2 entered top 5% of the market and 2 entered top 20%; the average withdraw yield of the projects from China Securities Futures reached 107%. (Source: the Securities Association of China and statistics of the Company)

**Financial technology aided digitalized transformation.** The Company continued to optimize systems such as Qingting Dianjin and Youwen, promoted centralized operation, enhanced digital applications of core business departments, supported new business development such as SSE STAR MARKET. The Company obtained 8 additional software copyrights, such as “Investment Banking Customer Relation Management System”, and won 11 honours and awards such as “Outstanding Contribution Award of FinTech Innovation”.

### II. BUSINESS OVERVIEW

#### (I) Overview

As of December 31, 2019, the total assets of the Group were RMB285,670 million, representing a year-on-year (“YoY”) increase of 46.44% as compared to that on December 31, 2018. Equity attributable to equity holders of the Company was RMB56,582 million, representing a YoY increase of 18.93% as compared to that on December 31, 2018. During the Reporting Period, total revenue and other income of the Group amounted to RMB19,407 million in aggregate, representing a YoY increase of 17.68%. Total expenses amounted to RMB12,245 million, representing a YoY decrease of 1.63%. Net profit attributable to equity holders of the Company amounted to RMB5,502 million, representing a YoY increase of 78.19%.

#### (II) Analysis of Principal Businesses

The principal businesses of the Group comprise four segments: investment banking business, wealth management business, trading and institutional client services business and investment management business. During the Reporting Period, total revenue and other income of the investment banking segment amounted to RMB3,873 million in aggregate, representing a YoY increase of 16.73%. Total revenue and other income of the wealth management segment amounted to RMB6,512 million in aggregate, representing a YoY increase of 2.05%. Total revenue and other income of the trading and institutional client services segment amounted to RMB6,544 million in aggregate, representing a YoY increase of 40.25%. Total revenue and other income of the investment management segment amounted to RMB1,732 million in aggregate, representing a YoY increase of 13.57%.



## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### 1. *Investment Banking Segment*

#### (1) *Equity Financing Business*

In 2019, the number of equity financing issued on primary market in the PRC was 466, representing a YoY increase of 18.27%. The proceeds raised amounted to RMB1,201,455 million, representing a YoY increase of 14.65%. In particular, the number of IPO projects launched significantly increased. 203 companies were listed in the whole year, representing a YoY increase of 93.33%. The proceeds raised amounted to RMB253,248 million, representing a YoY increase of 83.76%. The number of issuance and listing for equity re-financing was 263 throughout the year (including asset private placement), representing a YoY decrease of 9.00%. The proceeds raised amounted to RMB948,207 million, representing a YoY increase of 4.18% as compared with that in the corresponding period of 2018. (Source: Wind Info)

In 2019, with further capital market reform, STAR Market was established and pilot registration system was successfully implemented. The Company completed 38 equity financing projects in the year, ranking No. 2 in the industry, with aggregate amount of equity offerings underwritten by the Company as a lead underwriter of RMB38,194 million, ranking No. 5 in the industry. In particular, the number of IPOs underwritten by us as a lead underwriter was 21, ranking No. 2 in the industry, with an aggregate amount of underwritten as a lead underwriter of RMB16,424 million, ranking No. 3 in the industry. The Company successively completed IPO projects of Lakala, China Satcom, CITIC Press, CGN, Chongqing Rural Commercial Bank, Chengdu Gas, etc, preference shares of ICBC and CMBC and other equity financing projects. IPO of Beijing-Shanghai High-speed Railway solely sponsored by the Company is the fastest A share IPO project approved in China over the last decade. Beijing-Shanghai High-speed Railway successfully raised more than RMB30,000 million by way of issue of shares and was successfully listed.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

With respect to STAR Market business, in 2019, the Company made new progress in technical innovation and supported the development of real economy by providing capital market services. Among the 25 enterprises listed on STAR Market, the Company was appointed as sole sponsor and lead underwriter by five enterprises; as joint sponsor and lead underwriter by one enterprise; and as joint-lead underwriter by one enterprise. The Company ranked No. 1 in the industry in terms of number of projects. The Company acted as sponsors and underwriters for 10 enterprises listed on STAR Market in the year, ranking No. 1 in the industry. Above projects included Bright Laser Technologies (BLT), the first stock in domestic metal 3D printing, Xinguang Optoelectronics, a leader in domestic military optical analogue, Western Superconducting, a leading enterprise in high-end titanium alloys and superconducting wire in China, ArcSoft, a global leading visual AI algorithms provider, Western Superconducting, CEI, a pilot central enterprise in which first batch of employees hold shares.

In addition, the Company completed 17 equity refinancing projects, ranking No. 3 in the industry, with an aggregate amount of underwritten as a lead underwriter of RMB21,770 million, ranking No. 6 in the industry. The Company completed 15 convertible bond projects, with an aggregate amount of underwritten as a lead underwriter of RMB15,561 million. As of December 31, 2019, the Company had 44 IPO projects under review, ranking No. 1 in the industry; and 21 equity refinancing projects under review, ranking No. 2 in the industry. (Source: disclosure of review by CSRC, Wind Info and statistics of the Company)

Details of the Company's equity sponsorship and underwriting in 2019:

Items	2019		2018	
	Amount of lead underwriting (RMB'00 million)	Numbers of offerings	Amount of lead underwriting (RMB'00 million)	Numbers of offerings
IPO	164.24	21	143.74	10
Refinancing Issuance	217.70	17	796.78	21
<b>Total</b>	<b>381.94</b>	<b>38</b>	<b>940.52</b>	<b>31</b>

Source: statistics of the Company (refinancing excludes asset-oriented private placement)

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

### (Continued)

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For overseas business, in 2019, China Securities International completed 10 IPOs. The equity financing proceeds totaled HK\$25,711 million. In terms of the number of IPO sponsored projects on the main board of the Hong Kong Stock Exchange, it tied for No. 6 among Chinese securities companies in Hong Kong and tied for No. 8 in the industry. From the perspective of sponsor, in terms of the amount sponsored, it ranked No. 16 among Chinese securities companies in Hong Kong and ranked No. 25 in the industry. For underwriting, in terms of the number of IPO offerings on the main board of the Hong Kong Stock Exchange, it ranked No. 15 among Chinese securities companies in Hong Kong and ranked No. 18 in the industry. In terms of amount underwritten, it ranked No. 12 among Chinese securities companies in Hong Kong and ranked No. 19 in the industry. (Source: Dealogic Info)

#### Outlook for 2020

In 2020, capital market reform will continue. The amended Securities Law of the People's Republic of China took effect on March 1, 2020, which fully introduced registration system and strengthened information disclosure, and specified responsibilities of agencies. Reform in three segments, including equity refinancing, STAR Market and NEEQ, is expected to bring business growth. Co-investment mechanism on STAR Market will increase resilience of results, and internationalization process in capital market will be accelerated. The Company will be well-positioned to seize policy opportunities, implement work on project quality control and risk control, and steadily promote the development of equity financing. For international business, in 2020, China Securities International will continue to expand business scope, in view of current and future needs of business development, and develop other non-IPO equity financing business, in order to keep providing high-quality services such as listing sponsorship and securities underwriting services.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### (2) Debt Financing Business

In 2019, amid intricate domestic and overseas macro-economic situation, rate of return in bond market fluctuated. All major economies in the globe faced downward pressure, and China's GDP growth fell to 6.1%. Structural rise in inflation was observed throughout the year, with intricate Sino-US trade friction. China's fiscal policy continued to deliver positive effects, as the central government introduced policy on reducing taxes and feeds and local government issued massive bonds. Monetary policy remained prudent, with three comprehensive and targeted decreases in deposit-reserve ratios, and liquidity remained reasonably adequate. Issue size in bond market experienced significant increase as compared with that in 2018. With respect to interest rate bonds, issue size of local government bonds experienced significant increase. With respect to credit bonds, issue size experienced significant increase due to the factor of bond renewal. In light of frequent breaches in credit bonds throughout the market, market risk appetite was weak and demands were more diversified.

In 2019, the number and size of bonds underwritten by the Company recorded new highs. The Company completed a total of 1,477 underwriting projects as a lead underwriter, with a cumulative total scale of the lead underwriting project of RMB941,598 million, both ranking No. 2 in the industry. In particular, the total scale of underwriting of corporate bonds, enterprise bonds, financial bonds, other debt financing instruments of nonfinancial enterprises ranked No. 1 in the industry. With respect to corporate bonds, the Company completed a total of 416 underwriting projects as a lead underwriter for corporate bonds, and the total amount of the lead underwriting projects was RMB383,034 million, ranking No. 1 in the industry for 5 consecutive years. The Company has completed a number of large corporate bond projects for, among others, CHN Energy and Three Gorges. The Company successfully issued "19 FanggangEB" (19方鋼EB), the first exchangeable bond with credit protection contract on the SSE "19 Huafa 01", the first long-term quality subject corporate bond supporting the development of Greater Bay Area "19 Yancheng High-tech Zone PPN003", the first fund debt financing instrument in China and a number of green bonds and bail bonds.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Details of debt financing business of the Company in 2019 are as follows:

Items	2019			2018		
	Amount of lead underwriting (RMB'00 million)	Total project scale (RMB'00 million)	Number of offerings	Amount of lead underwriting (RMB'00 million)	Total project scale (RMB'00 million)	Number of offerings
Corporate bonds	3,830.34	7,202.54	416	2,405.37	5,026.53	262
Enterprise bonds	268.01	1,064.80	33	156.00	191.10	18
Convertible bonds	155.61	611.67	15	115.25	132.75	10
Financial bonds	1,527.05	8,477.00	59	961.23	3,024.50	47
Others (Note)	3,634.97	32,349.95	954	2,646.03	6,264.14	249
<b>Total</b>	<b>9,415.98</b>	<b>49,705.96</b>	<b>1,477</b>	<b>6,283.88</b>	<b>14,639.02</b>	<b>586</b>

Source: statistics of the Company

Note: "Others" mainly consist of medium-term notes, short-term commercial papers, private placement notes, asset-backed securitization and government-backed agency bonds.

For overseas business, in 2019, China Securities International completed 23 overseas bond issuance transactions in Hong Kong market, with an amount underwritten of approximately US\$7,371 million. It ranked No. 9 among Chinese securities companies in Hong Kong in terms of both number and amount underwritten. (Source: Bloomberg)

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### Outlook for 2020

In 2020, domestic macro-economy will be problematic in terms of its structure, system and cycle. The Company will be well-positioned to seize market opportunities, enhance internal and external cooperation, consolidate its competitive advantage in traditional business such as corporate bonds, debt financing instruments of non-financial enterprises and enterprise bonds, and will continue to develop debt financing business with great market potential, such as asset-based securities, exchangeable bonds, panda bonds and offshore dollar bonds, to increase product diversity. For overseas business, China Securities International will actively develop offshore bond projects of Chinese enterprises, act as global coordinator and bookrunner, and develop rating advisory services.

### (3) *Financial Advisory Business*

In 2019, the CSRC reviewed 124 reorganisation projects, representing a YoY decrease of 11.43%. Despite weak market conditions, the Company still obtained satisfactory results from merger and acquisition business, which further improved balance in the Company's investment banking business structure. In 2019, the Company completed 12 asset acquisition projects by way of issue of shares, ranking No. 1 in the industry, with a transaction amount of RMB69,197 million, ranking No. 2 in the industry. The Company assisted COFCO Capital in successfully completing modification and listing. The Company also completed market-oriented debt – equity swap project of China Railway, overall listing of financial segment of Dongfang New Energy, reorganization listing of JA Solar Technology and Easyhome. In 2019, the Company also made significant breakthroughs in bankruptcy reorganization of listed companies, and was appointed as financial advisor by \*ST Zhongyin Cashmere and J&R Optimum Energy for bankruptcy reorganization. In particular, J&R Optimum Energy project represents the first bankruptcy reorganization project on Growth Enterprise Market. (Source: CSRC, Wind Info and statistics of the Company)

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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In 2019, as a chief agency broker, the Company recommended 6 companies to be quoted on the NEEQ. The Company completed 25 private placement projects, and raised a total of RMB4,701 million, ranking No. 1 in the industry. As of the end of 2019, the Company continuously oversaw 34 enterprises in the innovation sector on the NEEQ, ranking No. 2 in the industry. (Source: choice financial terminal)

For overseas business, in 2019, China Securities International completed two merger projects, and one financing project in Hong Kong's secondary market.

Outlook for 2020

In 2020, the Company will continue to seize market opportunity and improve the ability in integration for merger and acquisition business, and strengthen the service layout of the cross-border business, consolidate its unique advantages in the financial advisory of bankruptcy reorganization of listed companies, and enhance diversified service capability of the Company's merger and acquisition business. With the introduction of in-depth reform plan of the NEEQ, the Company will actively seek project resources and spare no effort to properly implement listing sponsorship in the selected sector.

### **2. Wealth Management Segment**

#### *(1) Brokerage and Wealth Management Business*

In 2019, the bilateral trading volume of equity and funds in the market was RMB245.39 trillion, representing a YoY increase of 37.45%; (Source: SSE and SZSE). As the competition among securities firms was increasingly fierce on commission rate, business flow, service approach, service provided and expertise of employees, the brokerage business faced severe challenges. The Company endeavored to establish an integrated client services platform and ecological chain to develop businesses covering financial products, margin financing and securities lending, the NEEQ, investment advisory services, futures, options, precious metals and IB business through resource integration. The Company, with customer-oriented culture, continued to strengthen the core competitiveness of brokerage business with clients as the focus through raising the standard of service and enhancing procedures, and strived to fulfill diversified wealth management, investment and financing needs of retail, high net worth, institutional, corporate and other clients at different levels.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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With respect to future brokerage business, in 2019, the net income from the securities brokerage business of the Company accounted for 3.11% of the market share, ranking No. 10 in the industry. As of the end of 2019, trading volume of the agency sales of equity funds of the Company amounted to RMB7.14 trillion with a market share of 2.91%. The sale of standardized products amounted to RMB55,744 million and the net income from the distribution of financial products had a market share of 3.02%, ranking No. 9 in the industry. As of the end of 2019, the number of new capital accounts was 578,200; the total number of clients' capital accounts was 9,004,100. Total number of customers that authorized an account in the STAR Market amounted to 144,400, accounting for 3.58% of the trading volume in the market, ranking No. 8 in the industry. The market value of securities under custody for the Company's clients accounts was RMB2.32 trillion with a market share of 5.37%, ranking No. 5 in the industry; in which new client assets amounted to RMB496,892 million (Sources: SSE, SZSE, China Securities Depository and Clearing Corporation Limited, The Securities Association of China and statistics of the Company). The Company continued to optimize the experience of Qingting Dianjin APP, a mobile application, with average monthly active customers ranking No. 9 in the industry. The Company also continued to consolidate its leading advantage in online investment advisory service platform, and served 20.47 million person/times. The Company launched industry-innovative "Xianrenzhang" investment advisory products. The Company kept optimizing its financial product system, by launching "Guyilian" and "Gushoubao" products. As of the end of 2019, the Company had 295 securities branches, of which 57% were located in the relatively affluent Five Provinces and Two Municipalities (Beijing, Shanghai, Guangdong, Fujian, Zhejiang, Jiangsu and Shandong), and among which 54 were located in Beijing (including Beijing Hongyi Branch). As the securities company with the largest number of securities branches in Beijing, the Company has established a solid client base for its brokerage and wealth management businesses.



## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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In terms of futures brokerage business, in 2019, amid intricate domestic and international macro-economic situation, futures market in China still operated steadily with improvement and greater capacity to serve the real economy, benefiting from launches of new products of futures and options, progressive internationalization and successful A-share IPO of futures companies. In 2019, aggregate trading volume and aggregate amount in national futures market recorded a YoY increase of 30.81% and 37.85%, respectively. In 2019, China Securities Futures achieved an amount of agency transactions of RMB7.86 trillion, representing a YoY increase of 33.51%. The number of new customers was 16,506, representing a YoY increase of 23.54%. The scale of customers' equity was RMB6,873 million., representing an increase of 61.24% as compared with that at the end of 2018. As of the end of 2019, China Securities Futures has set up 25 branches and a subsidiary in charge of risk management in Shanghai – Shanghai Fangdun Investment Management Co., Ltd. (上海方頓投資管理有限公司), which has laid a solid foundation for futures brokerage and risk management business.

For the overseas business, China Securities International provides wealth management services to clients of the Company's securities brokerage business including institutional clients and HNWI's. In 2019, the aggregate transaction amount of stock agency of China Securities International was HK\$24,854 million, representing a YoY decrease of 8.38%; with 1,600 new clients and 21,628 clients in aggregate, and the total market value of stock under custody for the Company's clients' accounts was HK\$18,900 million. In addition, in 2019, China Securities International was granted with insurance brokerage licence by the Hong Kong Insurance Authority.

### Outlook for 2020

In 2020, the Company will continue to focus on increasing income from securities brokerage and regional market shares, enhance the power of financial technology, optimize service system, improve operation efficiency and prevent operation related risks in view of customers' key pain points in both trading and investment, and continue to build a major investment advisory brand and accelerate transformation of brokerage into wealth management. For overseas business, based on its customer base in mainland China, China Securities International will satisfy the demand of domestic high-net-worth clients for overseas investment and wealth management through international products and services.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### (2) *Margin Financing and Securities Lending Business*

In 2019, A Share market stabilised and recovered as a whole, and margin financing and securities lending business scale in the whole market experienced significant increase. As of the end of 2019, the balance of margin financing and securities lending of the Shanghai and Shenzhen Stock Exchange was RMB1,019,285 million, representing an increase of 34.88% as compared to that at the end of 2018 (Source: Wind Info). As of the end of 2019, the closing balance of the Company's margin financing and securities lending business was RMB29,282 million with a market share of 2.87%, representing a decrease of 0.45 percentage point as compared to that at the end of 2018. The Company ranked No. 10 in the industry in terms of interest income from margin financing and securities lending. (Source: the Securities Association of China) The number of margin financing and securities lending accounts was 146,400, representing an increase of 6.86% as compared to that at the end of 2018.

For the overseas business, as of the end of 2019, the balance of China Securities International's margin financing and securities lending business was HK\$66 million, representing a decrease of 91.24% as compared to that at the end of 2018. New margin financing and securities lending accounts of China Securities International was 1,238, representing a year-on-year decrease of 58.88%.

#### Outlook for 2020

In 2020, the Company will fully promote the development of tiered customer service system, in order to provide different categories of customers with integrated customer service plans, including individual investment report, investment advisory and strategic service and algorithmic trading. In addition, the Company will be committed to improving the outreach of services to high-net-worth clients and further improving its capacity of providing specialized services through a number of measures, such as unified service standards and exchange with high-end customers. For overseas business, China Securities International will continue to follow the principle of prioritizing risk control, and identify the financing demands of existing retail customers, and make financing business as the auxiliary means to satisfy the needs of securities trading of customers and the necessary means to support the implementation of new business of various cross-border products.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### (3) *Repurchase Business*

In 2019, with stabilizing market situation, stock pledge business related risks were further alleviated. However, affected by new business regulations and new underperform rules, authorities introduced stricter rules on approving such business. Collateralized stock repurchase business of the whole market was still in negative growth. As of the end of 2019, the total balance of principal of collateralized stock repurchase business of the Company was RMB29,997 million, among which, scale of investment (in the table) of collateralized stock repurchase business amounted to RMB15,067 million, with an average collateral coverage ratio of 335.18%; management (off the table) collateralized stock repurchase business amounted to RMB14,930 million, with an average collateral coverage ratio of 116.99%; the Company ranked No. 10 in the industry in terms of interest income from collateralized stock repurchase. (Source: the Securities Association of China and the statistics of the Company)

For the overseas business, as of the end of 2019, the turnover of the bond repurchase business of China Securities International was HK\$980 million.

#### Outlook for 2020

In 2020, under the prerequisite of ensuring risks which can be measured, controlled and at a tolerable level, the Company will stably and prudently carry out stock pledge business. It will accelerate resources integration, and provide a basket of business solutions to the Company's strategic customers. Leveraging on the investment and research capabilities of the Company, the Company will increase risk identification on listed companies. The Company will, through restructuring, further improve asset quality of its stock pledge business.

### **3. *Trading and Institutional Client Services***

#### (1) *Equity Sales and Trading Business*

The equity sales and trading business of the Company mainly provides trading, advisory and research services, and distributes equity securities underwritten by the Company to institutional clients. The Company also engages in proprietary trading and market-making activities of stocks, funds, ETF, and financial derivatives including stock index futures, commodity futures, options and total return swaps. It provides clients with customized options and swaps products linked to various types of assets to meet the hedging and investment demand of institutional clients.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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With respect to the securities sales and trading business, in 2019, the Company expanded layout of blue chip varieties. In the structural market, the Company accurately seized sector opportunity and obtained satisfactory absolute gains. With respect to the derivatives trading business, along with the stable development of the existing business, the Company actively explored new business models in the derivatives trading business to enhance its investment strategies using its own funds to provide solutions to meet the needs of our clients. The Company further diversified the investment variety, expanded the scope of market-making services and provided liquidity and market making services as to fund products in stock exchange and options products in market. The Company stably promoted the OTC derivatives business including OTC options and non-financing swaps, actively explored new types of linked subjects and revenue structure and provided diversified options to meet the personalized investment needs of clients.

With respect to stock sale business, in 2019, the Company continued to expand coverage of institutional clients, and completed 38 stock sale projects as a lead underwriter, with an aggregate sales amount of RMB34,511 million, including 21 IPOs, 15 non-public share and 2 preferred stock sale projects, with the sales amount of RMB16,424 million, RMB8,011 million and RMB10,076 million, respectively. In particular, amid massive disinvestment in non-public share market, the Company successfully completed 15 sale projects, including supporting financing (RMB1,065 million) of BAIC BluePark, non-public share (RMB654 million) of COFCO Sugar, non-public share (RMB938 million) of General Science Technology and supporting financing (RMB710 million) of Baiyin Nonferrous, ranking No. 1 in the industry, which provided strong support to the development of investment banking business of the Company.

For the overseas business, the equity sales and trading business of the Company mainly provides trading, advisory and research services, and distributes equity securities underwritten by the Company to institutional clients. China Securities International completed 10 Hong Kong IPO projects in 2019.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### Outlook for 2020

The Company will continue to keep closer abreast of macro-economic situation, fiscal and monetary policies and extensively seek industry and individual share opportunities as to its equity sales and trading business. Upholding the value investing concept, keeping close abreast of changes in fundamentals of investment subject and implementing segment and individual share configuration, the Company will promote the diversification of variety of investment product. In addition, the Company strictly monitor positions and effectively control risks. In order to satisfy clients' needs for asset allocation and risk management, the Company will steadily develop the OTC derivative business, increase resource investment in market-making and continuously promote implementation of cross-border investments to satisfy various needs of clients and improve its investment system using its own funds. For overseas business, China Securities International will fully promote the support of overseas investment research business for the sales of stocks and trading business, and implement various customized investment research activities, so as to further build the company's overseas research brand.

### (2) *Fixed Income Products Sales and Trading Business*

In 2019, the Company maintained a stable pattern in proprietary investment, in particular the proprietary investment in bonds, which precisely caught up with market trend with the combination of a stable allocation and positive directional trading, hence achieving a satisfactory result in bond investment, with a rate of return exceeding all indexes in the market. Meanwhile, the Company was included among top ten market-makers (including banks) in inter-bank bond market, and among top five attempted market-makers. The Company ranked No. 2 in the industry in terms of quoted repurchase scale of "Gushoubao". The Company was registered with the stock exchange as a Core Dealer of Credit Protection Contract and an Issuer of Credit Protection Certificate in 2019. The Company issued the first credit protection certificates, which set an example of innovation in the industry. (Source: Wind Info and statistics of the Company)

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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The Company maintained its traditional leading position in terms of bond sales. The Company sold 1,247 bonds, ranking No. 1 in the industry, with a sales amount of RMB807,000 million, ranking No. 2 in the industry. The Company remained top 1 in the industry in terms of sales amount and volume for five consecutive years. The Company recorded significant increase in competitive sale of credit bonds, as it sold 168 credit bonds in the year, 87.50% of which were included among top two. Interest rate bond sales amounted to RMB81,285 million in the year, including underwriting amount of local government bonds of RMB29,235 million. The Company ranked No. 3 among securities traders in terms of bonds underwriting amount in stock exchange. The Company ranked No. 1 among securities traders in terms of underwriting amount of association products as a lead underwriter for two consecutive years. The Company ranked No. 4 in the industry in terms of underwriting amount of ABS project. The Company exerted great effort to develop cross-border business, and ranked top 5 among securities traders in terms of Bond Connect business. The Company made a good start in return swap cross-border investment, with progress increase in size and satisfactory gains. In January 2020, the Company obtained business operation of settlement and purchase of exchange as approved by the State Administration of Foreign Exchange. (Source: Wind Info and statistics of the Company)

With respect to investment advisory business, the Company continued to properly implement outsourced business of traditional banks, and actively developed investment advisory as to proprietary funds and wealth management funds of small and medium banks. Amid a fluctuating market environment, by keeping close abreast of market trend, the Company successfully seized an allocation opportunity with relatively high rate of return, and won recognition from clients and channels.

For the overseas business, as of the end of 2019, the volume of China Securities International's bond trading was approximately HK\$18,442 million.

### Outlook for 2020

In 2020, the Company will continue to develop the underwriting, issuance and sales business of bonds and asset-backed securitization products, enhance market research and analysis and seize market opportunities to enhance investment and sales in fixed income products and proactively explore investment advisory business. For overseas business, China Securities International plans to implement bond market-making trade and further improve bond trading volume, in order to provide strong liquidity support to clients, and support the development of bond underwriting business in primary market.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### (3) *Investment and Research Business*

The investment research business of the Company mainly provides institutional clients with research consultation services covering macro-economy, fixed income, strategy, industry, corporate, financial engineering and other aspects. Clients mainly include mutual funds, insurance companies, the National Social Security Fund, private equity funds, securities firms and other institutions. The Company provides clients with research reports and various kinds of tailored research consultation services. In 2019, the Company increased its efforts in introduction of high-end research talents, and effectively understood market situation and market focus by enhancing research planning and cross-industry interactions by focusing on new economy and riding on the launch of STAR MARKET. As at the end of 2019, the Company's research and sale teams comprised 163 members, who published a total of 4,866 research reports of various types, extending the industry coverage and coverage of overseas listed companies. At present, the Company's research operations covered 35 areas. In 2019, the Company organized 13,260 road shows, 978 surveys, and successfully organized large and professional conferences including "STAR Market Forum", "Chengdu Exchange among Listed Companies" and "Autumn Summit on Capital Market" for institutional clients.

For the overseas business, in 2019, China Securities International published a total of 19 Chinese and English research reports and 106 commentaries, including 5 Hong Kong IPO reports.

#### Outlook for 2020

The three largest core targets of the research business of the Company in 2020 are: International-based, financial technology and professionalism deepening. As new technologies have rapidly penetrated the research business, they provide a greater variety of research products to the market. In 2020, the Company will continue to put more efforts in team building, and enhance collaborative researches along industry. The Company will exert great efforts to develop overseas business, and constantly improve the breadth and depth of coverage of researches, in order to provide various types of customers and business lines with more integrated and intensive services.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### (4) *Prime Brokerage Business*

In 2019, the Company fully promoted cooperation with wealth management subsidiaries of banks with 13 wealth management subsidiaries established or announced to be established to implement business. In particular, the Company has been shortlisted for securities service providers of 8 banks including Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communications, Postal Saving Bank of China, China Merchant Bank and Hua Xia Bank. The Company recorded significant increase in algorithmic trading volume, and added four trading varieties including Stock Index Futures, Southbound Trading, Star Market and Convertible Bond, and two algorithmic strategies. The Company had 586 algorithmic trading clients, ranking No. 1 in the industry in terms of number of customers in insurance-based asset management industry; the Company remained No. 1 in terms of aggregate number of public fund agency. (Source: Wind Info)

The Company continued to launch new public funds custodian business, covering a number of innovative products including ETF, Southbound Trading and securities settlement. The Company also actively developed outsourced wealth management product custodian services of banks. As of the end of 2019, the total scale of custody and operating services of the Company amounted to RMB300,010 million, representing an increase of 46.55% as compared with that at the end of 2018, ranking a leading position in the industry in terms of growing speed. Among it, the number of products under custody reached 1,811, and products of operating service reached 1,657, representing an increase of 18.29% and 21.66%, respectively, as compared with that at the end of 2018.

#### Outlook for 2020

In 2020, the Company will seize market opportunities, keep abreast of market focus, comprehensively extend market outreach, consolidate the foundation by focusing on customer, service and system, seek breakthrough in business, and expand greater development potential of custodian and operation service operations.



## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### (5) *QFII Business and RQFII Business*

The Company carries out QFII and RQFII brokerage agency trading business. In 2019, the Company's QFII and RQFII businesses have developed a professional service brand featuring advanced transaction system and trading algorithm and extensive research information services by leveraging and integrating the competitive resources in domestic business and the overseas platforms of the Company, constantly developing international market and developing customer demands.

#### Outlook for 2020

In 2020, the Company will continue to build a diversified client network, proactively carry out QFII and RQFII businesses with an aim to provide its clients with advanced investment research services, and provide its clients with high-level, all-round, diversified, differentiated and integrated financial services by means of specialized sale and services.

### (6) *Other Investment Businesses*

In 2019, domestic and international economic climate became increasingly complicated, and the market was filled with risks including decrease in quality investment subjects, inverted prices in primary and secondary markets, and higher uncertainties in investment withdrawal. In such a context, China Securities Investment earnestly and proactively selected investment subjects, and implemented investment layout work in an orderly manner by following the principle of "maintain stable and sustainable development" and completed 70 investment projects at an aggregate amount of RMB1,533 million. In 2019, with successful launch of STAR Market, China Securities Investment, as a subsidiary of the Company engaging in other investment businesses, implemented co-investment of IPO on STAR Market in a well-organized manner, and completed strategic placement and co-investment of 9 IPOs on STAR Market.

#### Outlook for 2020

In 2020, China Securities Investment will continue to carry out the investment in equity and financial products at a moderate pace and implement investment layout by putting strict control over project quality as the top priority, while continue to promote co-investment on STAR Market, striving for new increases in income for the Company.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 4. Investment Management Segment

#### (1) Asset Management Business

The Company provides professional asset management services including collective asset management business, targeted asset management business, asset-backed securitization, in order to help clients preserve and increase the value of financial assets. At present, the Company has built a complete product line to meet the investment needs of clients with different preferences on risks and return. In 2019, the Company exerted great efforts to develop its investment management capacity, accelerated optimization of asset management business structure, extensively issued active management products, increased the ratio of active management business, and increased its efforts in development of “net value” products. Amid the unfavourable environment of decrease in entrusted AUM in the market by more than 10%, the Company proactively adjusted its asset management business structure, leading to additional active AUM of RMB36,800 million in the year; the Company strictly controlled positions and individual share-related risks for equity products, and weighted average rate of return exceeded the industry average of similar products. As at the end of 2019, the Company’s entrusted AUM reached approximately RMB547,769 million, representing a decrease of 16.02% as compared to that at the end of 2018, ranking No. 6 in the industry. Among which, the active AUM reached approximately RMB232,314 million, representing an increase of 12.43% as compared to that at the end of 2018, ranking No. 6 in the industry.

The scale of the Company’s asset management business is as follows:

*Unit: RMB'00 million*

	AUM	
	December 31, 2019	December 31, 2018
Collective asset management business	285.59	301.66
Targeted asset management business	4,385.80	5,807.95
Specialized asset management business	806.30	412.68
<b>Total</b>	<b>5,477.69</b>	<b>6,522.29</b>

*Source:* The Securities Association of China, the Asset Management Association of China and statistics of the Company

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### Outlook for 2020

In 2020, the Company will strictly implement the requirements under the new asset management regulations and vigorously develop the actively managed business. The Company will intensify business transformation by improving its investment management capacity, diversifying asset management products, and actively developing bank distribution channels. Meanwhile, the Company will continue to enhance product risk control and compliance management, operation management, in order to ensure robust operation of asset management business.

### (2) *Fund Management Business*

In 2019, China Securities Funds focused on enhancing market competitiveness by strengthening its investment and research capabilities, diversified product lines and improve the customer service system, actively explored new business fields, accelerated product launch and optimized product structure. As at the end of 2019, the AUM of China Securities Funds was RMB80,196 million, including AUM of public offering products of RMB17,199 million, representing a YoY increase of 20.57%; AUM of special account products of RMB62,197 million, representing a YoY decrease of 36.68%; active AUM of special account products of RMB34,341 million, representing a YoY increase of 15.62%; AUM of channel business of RMB27,856 million, representing a YoY decrease of 44.75%; AUM of ABS products of RMB800 million. As of the end of 2019, China Securities Funds managed a total of 20 public funds (including 5 products established in 2019 and one index fund not included in ranking); 8 of 14 products were included among the top 1/2 in the market, among which 2 entered top 5% of the market and 2 entered top 20% of the market. (Source: the Securities Association of China, Wind Info and statistics of the Company)

### Outlook for 2020

In 2020, conforming to the development orientation of the asset management industry in the new era, China Securities Funds will continue to diversified product portfolio and take the initiative to promote active management capability, with an aim to drive business development by enhancing internal governance, improving management level, and nurturing core talents, and will further develop its level of investment research, expand client base and launch key and core products to realize a stable growth in management scale and the value preservation and appreciation of the clients' assets, to strengthen its core competitiveness and improve its brand influence.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### (3) *Private Equity Investment Business*

In 2019, with fluctuating situation both at home and abroad, as well as recovery of primary and secondary markets, domestic private equity market started recovery while equity investment started returning to the origin. China Securities Capital, conforming to the trend of development of capital market, established funds jointly with industrial institutions and government in hot areas and regions, thereby driving for the steady growth of fund management scale.

In 2019, China Securities Capital established a number of projects including Shenzhen Strategic Emerging Industry Fund, Xiamen Jinyuan Bailout Fund, Wuhan Wangan Central Enterprise Mixed Ownership Reform Fund, among which completed 4 listing projects on main board including CITIC Press, 2 listing projects on STAR Market including Bright Laser Technologies (BLT), and 3 merger and acquisition projects including Easyhome were completed. As of the end of 2019, China Securities Capital managed a total of 52 funds, including 21 integrated funds, 3 industrial funds, 2 funds of funds, 16 designated funds, and 10 real estate funds, with the fund management scale of RMB46,162 million, representing an increase of RMB804 million as compared to that at the end of 2018. As of the end of 2019, China Securities Capital completed over 131 investment projects, including 6 main board listings, 2 SME board listings, 6 GEM listings, 2 STAR Market listings and 28 NEEQ listings. The Company completed 6 merger and acquisition projects, including one cross-border merger and acquisition project, and 27 exit projects, with an average investment yield of 107%.

#### Outlook for 2020

China Securities Capital will, by focusing on “value identification, customer satisfaction and prudent investment”, increase depth and breadth of all business operations, keep consolidating the foundation of development, and facilitate high-quality development of the company. China Securities Capital will continue to integrate channel resources and intensively develop its business in various areas including “serving central enterprises”, “focusing areas” and “developing green finance”. China Securities Capital will, on the premise of strengthening compliance risk control, give full play to its advantage as a securities trader platform, expand fund size, and be committed to value investment. China Securities Capital will also continue to increase cooperation with capital platforms of central and state-owned enterprises, actively participate in, among others, merger and acquisition activities with listed companies, central enterprise mixed ownership reform, financial advisory.

### III. DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY

#### (I) Industry Structure and Trend

##### 1. *Intricate and ever-changing macroeconomic environment*

Current world economy is still in an intensive adjustment period after the global financial crisis, with further slowdown in economic growth and increase in global turmoil resources and risks. China is in a key period striving for change in mode of development, optimization of economic structure and replacement of growth driver. Subject to slowdown in both domestic investment and consumption, as well as Sino-US trade frictions, economic downward pressure is increasing. Macroeconomic policy will intensify counter-cyclical regulation. Positive fiscal policy will significantly improve quality and efficiency, and lay greater emphasis on restructuring. Prudent monetary policy will be flexible and appropriate, in order to maintain reasonable and adequate liquidity and reduce social financing cost.

##### 2. *Overall intensive reform in capital market*

The fourth plenary session of the 19th CPC Central Committee proposed “consolidating the foundation of capital market, promoting a robust modern financial system with great adaptability, competitiveness and inclusiveness, and effectively preventing and mitigating financial crisis”. In December 2019, the National People’s Congress (NPC) Standing Committee considered and approved the amended Securities Law of the People’s Republic of China, which provided a strong legal assurance to build a regulated, transparent, open, dynamic and resilient capital market. In particular, amendments to, among others, registration system, litigation on civil compensations in relation to securities, investor suitability management have material impact on the industry. In accordance with the overall arrangement on deepening supply-side structural reform of finance, the China Securities Regulatory Commission introduced key tasks in 12 aspects of deepening reform in capital market, which had profound impact on the development of securities industry.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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First, China will improve the fundamental system of capital market, and implement policy favourable to securities industry. The China Securities Regulatory Commission is committed to optimizing top-down design of capital market, and progressively transfers supervision logic to improving the fundamental system of capital market. First, we will give full play to the function of STAR Market as “test field”; second, we will overcome the weakness of the multi-layer capital market system, accelerate STAR Market reform and implement pilot registration system, intensify the NEEQ reform, speed up innovation on products and instruments in bond market, increase supply of futures and options products, and vigorously develop private equity investment; third, we will fully utilize merger and acquisition as the main channel, optimize reorganization listing, refinancing and other systems, and support pilot spin-off listing; fourth, we will facilitate access of various types of institutional investors in fund, insurance, enterprise annuity, etc., and take active measures for introducing medium to long-term funds. Such policies will improve the effects of market mechanism and reshape the ecosystem of securities industry.

Second, China will build more open capital markets and explore diversified foreign investment channels. The China Securities Regulatory Commission will promote connection and communication between domestic and international capital markets and continue to optimize Shenzhen–Hong Kong Stock Connect and Shanghai–Hong Kong Stock Connect. Shanghai–London Stock Connect was officially launched and Sino-Japan ETF Connect was also successfully launched. Investment limit for QFII and RQFII were lifted. MSCI Inc., S&P Dow Jones Indices and FTSE Russell all added A shares to their flagship benchmarks with increasingly higher ratios. We will diversify access of overseas institutions to bond markets of stock exchanges. More and more institutions will participate in Bond Connect. More open capital markets will bring significant incremental capital effect to domestic capital markets, and foreign investment in domestic bond and stock markets will increase significantly.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### 3. *High-quality development of securities industry*

First, cultural development in securities industry continues to proceed, for the purpose of improving the soft power of the industry. In November 2019, Chairman Yi Huiman stressed at the Mobilization Meeting on Cultural Development in Securities and Fund Industry that we must progressively build an industry culture highlighting “compliance, good faith, professionalism and prudence”. Securities companies must build social responsibility-oriented corporate culture and value, and increase their inputs and efforts in developing inclusive finance, green finance, financial poverty alleviation, education and protection of investors, etc.; we should develop and improve systems in relation to cultural development including assessment based incentive, employment, staff code of conduct, and training on professional ethics; we should formulate cultural development improvement plan, promote cultural development in respect of corporate governance, development strategy and business planning, and improve education programs for communication and training on corporate culture.

Second, a more open securities industry to both domestic and international investors will intensify competition among securities companies. In September 2019, the China Securities Regulatory Commission issued the Provisions on the Administration of Equities of Securities Companies, which marked the resumption of approval of domestic securities companies. Foreign shareholding ratio in a joint venture securities company has been significantly increased to 51%, and limit on foreign shareholding ratio will be future lifted in 2020. Foreign institutions have significant advantage in wealth management business, and in the future, foreign securities companies will compete against domestic securities companies in respect of, among others, overseas clients, domestic institutional clients and high-net-worth clients. Meanwhile, wealth management subsidiaries of banks brought great competition against securities companies in respect of asset management business. Aggressive access of foreign securities companies and trans-industry competition against wealth management subsidiaries of banks will lead to the development and improvement of the business model of securities industry, and further improve the overall competitiveness of the industry.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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Third, China is committed to developing high-quality investment banks, in order to support the development of securities companies. The China Securities Regulatory Commission strengthens the capacity and establishment of agencies, supports securities companies to fulfill capital contribution, diversify service functions, optimize incentive and restraint mechanisms, increase input in technology and innovation, improve international layout, enhance compliance risk control, promote merger and acquisition activities and actively develop leading securities companies, and also encourage small and medium-sized securities companies to implement featured and excellent business, so as to promote the development and improvement of securities companies.

### **4. *Financial Technology-driven transformation and upgrading of securities industry***

In August 2019, the People's Bank of China issued the Financial Technology Development Plan (2019–2021), which expressly required us to promote high-quality development of China's finance industry by giving full play to empowerment of financial technology. Increasing input in information technology has been unanimously agreed in securities industry, as securities companies started embracing financial technology. Some of them seek technical transformation by joining hands with technology companies, while others strive to progressively build their own R&D teams by increasing their efforts in independent development. Financial technology is shifting the focus of securities industry from traditional fee-based business onto professional competence, closer customer relations and provision of diversified services using Internet.

## **(II) Development Strategies of the Company**

The Company strives to be a large comprehensive securities company based in the PRC with global vision and comprehensive advantage. The Company kept its mission of “bringing together talents, serving customers, creating value and contributing to society” firmly in mind, and attached great importance to its corporate culture of “people-oriented, learn modestly from others and learn from history”. The Company insisted on the business mode of developing capital-light business and capital-intensive business at the same time, and kept utilizing the synergistic effect among various business lines, and optimized market-oriented incentive mechanism. The Company expects to be committed to improving customer service capability, supporting the real economy, and improving efficiency in wealth accumulation and management through establishing long-term effective strategies.



## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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In order to materialize above visions, the Company will consolidate its advantage of leading in value-creating ability and attach great importance to promoting work on customer development and customer service to improve service quality; strengthen talent strategy to improve team quality; increase capital and fund strength to optimize and improve balance sheet performance; improve information technology capability to promote digital transformation of the Company; keep improving compliance risk control capability to ensure sound development of the Company; keep increasing modern management and operation capabilities to improve efficiency and benefits.

### **(III) Business Plan**

In 2020, the Company will, under the consistent guidance of political development, comprehensively improve quality of Party building; constantly improve its capacity to provide clients with integrated services under a client-oriented approach; comprehensively promote digital applications and earnestly strengthen the development of middle office operation. The Company will always save against a rainy day, and continue to improve risk control and compliance system, improve performance of balance sheet, and strengthen business capacity as buyer; promote pilot integrated cross-border business, and explore mode of international business; and earnestly enhance the development of corporate culture, and lay a solid foundation for long-term and sound development of the Company.

For specific operation plans of each business line, please refer to “Section 4 Management Discussion and Analysis – II. Business Overview – (II) Analysis of Principal Businesses” in this annual report.

### **(IV) Capital Requirement**

In 2019, the Company continued to conduct its businesses in a healthy and well-organized manner. During the Reporting Period, in order to satisfy business development requirement, the Company, according to the arrangements of asset and liability management work, successfully completed non-public offering of three tranches of subordinated bonds with a total issuance amount of RMB14.5 billion; non-public offering of one tranche of perpetual subordinated bonds with an issuance amount of RMB5 billion; public offering of one tranche of financial bonds with a total issuance amount of RMB4 billion; public offering of eight tranches of company short-term financing bonds with a total issuance amount of RMB28 billion (as of the end of 2019, outstanding balance to be paid amounted to RMB12 billion); issuance of 837 tranches of structured notes with a total issuance amount of approximately RMB26 billion (as of the end of 2019, the outstanding balance amounted to approximately RMB6 billion).

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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In 2020, the Company will manage the size and structure of liabilities in a scientific manner based on business development needs and maintain a healthy gearing ratio, and properly manage liabilities and liquidity.

### **(V) Access to and Ability of Financing**

Currently, the Company obtains short-term funds from commercial banks and other investors primarily by way of bond repurchases, inter-bank lending, margin refinancing, issuance of short-term commercial papers, issuance of beneficiary certificates, issuance of short-term financing bonds by securities companies etc., to investors on the SSE, and to commercial banks through inter-bank market, inter-institutional private equity products quotation and service system and OTC market in accordance with the relevant policies and regulations. As of the end of 2019, as approved by the People's Bank of China, the Company can implement a maximum inter-bank borrowing of RMB20,000 million, and a maximum bond-pledged repurchase of RMB49,100 million in inter-bank market, which effectively guaranteed the placements obtained by the Company through monetary market in a timely manner. In addition, the Company may, subject to market conditions and its own demands, finance by way of equity financing, placing, rights issue, issuance of corporate bonds, financial bonds, subordinated bonds, perpetual subordinated bonds and private placement bonds and other financing methods as approved by the competent authorities.

To maintain a balance between liquidity and profitability, the Company held a number of fixed income products, and changes in interest rates will have direct impact on the interests received from the bank deposits held by the Company, as well as the market price of the bond investment and the investment income. Meanwhile, equity investment of the Company is also impacted, though indirectly, by changes in interest rates. In addition, the Company has subsidiaries which are incorporated outside mainland China, with the amounts invested by the Company denominated in foreign currencies. As the Company has foreign currency denominated capital and assets and has raised funds through the issuance of bonds denominated in foreign currencies by its overseas subsidiaries, changes in exchange rates and overseas market interest rate levels will have certain impacts on the Company.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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To maintain the liquidity and profitability of its assets, the Company's proprietary capital is centrally managed by its treasury department. There are also a comprehensive management system and corresponding work flows in place. The Company adjusts the structures of its different classes of assets and liabilities in a timely manner and utilizes corresponding financial tools to mitigate the risks and the impacts of the above factors.

### **(VI) Potential Risks (including Implementation of Comprehensive Risk Management and Compliance Risk Control, and Investment in Information Technology)**

#### **1. *Potential Risks faced by the Company***

The Company may be mainly exposed to the following risks: market risk, credit risk and liquidity risk. Work on building a well-off society in China and "thirteenth five-year" plan will be concluded in 2020. Policies are expected to be principally positive fiscal policies, prudent monetary policies and policies on stabilizing economic growth. However, the novel coronavirus pneumonia epidemic outbreak at the beginning of the year will pose certain negative effect. In addition, political turmoil in some regions in the world and trade friction will lead to great downward pressure on macro-economy, which will bring certain pressure on the Company's operation. The Company may be mainly exposed to market risk brought by fluctuations in stock and bond markets to investment portfolio of the Company; credit risk brought by insufficient repayment capability of financiers in financing business or abnormal price of shares secured (or pledged) to the Company, credit risk brought by increased violation cases in bond market as a whole and increased refinancing pressure of the issuer to bond portfolio of the Company, and liquidity risk brought by insufficient capital supply and rising financing costs at a specific time point in the expected context of overall capital supply balance. In addition, the Company may be exposed to other risks including strategic risk, operational risk, compliance risk, legal risk, technical risk and reputational risk. Joint effect of above risks will pose certain challenge to the operation of the Company.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### **2. Implementation of Comprehensive Risk Management of the Company**

The Company has attached great importance to risk management ever since its establishment. Over more than a decade of exploration and practices, and pursuant to the requirements of regulatory regulations and self-regulatory rules, including the Measures for the Risk Control Indexes Management of Securities Companies (《證券公司風險控制指標管理辦法》), Regulations for Comprehensive Risk Management of Securities Companies (《證券公司全面風險管理規範》) and Guidelines for the Liquidity Risk Management of Securities Companies (《證券公司流動性風險管理指引》) etc., the Company has established a relatively complete and comprehensive risk management system. Since the second half of 2016, the Company has achieved strong results in terms of consolidated management, comprehensive business coverage, subsidiary risk management, risk response mechanism, investment of risk management resources and construction risk control system. In 2019, the Company further optimized the application of professional tools in operational risk management, the inclusion of economic capital in performance appraisal, risk data management and system construction, as well as the introduction of professional talents. Please refer to “Risk Management” in Part IV of this section for details of the Company’s comprehensive risk management.

### **3. Establishment of Dynamic Control System for Risk Control Indicators**

Pursuant to the Measures for the Risk Control Indexes Management of Securities Companies (《證券公司風險控制指標管理辦法》) issued by the CSRC, the Company has formulated and continued to revise relevant measures such as the Measures for the Control of Risk Control Indicators (《風險控制指標監控辦法》) in accordance with the situation, established a dynamic monitoring mechanism for risk control indicators, and arranged special posts for daily monitoring, in order to make timely report of various anomalies. At the same time, The Company has established a dynamic monitoring and evaluation system for net capital, based on the regulatory standards and early warning standards of risk control indicators prescribed by the regulatory authorities, the Company has added more stringent corporate monitoring standards as the monitoring threshold, forming a three-level early warning standard of risk control indicators based on the early warning line of the Company, the early warning line of the regulatory departments as well as supervision line of the regulatory departments The Company has also established and improved the reporting and response plans to ensure that net capital and other risk control indicators meet the regulatory requirements.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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The Company has established a net capital replenishment mechanism. Approaches to replenishing net capital include but are not limited to external financing, increase of discretionary surplus reserve, reduction or suspension of profit distribution, issuance of subordinated debt or debt-for-equity swap and capital fund raising for increase in capital and share, etc. The Company has established a forward-looking adjustment mechanism for risk control indicators to ensure that the risk control indicators are maintained at a robust and compliant level by replenishing net capital, adjusting the structure of assets and liabilities, as well as reducing the scale of business, etc. when there are abnormal changes or early warning shown in the risk control indicators. In 2019, the Company's net capital and other risk control indicators continued to meet the regulatory standards, while the main risk control indicators were at a healthy level and no warning standards were triggered.

#### **4. *Investments in Corporate Compliance Risk Control and Information Technology***

The Company attaches great importance to compliance management and risk management, continuously optimizes the construction of compliance management and risk management systems, continuously expands the team of compliance risk control personnel and enhances its allocation; The Company also continuously promotes the construction of compliance risk control system through a combination of self-development and outsourced procurement. Investment is continuously increased to promote the timeliness and professionalism of compliance risk control. The Company's investment in compliance risk control mainly includes: investment in compliance risk control personnel, investment in the construction of compliance-related risk control system and operating expenses of the relevant compliance risk control departments. In 2019, as advised by the parent company, the Company's total investment in compliance control amounted to RMB308.8186 million.

The Company continued to increase investment in information system construction. The Company continued to invest in areas such as construction and transformation of the fundamental environment, continuous improvement of system functions and innovation and development, etc., and in the meantime laid a solid data foundation for the construction of a digital enterprise. The Company continued to put efforts in the introduction of information technology talents, focusing on the cultivation of talents for both self-development and new technologies, and gradually formed the Company's core IT competitiveness. The Company's investment in information technology mainly includes: information technology related capital expenditure, daily operation and maintenance expenses, leasing and depreciation expenses, and wages of information technology personnel. In 2019, as advised by the parent company, the Company's total investment in information technology amounted to RMB605.5564 million.

### IV. FINANCIAL STATEMENT ANALYSIS

#### (I) Profitability Analysis

In 2019, domestic securities market started recovery and A-share market showed rise in both volume and price. In such a market environment, the Company was well-positioned to seize opportunities, and maintained a sound development in respect of its various business operations. Operating results of the Company increased as compared with that in 2018.

In 2019, the Group recognized total operating revenue and other income of RMB19,407 million, representing a YoY increase of 17.68%. Net profit attributable to equity holders of the Company amounted to RMB5,502 million, representing a YoY increase of 78.19%. Basic earnings per Share amounted to RMB0.67, representing a YoY increase of 81.08%. Return on weighted average equity was 11.54%, increasing YoY by 4.76 percentage points.

#### *Asset Structure and Asset Quality*

During the Reporting Period, the Company replenished working capital by issuing one tranche of perpetual bonds, and maintained sound liquidity. The Company recorded growth in both total assets and total liabilities to different extents. The Company maintained more prudent operation, stable structure of assets and liabilities, and sound asset quality and financial position.

As of December 31, 2019, the Group's total assets amounted to RMB285,670 million, representing an increase of RMB90,588 million, or 46.44%, as compared with that as at the end of preceding year. After deducting accounts payable to brokerage clients, the Group's total assets amounted to RMB231,044 million, representing an increase of RMB71,001 million, or 44.36%, as compared with that as at the end of preceding year. Among which, investment assets mainly include investments in associates and investments in financial assets, accounted for 55.67% of the total assets; margin accounts and financial assets held under resale agreements accounted for 21.18% of the total assets; cash and bank balances accounted for 20.44% of the total assets; and other assets in aggregate accounted for 2.71% of the total assets.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

### (Continued)

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As of December 31, 2019, the Group's total liabilities amounted to RMB228,775 million, representing an increase of RMB81,556 million, or 55.40%, as compared with that as at the end of preceding year. After deducting accounts payable to brokerage clients, the Group's total liabilities amounted to RMB174,149 million, representing an increase of RMB61,969 million, or 55.24%, as compared with that as at the end of preceding year. Among which, the amount from financial assets sold under repurchase agreements was RMB55,533 million, accounting for 31.89% of the total liabilities; the amount from short-term borrowings, placements from banks and other financial institutions, short-term financing instruments payable and non-current liabilities due within one year was RMB50,400 million, accounting for 28.94% of the total liabilities; the amount from issued debt instruments was RMB34,133 million, accounting for 19.60% of the total liabilities; the amount from financial liabilities at fair value through profit or loss and derivative financial liabilities was RMB1,888 million, accounting for 1.08% of the total liabilities; and the amount from other liabilities in aggregate was RMB32,195 million, accounting for 18.49% of the total liabilities.

As of December 31, 2019, the Group's equity attributable to equity holders of the Company amounted to RMB56,582 million, representing an increase of RMB9,005 million, or 18.93%, as compared with that as at the end of preceding year.

The gearing ratio of the Group slightly increased. As of December 31, 2019, after deducting accounts payable to brokerage clients, the gearing ratio of the Group was 75.37%, representing an increase of 5.28 percentage points, as compared with that as at the end of preceding year.

#### (II) Cash Flow Status

After deducting accounts payable to brokerage clients, the Group's net increase in cash and cash equivalents was RMB30,030 million in 2019, representing a YoY increase of RMB24,465 million, which was mainly due to the YoY increase in net cash inflow from operating and financing activities.

Net cash flow from operating activities in 2019 was RMB17,692 million, representing a YoY increase of net cash inflow of RMB7,132 million as compared to an inflow of RMB10,560 million for the corresponding period of 2018, which was mainly attributable to YoY increase in net cash inflow from operating activities due to repurchase business, securities underwriting brokerage and placements from banks and other financial institutions.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Net cash flow from investing activities in 2019 was RMB-2,943 million, representing a YoY increase of net cash outflow of RMB2,791 million as compared to a net cash flow of RMB-152 million in 2018, which was mainly attributable to increase in net cash outflow for purchasing investment financial assets.

Net cash flow from financing activities in 2019 was RMB15,282 million, representing a YoY increase of net cash inflow of RMB20,125 million as compared to cash flow of RMB-4,843 million for the corresponding period of 2018, which was mainly attributable to the increase in cash inflow due to issue of perpetual bonds during the Reporting Period and the decrease in net cash outflow for repaying short-term financing funds.

### V. ANALYSIS ON INCOME STATEMENT

#### (I) Financial Highlights

In 2019, the Group accomplished a profit before income tax of RMB7,154 million, representing a YoY increase of 76.60%. Major financial highlights of the Group are as below:

*Unit: RMB million*

Items	2019	2018
Fee and commission income	8,633	7,232
Interest income	6,243	6,764
Investment gains	4,407	2,417
Other income	124	79
Total expenses	12,245	12,448
Share of profits and losses of associates	-8	8
Profit before income tax	7,154	4,051
Income tax expense	1,624	948
Profit attributable to equity holders of the Company	5,502	3,087



## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### (II) Structure of Total Revenue and Other Income

In 2019, the total operating revenue and other income of the Group amounted to RMB19,407 million, representing a YoY increase of 17.68%. The structure of revenue remained relatively stable. The revenue structure of the Group in the past five years is as follows:

Items	2019	2018	2017	2016	2015
Fee and commission income	44.48%	43.85%	53.47%	60.19%	60.79%
Interest income	32.17%	41.02%	32.01%	25.25%	22.73%
Investment gains	22.71%	14.66%	14.70%	13.72%	16.24%
Other income	0.64%	0.47%	-0.18%	0.84%	0.24%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

### (III) Fee and Commission Income

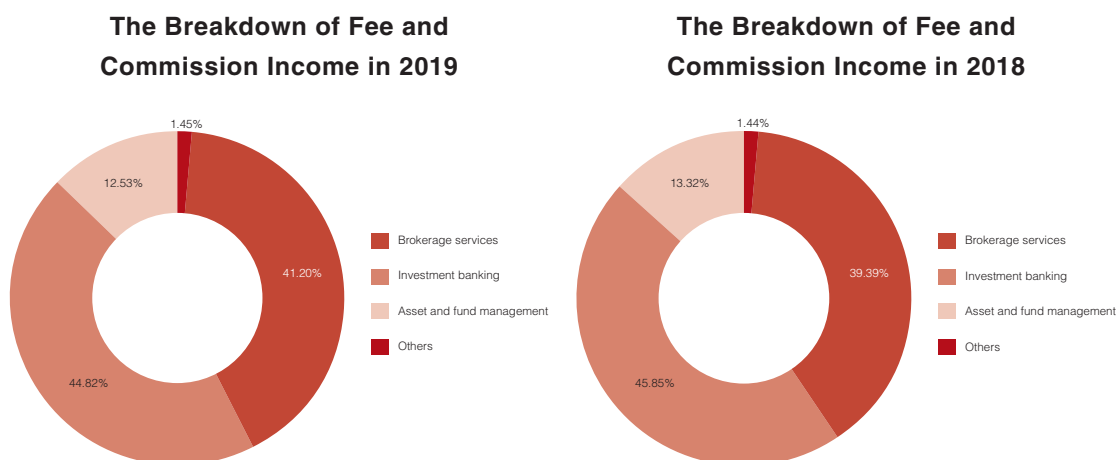
In 2019, the net fee and commission income of the Group amounted to RMB7,625 million, representing a YoY increase of 18.60%, which was mainly due to the increase in fee and commission income from brokerage business and investment banking business. The breakdown of fee and commission income of the Group during 2018 and 2019 is as follows:

*Unit: RMB million*

Items	2019	2018	Change	Change in percentage (%)
Fee and commission income				
– Brokerage services	3,557	2,849	708	24.85
– Investment banking	3,869	3,316	553	16.68
– Asset and fund management	1,082	963	119	12.36
– Others	125	104	21	20.19
Fee and commission expenses	1,008	803	205	25.53
Net fee and commission income	7,625	6,429	1,196	18.60

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### *The Breakdown of Fee and Commission Income in 2018 and 2019*



The fee and commission income from brokerage business increased by RMB708 million, or 24.85% YoY, which was mainly due to YoY increase in the trading volume of stocks and funds in A share market in the PRC in 2019.

The fee and commission income from investment banking business increased by RMB553 million, or 16.68% YoY, which was mainly due to increase in the fee and commission income from investment banking business as a result of increase in volume and size of IPO and securities underwritten in 2019.

The fee and commission income from asset and fund management business increased by RMB119 million, or 12.36% YoY, which was mainly due to increase in income from collective asset management and fund management business during the Reporting Period.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### (IV) Interest Income

In 2019, the net interest income of the Group amounted to RMB1,560 million, representing a YoY decrease of RMB433 million. The table below sets out the major composition of the net interest income of the Group during the indicated periods:

*Unit: RMB million*

Items	2019	2018	Change	Change in percentage (%)
Interest Income				
– Margin financing and securities lending	1,955	2,743	-788	-28.73
– Financial assets held under resale agreements	1,222	1,222	–	–
– Bank deposits	1,801	1,556	245	15.75
– Interest income from financial assets measured at fair value through other comprehensive income (“FVOCI”)	1,259	1,215	44	3.62
– Interest income from financial assets measured at amortized cost	6	27	-21	-77.78
– Others	–	1	-1	-100.00
Interest expenses				
– Accounts payable to brokerage clients	179	155	24	15.48
– Financial assets sold under repurchase agreements	1,176	1,106	70	6.33
– Placements from banks and other financial institutions	310	555	-245	-44.14
– Borrowings	26	64	-38	-59.38
– Bonds issued and short-term financing instruments payable	2,888	2,819	69	2.45
– Others	104	72	32	44.44
Net interest income	1,560	1,993	-433	-21.73

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Interest income from margin financing and securities lending decreased by RMB788 million, or 28.73% YoY, which was mainly due to decrease of average scale in margin financing and securities lending business in the year.

Interest income from bank deposit increased by RMB245 million, or 15.75% YoY, which was mainly due to increase in interest income from own fund and customer fund deposit.

Interest income from financial assets measured at fair value through other comprehensive income increased by RMB44 million, or 3.62%, which was mainly due to increase in bond investment measured at fair value through other comprehensive income in the year.

Interest income from financial assets measured at amortized cost decreased by RMB21 million, or 77.78%, which was mainly due to decrease in bond investment measured at amortized cost.

Interest expenses decreased by RMB88 million, or 1.84% YoY, which was mainly due to decrease in interest expenses from placements from banks and other financial institutions.

### (V) Net Investment Gains

In 2019, the net investment gains of the Group amounted to RMB4,407 million, representing a YoY increase of 82.33%. The table below sets out the major composition of the net investment gains of the Group during the indicated periods:

*Unit: RMB million*

Items	2019	2018	Change	Change in percentage (%)
Financial instruments measured at fair value through other comprehensive income ("FVOCI")	259	352	-93	-26.42
Financial instruments at fair value through profit or loss ("FVTPL")	5,126	815	4,311	528.96
Net gains or losses from derivative financial instruments	-473	1,585	-2,058	-129.84
Others	-505	-335	-170	N/A
<b>Total</b>	<b>4,407</b>	<b>2,417</b>	<b>1,990</b>	<b>82.33</b>

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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Net income from financial instruments measured at fair value through other comprehensive income decreased by RMB93 million, or 26.42% YoY. In particular, gains from disposal of financial instruments measured at fair value through other comprehensive income increased by RMB68 million, or 75.83% YoY; dividends from financial instruments measured at fair value through other comprehensive income decreased by RMB161 million, or 61.16% YoY.

Net income from financial instruments at fair value through profit or loss increased by RMB4,311 million, or 528.96% YoY. In particular, gains from disposal of financial instruments at fair value through profit or loss increased by RMB989 million; gains from holding financial instruments at fair value through profit or loss increased by RMB3,322 million, or 201.37% YoY.

Net income from derivative financial instruments decreased by RMB2,058 million, or 129.84% YoY, which was mainly due to decrease in gains from change in fair value of equity derivative financial instruments.

Gains from other investment decreased by RMB170 million YoY, which was mainly due to increase in net gains attributable to other interest holders of consolidated structured entities.

### **(VI) Total Expenses**

In 2019, the total expenses of the Group (excluding fee and commission expenses and interest expenses) amounted to RMB6,554 million, representing a YoY decrease of RMB320 million, or 4.66%.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The table below sets out the major composition of the expenses of the Group during the indicated periods:

*Unit: RMB million*

Items	2019	2018	Change	Change in percentage (%)
Staff costs	4,710	3,954	756	19.12
Tax and surcharges	99	80	19	23.75
Other operating expenses and costs	1,804	1,686	118	7.00
Credit impairment losses	-59	1,154	-1,213	-105.11
Total	6,554	6,874	-320	-4.66

Staff costs for the year increased by RMB756 million, or 19.12% YoY, which was mainly due to the increase in performance-based remuneration.

Credit impairment losses for 2019 amounted to RMB-59 million, which was mainly due to reversal of impairment losses of margin financing and securities lending and financial assets held under resale agreements.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The table below sets out the composition of the impairment losses of the Group during the indicated periods:

*Unit: RMB million*

Items	2019	2018	Change	Change in percentage (%)
Financial assets measured at fair value through other comprehensive income ("FVOCI")	18	6	12	200.00
Margin financing and securities lending	-53	1,076	-1,129	-104.93
Financial assets held under resale agreements	-23	75	-98	-130.67
Others	-1	-3	2	N/A
<b>Total</b>	<b>-59</b>	<b>1,154</b>	<b>-1,213</b>	<b>-105.11</b>

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### VI. ANALYSIS ON FINANCIAL POSITION

#### (I) Assets

As of December 31, 2019, the total assets of the Group amounted to RMB285,670 million, representing an increase of RMB90,588 million, or 46.44%, as compared with that as at the end of preceding year. Excluding the effect of accounts payable to brokerage clients, the total assets of the Group amounted to RMB231,044 million as at December 31, 2019, representing an increase of RMB71,001 million, or 44.36%, as compared with that as at the end of preceding year. Major changes in the total assets of the Group were as follows:

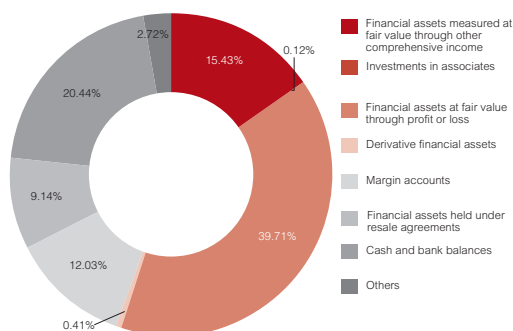
*Unit: RMB million*

Items	December 31, 2019	December 31, 2018	Change	Change in percentage (%)
Financial assets measured at fair value through other comprehensive income ("FVOCI")	35,644	30,969	4,675	15.10
Investments in associates	270	163	107	65.64
Financial assets measured at amortized cost	–	187	-187	-100.00
Financial assets at fair value through profit or loss	91,756	57,326	34,430	60.06
Derivative financial assets	955	1,240	-285	-22.98
Margin accounts	27,806	25,148	2,658	10.57
Financial assets held under resale agreements	21,119	23,797	-2,678	-11.25
Cash and bank balances	47,221	17,056	30,165	176.86
Others	6,273	4,157	2,116	50.90
<b>Total</b>	<b>231,044</b>	<b>160,043</b>	<b>71,001</b>	<b>44.36</b>

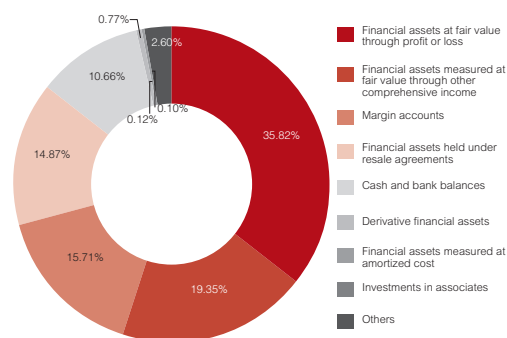


## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

**Analysis of the Components of Assets in 2019**



**Analysis of the Components of Assets in 2018**



### (II) Investments

The investment of the Group primarily comprises financial assets measured at fair value through other comprehensive income (“FVOCI”), investments in associates, financial assets at fair value through profit or loss (“FVTPL”), derivative financial assets, etc.

As of December 31, 2019, the total external investments of the Group amounted to RMB128,625 million, representing an increase of RMB38,740 million, or 43.10%, as compared with that as at the end of preceding year.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following table sets out, as of the dates indicated, the investments of the Group and its percentage to the total assets by category:

*Unit: RMB million*

Items	December 31, 2019		December 31, 2018	
	Amount	Percentage to total assets (%)	Amount	Percentage to total assets (%)
Financial assets measured at fair value through other comprehensive income ("FVOCI")	35,644	15.43	30,969	19.35
Investments in associates	270	0.12	163	0.10
Financial assets measured at amortized cost	–	–	187	0.12
Financial assets at fair value through profit or loss ("FVTPL")	91,756	39.71	57,326	35.82
Derivative financial assets	955	0.41	1,240	0.77
<b>Total</b>	<b>128,625</b>	<b>55.67</b>	<b>89,885</b>	<b>56.16</b>

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### (III) Financial Asset Investments

As of December 31, 2019, total financial asset investments of the Group amounted to RMB128,355 million, accounting for 55.55% of total assets, representing an increase of RMB38,633 million, or 43.06%, as compared with that as at the end of preceding year, which was mainly for an increase in investments in debt instruments and equity. The table below sets out the composition of the financial asset investment portfolio of the Group:

*Unit: RMB million*

Items	December 31, 2019		December 31, 2018	
	Amount	Percentage to total financial asset investments (%)	Amount	Percentage to total financial asset investments (%)
Debt instruments	83,154	64.78	58,898	65.64
Equity investments	11,237	8.75	4,391	4.89
Fund investments	8,082	6.30	5,016	5.59
Derivative financial assets	955	0.74	1,240	1.38
Others	24,927	19.43	20,177	22.50
Total	128,355	100.00	89,722	100.00

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### (IV) Investments in Associates

Unit: RMB million

Items	December 31, 2019	December 31, 2018	Change	Change in percentage (%)
Investments in associates	270	163	107	65.64

As of December 31, 2019, the Group's investments in associates amounted to RMB270 million, representing an increase of RMB107 million, or 65.64%, as compared with that as at the end of preceding year, which was mainly due to increase in investments in associates during the Reporting Period.

### (V) Cash and Bank Balances

As of December 31, 2019, cash and cash balances amounted to RMB47,221 million, representing an increase of RMB30,165 million or 176.86%, as compared with that as at the end of preceding year, which was mainly due to increase in financial assets sold under repurchase agreements, accounts payable to underwriting clients and placements from banks and other financial institutions.

Unit: RMB million

Items	December 31, 2019	December 31, 2018	Change	Change in percentage (%)
Cash and bank balances	47,221	17,056	30,165	176.86

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### (VI) Liabilities

As of December 31, 2019, total liabilities of the Group amounted to RMB228,775 million, representing an increase of RMB81,556 million, or 55.40%, as compared with that as at the end of preceding year. Excluding the effect of accounts payable to brokerage clients, total liabilities of the Group amounted to RMB174,149 million as at December 31, 2019, representing an increase of RMB61,969 million, or 55.24%, as compared with that as at the end of preceding year. The following table sets out the breakdown of the total liabilities of the Group as of the dates indicated:

*Unit: RMB million*

Items	December 31, 2019	December 31, 2018	Change	Change in percentage (%)
Accounts payable to brokerage clients	54,626	35,039	19,587	55.90
Short-term borrowings, placements from banks and other financial institutions, short-term financing instruments payable and non-current liabilities falling due within one year	50,400	26,124	24,276	92.93
Financial liabilities at fair value through profit or loss	1,126	1,253	-127	-10.14
Derivative financial liabilities	762	177	585	330.51
Financial assets sold under repurchase agreements	55,533	32,532	23,001	70.70
Issued debt instruments	34,133	37,650	-3,517	-9.34
Others	32,195	14,444	17,751	122.89
<b>Total</b>	<b>228,775</b>	<b>147,219</b>	<b>81,556</b>	<b>55.40</b>

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In 2019, the A share market and fund market in China recorded a YoY increase in overall trading volume. As of December 31, 2019, total accounts payable to brokerage clients of the Group amounted to RMB54,626 million and accounted for 23.88% of the total liabilities of the Group, representing an increase of RMB19,587 million, or 55.90%, as compared with that as at the end of preceding year.

The following table sets out the Group's accounts payable to brokerage clients by geographical locations and types of customers as of the dates indicated:

*Unit: RMB million*

Items	December 31, 2019	December 31, 2018	Change	Change in percentage (%)
Mainland China	53,680	33,925	19,755	58.23
– Individual	36,278	26,250	10,028	38.20
– Corporate	17,402	7,675	9,727	126.74
Outside Mainland China	946	1,114	-168	-15.08
Total	54,626	35,039	19,587	55.90

As of December 31, 2019, short-term borrowings, placements from banks and other financial institutions, short-term financing instruments payable and non-current liabilities falling due within one year amounted to RMB50,400 million in aggregate, representing an increase of RMB24,276 million, or 92.93%, as compared with that as at the end of preceding year, mainly attributable to increase in non-current liabilities falling due within one year.

As of December 31, 2019, financial assets sold under repurchase agreements amounted to RMB55,533 million, representing an increase of RMB23,001 million, or 70.70%, as compared with that as at the end of preceding year, which was mainly due to the increase in financial assets sold under repurchase agreements through collateralized repurchase.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

As of December 31, 2019, the Group's total outstanding amount of bonds payable due beyond one year amounted to RMB34,133 million, representing a decrease of RMB3,517 million, or 9.34%, as compared with that as at the end of preceding year. In 2019, the Group issued financial bonds and subordinated bonds with an issuance amount of RMB18.5 billion.

### (VII) Equity

As of December 31, 2019, the total equity of the Group amounted to RMB56,895 million, representing an increase of RMB9,032 million, or 18.87%, as compared with that as at the end of preceding year, mainly attributable to issuance of perpetual bonds by the Company and profits during the Reporting Period. The following table sets out the components of the Group's total equity as at the dates indicated:

*Unit: RMB million*

Items	December 31, 2019	December 31, 2018
Share capital	7,646	7,646
Other equity instruments	9,981	5,000
Capital reserve	8,753	8,753
Surplus reserves	3,573	3,013
General reserve	8,692	7,535
Investment revaluation reserve	203	-33
Foreign currency translation reserve	191	157
Retained earnings	17,543	15,506
Non-controlling interests	313	286
Total	56,895	47,863

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### VII. ANALYSIS OF PRINCIPAL SUBSIDIARIES

Name	Shareholding of the Company	Date of Establishment	Registered Capital	Place of Business	Registered Address	Contact Number
China Securities Futures	100%	March 16, 1993	RMB700 million	11-B (Parallel to Ground Level)/11-A, 8-B4, 9-B&C (Nominal Level), Shangzhan Building, 107 Zhongshan, Third Road, Yuzhong District, Chongqing (重慶市渝中區中山三路107號上站大樓平街11-B·名義層11-A·8-B4·9-B·C)	11-B (Parallel to Ground Level)/11-A, 8-B4, 9-B&C (Nominal Level), Shangzhan Building, 107 Zhongshan, Third Road, Yuzhong District, Chongqing (重慶市渝中區中山三路107號上站大樓平街11-B·名義層11-A·8-B4·9-B·C)	86-23-86769602
China Securities Capital	100%	July 31, 2009	RMB1,650 million	12/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座12層)	Room 2, East Side, 6/F, 188 Chaoyangmennei Avenue, Dongcheng District, Beijing (北京市東城區朝陽門內大街188號6層東側2間)	86-10-85130648
China Securities International	100%	July 12, 2012	Share capital of HK\$2,000 million	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	+852-34655600
China Securities Funds	55%	September 9, 2013	RMB300 million	17&19/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座17·19層)	Unit 1, Building No. 3, Balongqiao Yayuan, Qiaozhi Town, Huairou District, Beijing (北京市懷柔區橋梓鎮八龍橋雅苑3號樓1室)	86-10-59100211
China Securities Investment	100%	November 27, 2017	RMB3,700 million	9/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座9層)	Unit 109, Block C, Beijing Fund Town Center, No. 1 Jinyuan Avenue, Changgou Town, Fangshan District, Beijing (北京市房山區長溝鎮金元大街1號北京基金小鎮大廈C座109)	86-10-85130622

- (1) China Securities Futures: As of December 31, 2019, total assets and net assets of China Securities Futures amounted to RMB8,966.67 million and RMB1,446.46 million, respectively. In 2019, China Securities Futures realized total revenue and other income amounting to RMB405.42 million in aggregate, profit before income tax amounting to RMB151.33 million and net profit amounting to RMB129.39 million.



## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

### (Continued)

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Principal businesses of China Securities Futures: commodities futures brokerage, financial futures brokerage, futures investment consultancy, assets management, funds sale.

- (2) China Securities Capital: As of December 31, 2019, total assets and net assets of China Securities Capital amounted to RMB2,540.86 million and RMB1,501.02 million, respectively. In 2019, China Securities Capital realized total revenue and other income amounting to RMB204.80 million in aggregate, profit before income tax amounting to RMB97.68 million and net profit amounting to RMB87.86 million.

Principal businesses of China Securities Capital: project investment, investment management, asset management and financial advisory (excluding intermediary services).

- (3) China Securities International: As of December 31, 2019, total assets and net assets of China Securities International amounted to RMB5,297.44 million and RMB1,692.09 million, respectively. In 2019, China Securities International realized total revenue and other income amounting to RMB276.83 million in aggregate, profit before income tax amounting to RMB-137.95 million and net profit amounting to RMB-119.86 million. (Net profit is greater than profit before tax, which is mainly attributable to negative income tax expenses for the year)

Principal businesses of China Securities International: investment holding. Its subsidiaries engage in the business of securities brokerage, asset management, investment banking, pledge and financing, dealing in futures and proprietary investment.

- (4) China Securities Funds: As of December 31, 2019, total assets and net assets of China Securities Funds amounted to RMB626.39 million and RMB545.40 million, respectively. In 2019, China Securities Funds realized total revenue and other income amounting to RMB241.44 million in aggregate, profit before income tax amounting to RMB69.75 million and net profit amounting to RMB52.00 million.

Principal businesses of China Securities Funds: fundraising, fund sale, asset management for specific clients, asset management and other business as approved by the CSRC.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

- (5) China Securities Investment: As of December 31, 2019, total assets and net assets of China Securities Investment amounted to RMB2,164.18 million and RMB2,142.61 million, respectively. In 2019, China Securities Investment realized total revenue and other income amounting to RMB-6.06 million in aggregate, profit before income tax amounting to RMB-30.89 million and net profit amounting to RMB-19.16 million. (Net profit is greater than profit before tax, which is mainly attributable to negative income tax expenses for the year)

Principal businesses of China Securities Investment: investment management (except for intermediary services) and project investment.

### VIII. INTRODUCTION OF SECURITIES BRANCHES

No.	Name of Branch	Establishment date	Registered address	Contact number
1	Hubei Branch	February 6, 2012	3rd Floor, Block A, Longyuan Building, No.24 Zhongbei Road, Wuchang District, Wuhan, Hubei Province	86-27-87890128
2	Shanghai Branch	February 6, 2012	Room 1605, 1606 and 1607, No.518 Kunming Road, Yangpu District, Shanghai	86-21-55138037
3	Shenyang Branch	February 7, 2012	No. 1, 12/F, No.61 North Station Road, Shenhe District, Shenyang City, Liaoning Province	86-24-24863279
4	Jiangsu Branch	February 13, 2012	2nd Floor, Yellow River Building, No.58 Longyuan West Road, Gulou District, Nanjing, Jiangsu Province	86-25-83156571
5	Hunan Branch	March 1, 2013	No. 9, Section 2 Furong Middle Road, Furong District, Changsha City, Hunan Province	86-731-82250463
6	Fujian Branch	April 16, 2013	3rd Floor, Wuyi Center, No.33 East Street, Gulou District, Fuzhou City, Fujian Province	86-591-87612358
7	Zhejiang Branch	April 18, 2013	Room 604, 6th Floor, No. 225 Qingchun Road, Shangcheng District, Hangzhou City, Zhejiang Province	86-571-87067252
8	Northwest Branch	April 19, 2013	No.56 South Street, Beilin District, Xi'an City, Shaanxi Province	86-29-87265999-202

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

### (Continued)

No.	Name of Branch	Establishment date	Registered address	Contact number
9	Guangdong Branch	April 24, 2013	Room 5102 and 5105, No.30 Pearl River East Road, Tianhe District, Guangzhou, Guangdong Province	86-20-38381917
10	Chongqing Branch	April 14, 2014	2-2, Building 2, Yijing•Fenghao, No. 195 Longshan Road, Longshan Street, Yubei District, Chongqing	86-23-63624398
11	Shenzhen Branch	April 21, 2014	22F, Building B, Rongchao Business Center, No. 6003 Yitian Road, Futian District, Shenzhen City, Guangdong Province	86-755-23953860
12	Sichuan Branch	April 25, 2014	No. 25, South 3rd Section of Yihuan Road, Wuhou District, Chengdu City, Sichuan Province	86-28-85576963
13	Shandong Branch	May 23, 2014	11th Floor of No.4 Building, No. 8 Long'ao North Road, Lixia District, Jinan City, Shandong Province	86-531- 68655601
14	Jiangxi Branch	May 28, 2014	Unit 05, 30th Floor, Building 2#, Heping International Hotel, No. 69 North Yanjiang Road, Donghu District, Nanchang City, Jiangxi Province	86-791-86700335
15	Henan Branch	June 3, 2014	2nd Floor, China Building, No.3 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province	86-371-69092409
16	Shanghai Free Trade Zone Branch	September 26, 2014	Room 2206, North Block, No. 528 Pudong South Road, China (Shanghai) Free Trade Pilot Zone	86-21-66821628
17	Tianjin Branch	November 10, 2014	Room 201, South Building, International Exchange Center, Tianjin University of Technology, No.26 Yuliang Road, Nankai District, Tianjin	86-22-23660571
18	Beijing Hongyi Branch	March 19, 2019	4-4, Third Section, 6/F, Building No. 4, 66 Anli Road, Chaoyang District, Beijing City	86-10-86451427

### IX. EXPLANATION IN SCOPE OF STATEMENT CONSOLIDATION

As of December 31, 2019, the number of structural entities included in the consolidated financial statements of the Company was four. The number of primary entities included in the consolidated financial statement of the Company was nine.

### X. NO CHANGE IN THE INCOME TAX POLICY OF THE COMPANY DURING THE REPORTING PERIOD

From January 1, 2008, the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and the Regulations on the Implementation of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) became effective for the Company and other subsidiaries (except China Securities Futures and China Securities International). Income tax computation and payment are governed by the Announcement of the State Administration of Taxation on Printing and Distributing the Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by the Enterprises with Trans-regional Operations ([2012] No. 57) (《國家稅務總局關於印發〈跨地區經營匯總納稅企業所得稅徵收管理辦法〉的公告》([2012] 57號)). The income tax rate applicable to the Company is 25%.

In accordance with Explanation on Implementation of Tax Preferential Treatments concerning Western China Development Strategy (《關於執行國家西部大開發所得稅優惠政策的說明》) issued by the local taxation bureau in Yuzhong District, Chongqing City, the applicable income tax rate for China Securities Futures was 15%.

The applicable income tax rate for China Securities International was 16.5%.

### XI. PROFIT DISTRIBUTION POLICY OF THE COMPANY

#### (I) Formulation, implementation or adjustment of cash dividend policy

The Articles of Association of the Company set out the basic principles of the profit distribution policy and specific policy and provided that “the Company shall give priority to the distribution of dividends in cash”, and “provided that the Company does not have material investment plans, major cash expenses, etc. and that the capital needs for normal operation of the Company are met, the profits distributed by the Company in cash shall not be less than 10% of the distributable profits of the same year, and within any three consecutive years, the accumulated profit distribution in cash shall not be less than 30% of the average annual distributable profit for those three years”.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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The Company attaches much importance to providing reasonable returns to investors and maintaining the continuity and stability of the Company's profit distribution policy, while taking into account the company's long-term interests, the overall interests of all shareholders and the company's sustainable development. Development and execution of profit distribution of the Company, in particular cash dividend policy, are in strict accordance with relevant provisions of the Articles of Association and procedures of consideration, with clear standards and proportion of dividends and well-established decision-making procedures and mechanism. In considerations at Board meeting, independent non-executive directors of the Company, from the perspective of safeguarding the interests of investors, expressed their objective and independent opinions; in considerations at general meeting, all minority shareholders of the Company were entitled to express their opinions and appeals and their legitimate interests were safeguarded.

On June 25, 2019, 2018 profit distribution plan of the Company was considered and approved at the 2018 annual general meeting, i.e., RMB1.80 (tax inclusive) distributed for every 10 Shares. This plan has been fully implemented by August 9, 2019. This profit distribution involved cash dividends representing 49.27% of net profit attributable to ordinary equity holders of the Company for 2018. This profit distribution has complied with the provisions of the Guidelines for Cash Dividends of Listed Companies of the SSE (《上海證券交易所上市公司分紅指引》) and the Articles of Association. Independent non-executive directors of the Company have expressed independent opinions on 2018 profit distribution and were of the view that this profit distribution has complied with the relevant provisions of laws, regulations, regulatory documents and the Articles of Association, and was in line with the actual conditions of the Company and the long-term interests of shareholders as a whole, and was favorable for the long-term development of the Company, therefore they have agreed to this profit distribution plan.

### **(II) Ordinary share dividend distribution plans or budgets over the past three years (including the Reporting Period)**

Profit distribution plans of the Company were considered and decided at the general meeting after being considered and approved by the Board of Directors and the Board of Supervisors.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

From 2017 to 2019, the Company's dividend was as follows:

*Unit: RMB*

Year of dividend	Amount of dividends per ten shares (tax inclusive)	Amount of cash dividends (tax inclusive)	Net profit attributable to ordinary equity holders of the listed company in the consolidated financial statements of the dividend year	Proportion of net profit attributable to ordinary equity holders of the parent company in the consolidated financial statements
2019 (budget)	2.35	1,796,900,530.93	5,130,270,443.24	35.03%
2018	1.80	1,376,349,342.84	2,793,459,930.82	49.27%
2017	1.80	1,376,349,342.84	3,721,427,677.06	36.98%

2019 Profit distribution budget:

Confirmed by the external of auditors, the Company (refers to the "Parent Company", the same thereafter) achieved a net profit of RMB5,397,213,163.55 in 2019.

According to relevant provisions of the Company Law, the Securities Law, the Financial Regulations of Financial Enterprises (《金融企業財務規則》), the Interim Measures for the Supervision and Administration of the Risk Reserves of Public Securities Investment Funds (《公開募集證券投資基金風險準備金監督管理暫行辦法》) and the Articles of Association, the Company intended to distribute its net profit for 2019 according to the following orders:

According to 10% of net profit, a statutory reserve of RMB539,721,316.36 was drawn;

According to 10% of net profit, a general risk reserve of RMB539,721,316.36 was drawn;

According to 10% of net profit, a trading risk reserve of RMB539,721,316.36 was drawn;

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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According to 2.5% of mutual funds custodian fee, a risk reserve of RMB524,149.76 was drawn;

According to 10% of aggregate product management fees, a risk reserve of RMB30,678,734.80 was drawn.

The above items totaled RMB1,650,366,833.64, subtracting the Company's interest on perpetual bonds of RMB371,417,808.22 and subtracting the dividends for 2018 distributed in the year 2019 of RMB1,376,349,342.84 and adding undistributed profit at the beginning of the year of RMB14,416,192,334.88, and the Company's undistributed profit at the end of 2019 was RMB16,415,271,513.73.

Based on an overall consideration of the long-term development of the Company and the interests of shareholders, 2019 profit distribution budget is as follows:

The Company proposes to distribute in the form of cash dividends, on the basis of 7,646,385,238 Shares in the total issued share capital as of December 31, 2019, RMB2.35 (tax inclusive) for every 10 Shares to all shareholders, amounting to RMB1,796,900,530.93 (tax inclusive) in aggregate, representing 35.03% of net profit attributable to ordinary equity holders of the Company in the consolidated financial statements for 2019. The remaining undistributed profit will be carried forward to the subsequent year. If the total share capital of the Company changes before the share registration date for conducting profit distribution, then the distribution percentage per share remains unchanged while the total distribution amount will be adjusted accordingly, particulars of which will be further announced.

Cash dividend is denominated and declared in RMB and payable in RMB to the A Shareholders and in Hong Kong dollars to the H Shareholders. The actual amount declared in Hong Kong dollars will be calculated based on the average of the intermediate exchange rate for conversion of Hong Kong dollars to RMB as announced by the People's Bank of China one calendar week prior to the date of convening general meeting for considering and approving the resolution on profit distribution.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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After the budget is considered and approved at the general meeting, the Company will distribute cash dividends within two months after the date of convening the general meeting. The Company expects that the cash dividends shall be paid by 28 August 2020 (Friday). The Company will make further announcement on, among others, equity registration date and date of distribution in relation to this dividend distribution.

### **XII. RISK MANAGEMENT**

#### **(I) Overview**

The Company attaches great importance to the formation of a risk management system all the time. Adopting the risk management concept of “risk management as priority, risk management by all”, the Company regards alignment with the general operating strategic goal of the Company and risk maintenance at a tolerable level as the foundation of risk management and seeks to ensure that risks associated with various businesses of the Company are measurable, controllable and commensurate with returns. The Company continues to enhance its risk management system in accordance with the needs arising from its business development, market condition changes and the regulatory requirements, so as to ensure the progressive enhancement and effective operation of a comprehensive risk management mechanism.

#### **(II) Structure of Risk Management**

The Board of Directors is the Company’s ultimate decision-making body for risk management. The executive management is the executive body, while different units are responsible for directly managing the risks in their business or operational activities. The Company has three dedicated risk control departments, namely the Risk Management Department, the Legal and Compliance Department and the Internal Audit Department, which independently monitor and manage risks before, during and after the event, according to their respective roles and responsibilities.

The Board of Directors makes decisions with respect to the Company’s risk management strategies and policies, internal control arrangements, as well as the resolution of significant risk events. The Supervisory Committee carries out supervision on the performance of risk management duties of the Board of Directors, Executive Committee and senior management in accordance with laws, regulations and the Articles of Association.



## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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The Risk Management Committee under the Board of Directors is responsible for supervising the overall risk management of the Company in general and ensuring the risks are adequately managed so that management activities may be effectively carried out on risks associated with the Company's business and operating activities. The Risk Management Committee under the Board of Directors considers and advises the overall objectives and basic policies of compliance management and risk management, confirms the specific constitution of risk management strategies and risk management resources so that they are aligned with the internal risk management policies; formulates tolerance level for major risks; and supervises and reviews the risk management policies and makes recommendations to the Board.

The Company's Executive Committee makes overall decisions with respect to the prevention, control, mitigation, or acceptance of risks in the Company's business and operating activities and makes decisions on efforts to improve the internal control rules and procedures and control measures in accordance with the risk management policies adopted by the Board.

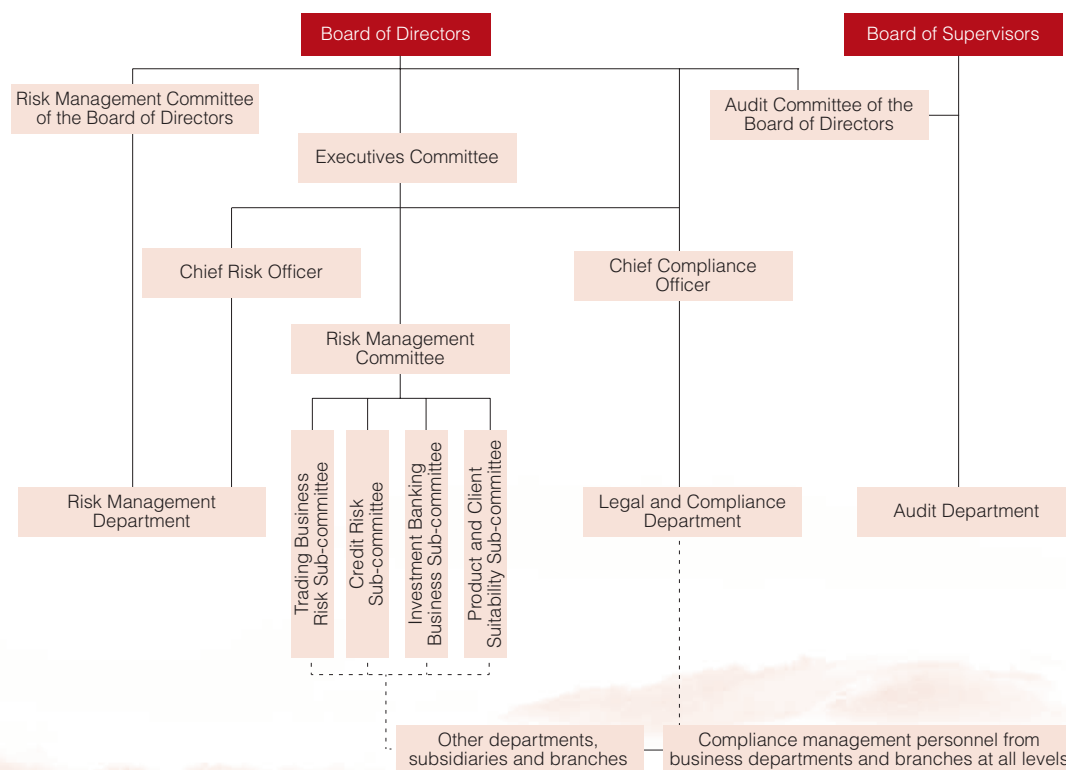
The Risk Management Committee under the Executive Committee is responsible for determining the Company's risk appetite, risk tolerance level and major risk limits; formulating and promoting the implementation of the Company's risk management rules and procedures; approving risk limits and risk control standards specific to each business line; reviewing and approving new businesses and products; reviewing and approving the Company's risk reports; conducting research on risk control strategies and action plans for major business matters.

The Chief Risk Officer of the Company is responsible for leading professional risk management activities across the Company, including organizing the formulation of relevant risk management rules and procedures, improving the Company's risk management practices, and guiding the Risk Management Department in the identification, evaluation, monitoring and reporting of various risks.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Each and every department, branch and subsidiary of the Company, within their respective roles and responsibilities, is responsible for following the decisions, rules and procedures, and risk control polices, and implementing risk-control measures and engaging in direct risk control efforts in their business activities. Every staff of the Company has the responsibility to comply with the Company's relevant rules and procedures and contribute to daily risk control efforts as part of their own job responsibilities.

The Risk Management Department is responsible for risk management of the Company; the Legal and Compliance Department is responsible for legal affairs and compliance management, and the Internal Audit Department is responsible for the Company's internal audit activities. The aforementioned three independent risk management departments establish their own rules and procedures and operate independently to promote risk management of the Company. Specifically, the Risk Management Department is responsible for risk management before and during the event through risk monitoring and assessment, the Legal and Compliance Department is responsible for managing the overall legal and compliance risks of the Company, and the Internal Audit Department is responsible for conducting audits to identify material defects in key rules and procedures and processes, as well as internal control weakness, and supervising corrections and rectifications.



## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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In addition, pursuant to the needs of risk management in investment banking business, along with regulatory requirements, the Company has established the internal audit department in 2018. Through company-level review, the Company conducted export management and terminal risk control of investment banking projects, and performed ultimate approval of decision-making functions for the materials and documents submitted, reported, issued or disclosed in the name of the Company.

### **(III) Risk Management Mechanism**

The Risk Management Department works with business and management departments to identify major risks during the course of different business and management activities, issue the Risk Catalogue and Key Control List, and continue to update the same in light of business changes and monitoring findings.

The Company establishes a before-the-event risk control mechanism. It focuses on each of the main business lines to formulate specific risk limits and risk control standards, and has explicit procedures of risk control; the Risk Management Department and the Legal and Compliance Department have participated in the before-the-event evaluation for important projects and the operation system, and have expressed their opinions independently; important risk control parameters are directly under the management and control of the Risk Management Department, which also conducts independent verification for valuation model of financial instruments before going online.

The Risk Management Department formulates the risk monitoring processes and indicators for key business and management lines. In particular, risk monitoring indicators for brokerage business, proprietary business, securities financing business, and asset management business as well as risk control indicators including net capital are monitored through the monitoring system, while the risk monitoring for other business or management lines primarily relies on regular and ad hoc monitoring by means of on-site monitoring, risk information reporting, data access and regular meetings. Main businesses of subsidiaries fall within the scope of monitoring.

The Company also formulates operational process for risk assessment, and determines main assessment methods and qualitative and quantitative risk rating criteria for various types of risks. The Risk Management Department assesses and rates the risk matters on an ongoing basis, evaluates the control of major business risks on a regular basis, and conducts comprehensive year-end assessments of the risk control process, risk events and positions, and risk incidents of the departments, branches and subsidiaries as a key component of their performance assessment.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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The Company has formulated guidelines for various types of risk management and control, including market risk, credit risk, operational risk, liquidity risk and reputation risk, in order to guide and regulate the response to risks in various business lines. The Company has established crisis management mechanism and programs, and has formulated effective contingency measures and plans for various businesses, especially for key risks and emergencies such as liquidity crisis and accidents on transaction system, while emergency response mechanism has been established and is drilled sporadically on a regular basis.

The Company is responsible for building mechanisms for communicating and reporting risk information and significant risk warnings, communicating and managing risk information and providing significant risk warnings. The Risk Management Department is responsible for formulating operational procedures for communicating and reporting risk information and issuing risk warnings, and the departments and branches and subsidiaries report risk information or issue warnings on potential risks identified by themselves to the Risk Management Department. The Risk Management Department then manages the risk information, performs comprehensive analyses on various risk information to identify risk control weaknesses and loopholes and propose recommendations on improving risk control, reports significant risks to the Chief Risk Officer and Risk Management Committee or executive management, and at the same time, communicates risk information to relevant departments, while tracking any follow-up activities. The Risk Management Department prepares risk reports and risk control recommendation reports according to the results on risk identification, monitoring and assessment, and reports the findings to involved parties and the executive management of the Company. The Risk Management Department continuously monitors risks and the risk control status by following up on the implementation of risk control recommendations by relevant parties in managing risks identified in the risk reports.

The Legal and Compliance Department manages legal and compliance risks through compliance consultation, compliance review, compliance inspection, compliance supervision, compliance reporting, complaints reporting and handling, compliance accountability, information segregation wall, anti-money laundering and a series of compliance management methods as well as contracts, litigation management and other before- and during-the-event management for business lines.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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The Internal Audit Department detects material defects in key rules and procedures and processes or internal control weaknesses through audits, reports these issues to the Supervisory Committee, the Audit Committee, management, the Legal and Compliance Department and the Risk Management Department, and drives any follow-up corrections and rectifications.

In 2019, the Company, by continuously promoting the implementation of consolidated management, further optimized the comprehensive risk management mechanism, kept enhancing internal control, risk measurement, credit risk management and risk management in the subsidiaries, The risk management capability of grouping and fine management level of the Company has been further strengthened by increasing input in staffing and development of risk management system.

### **(IV) Details of the Primary Risks Associated with the Operation of the Company**

The risks in the daily operating activities of the Company primarily include strategic risk, credit risk, liquidity risk, market risk, operational risk, information technology risk, legal risk and compliance risk and reputation risk. The Company has established specific policies and procedures to identify and address these risks, set out appropriate risk limits and internal control processes to manage these risks, and built a sound control mechanism and information technology systems to continuously monitor and control these risks.

#### **1. Strategic Risk Management**

Strategic risks refer to the risks that affects the Company's overall development direction, corporate culture, information and capability of survival or corporate effectiveness.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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The Company established rational organizational structure of strategic management, including the Board of Directors and the Development Strategy Committee, the Executive Committee and the Executive Office (leading organizational department for strategic planning) under the Board of Directors, as well as each department, each branch and subsidiary.

The Company has clearly formulated the procedures and methods of strategic planning, established assessment mechanism for strategic risk, including analysis on potential risk factors when formulating strategic plans, as well as regular review and discussion performed by the Board of Directors and the Executive Committee during the process of strategic planning. The Company will, based on the assessment on the implementation of strategic planning, make adjustment to the strategic plans or adopt targeted measures to control the strategic risk when necessary.

### **2. Credit Risk Management**

Credit risks refer to the risks arising from the economic loss caused by failure of performing the obligations in the contract by counterparties, issuers of debt financing instruments (or financiers).

Credit risks of the Company arising from securities financial business primarily includes risks from decline in value or insufficient liquidity of collateral provided by customers, customers' failure to repay debts in full in a timely manner due to involvement in legal disputes of collateral assets, and credit risks arising from fraudulent credit information, violation of contracts and regulatory requirements in transaction actions. Control of credit risk from securities financing business is realized primarily through risk education for customers, credit investigation and verification on customers, credit management, risk assessment on collateralized (pledged) securities, reasonable setting of indication of defaulting customers, financing of customers with insufficient guaranteed securities and normal customers, the Company will perform the provision for impairment in accordance with prudential principles by complying with the accounting standards of IFRS 9, and actively recover debts from defaulting clients.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

### (Continued)

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Credit risk arising from bond investments is primarily due to bond financing instrument issuer defaults or decline in the creditworthiness of issuers, defaults of counterparty to bond trade, among others. The Company conducts necessary due diligence to issuers and counterparties, implements internal rating on issuers, debts and counterparty, executes access and limit management based on internal and external rating, and controls credit risk by using other follow-up monitoring and management tools. In 2019, with the increasing number of default cases in market, the Company continued to improve the credit quality of investment portfolio, and credit risk management capability by enhancing due diligence to investment subject and counterparties and improving internal rating system.

The Company controls credit risk arising from over-the-counter derivative transactions through setting counterparty ratings and credit lines, and setting limits on the sizes of transactions and credit risk exposures before transactions take place. The Company conducts a daily check and measurement of the credit risk exposures of counterparties. The Company has also adopted mark-to-market practices to monitor the contracts of derivative transactions and for valuation of collateral, and established forced position squaring procedures to control its credit risk exposures within established credit limits.

In order to manage the credit risk arising from the brokerage business, securities brokerage transactions in mainland China are all settled on a fully pledged basis, which enables settlement risks associated with brokerage business to be well under control. The Company strictly complies with relevant trading and settlement rules and procedures to eliminate non-compliant financing operations for clients. With regard to clients' credit risk, the Company has adopted safeguarding measures to prevent overdraft or negative balance of equivalent securities for repurchase financing clients, including due diligence of clients, establishing reasonable trade limit with customers, discount rate of pledged bonds, minimum ratio of equivalent securities retained, maximum leverage ratio and pledge concentration of single bond, and established various rules and practices to manage the credit risk of option trading clients, including margin management, position limits, and forced closeout.

Furthermore, the Company's Risk Management Department monitors the credit risk on an ongoing basis, including tracking the credit qualification status of counterparties and bond issuers, monitoring coverage of collateral for securities and financial business, requiring the business department to fulfill its duty of post-investment management, as well as using stress testing and sensitivity analysis, among others, to measure the credit risk of major business lines.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### 3. *Liquidity Risk Management*

Liquidity risks refer to the risks that a commercial bank is unable to acquire sufficient funds in a timely manner at a reasonable cost, in response to repay due debts, fulfill other payment obligations and meet other funding needs during normal course of business.

The Company has established clear decision-making levels, along with authority mechanism, mechanism for hierarchical control, and has clearly defined the duties and functions of the Board of Directors, as well as executive management and business departments of the Company in terms of liquidity risk management. The Company has established strict administrative measures of proprietary funds, and requires strict compliance with such administrative measures in implementing foreign liabilities, guarantees and investments. The Company also implements management on liquidity risk limits and conducts daily position analyses and monthly liquidity position analyses mechanism to manage liquidity movements in a timely manner. In respect of business, in order to effectively control the market liquidity risk of its securities portfolios, the Company has implemented securities centralized management system in securities investment and securities financial business, and adopted bond credit rating standards for fixed income securities investments. The Company has calculated liquidity coverage rates and net stable funds rates in accordance with regulatory requirements and controlled all indicators to be fell within the safety and compliance interval.

The Asset and Liability Management Committee is responsible for organizing and managing the asset and liability allocation plan of the Company, reviewing and approving the internal valuation interest rate of capital and emergency plans for liquidity risk. The Company established the Treasury Operations Department to initiate the management of the liquidity of its proprietary funds, accounting for expanding mid- and long-term stable funding channels, reasonably adjusting the asset allocation among various business lines, and steadily optimizing its assets and liabilities structure. The Company has improved its daily practice for liquidity risk management and control mechanism with the assistance of liquidity reserve management system, refining internal funds transfer pricing (FTP) system, as well as establishing and optimizing liquidity emergency plans and stress tests. In addition, in 2019, the Company maintained adequate liquidity reserve by issuing various long-term debt financing instruments including subordinated bonds, improved the emergency plan for liquidity risk, and secured liquidity risk to be measurable and controllable.



## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### 4. *Market Risk Management*

Market risks refer to the risks of losses in the Company's on-and-off balance sheet business due to adverse changes in the market price (interest rate, exchange rate, securities price and commodity price).

For market risks, the Company has established an integrated risk management organizational structure, implemented stage-by-stage authorization, provided clear structure of duties and authorities of the Board of Directors, executive management and business department in market risk control and built risk management processes that enable coverage of activities before, during and after making investments, with an overall risk limits application. The Company annually reviews and approves risk limits for the entire Company as well as each proprietary business line, including: exposure limits, stop-loss limits, value-at-risk ("VaR") limits, limits of sensitive indicators and stress testing limits, with the Risk Management Department monitoring and supervising their implementation and compliance. The Company has adopted daily mark-to-market practices, and implemented stop-loss procedures which commensurate with its trading strategies. On a regular basis, the Company assesses the risk tolerance of its proprietary business lines, the effectiveness of risk control and revenue after risk adjustment, and includes the assessment results in the performance evaluation of these business lines. The Company makes ongoing efforts to improve its proprietary business management system, to steadily realize automated controls over relevant limit indicators. The Company adopts VaR as a tool to measure the market risk of its investment portfolio comprising securities and its derivatives. VaR is a method that estimates the maximum possible loss on the portfolio due to movements in market interest rates or securities prices over designated period and within a given confidence interval. As VaR mainly relies on relevant information of historical data, it has certain inherent limitations. To complement, the Company implements daily and specific stress tests to assess the impact on the risk control indicators of net capital of the Company and profit or loss of proprietary portfolio from extreme adverse changes of risk factors, and proposes emergency plans with relevant recommendations and measures in accordance with the assessment.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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The Company uses sensitivity analysis as a primary instrument to monitor the interest rate risk. Sensitivity analysis measures the impact on the total income and shareholders' equity interests arising from fair value changes of various financial instruments held at the end of the period when there are reasonable and possible changes in interest rates, on the assumptions that all other variables remain constant and overall market interest rates shift in a parallel manner, while risk management activities which may be taken by the Company to reduce interest rate risks are not taken into consideration.

With regard to foreign exchange rate risk management, as the proportion of assets denominated in foreign currencies held by our Company is insignificant, and represents a small portion of the income structure, the Company is of the view that the impact of foreign exchange rate risk on the Company's current operation is significant in general. The Company manages its foreign exchange rate risk by implementing integrated domestic and overseas business management, limiting the size of assets and liabilities denominated in foreign currencies, assigning stop-loss limits for investments in overseas companies and risk hedging with foreign exchange derivatives.

Other price risks refer to risks of fair value decline to the Group's investment portfolio due to fluctuations in market prices other than stock prices, interest rates, and foreign exchange rates, primarily including commodity prices. The Group's investment portfolio primarily comprises equity securities and their derivative instruments as well as fixed income businesses. Other market price-related businesses include gold trading and commodity derivatives trading where the Group primarily focuses on providing liquidity services and arbitrage trading, representing a very small portion of the Group's portfolio and a negligible risk exposure. Accordingly, the Group believes that the other price risks do not have a significant impact on the Group's current operations.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### 5. *Operational Risk*

Operational Risks refer to the risks of losses caused by imperfect or problematic internal procedures, employees, IT systems or external events.

Concerning the potential operational risks in each business and management activity of the Company, the Company carries out the segregation of various businesses with three lines of defense comprising a system of checks and balances between its front, middle and back offices. A business authority delegation and accountability system, as well as a management system, procedures and risk control measures for each business has been established and reinforced. Within the scope of authority of the Company, operational risks are transferred or mitigated by personnel and operation outsourcing and, where necessary, insurance is purchased to the extent authorized. Mechanisms for information exchange, reporting of major events and information feedback have also been set up.

The Risk Management Department of the Company monitors and assesses the operational risks of various businesses including the brokerage business, and also implements regular risk control evaluation. It examines the key risks of various business and management lines, and establishes and implements key control measures in practical business procedures. The department also develops and improves internal control matrix. The business departments are organized to conduct self-evaluation of risk and control to identify new material risks and take appropriate risk control measures. Statistical analysis on various types of operational risk events is performed at least on an annual basis to calculate the frequency of their occurrence and the level of losses, as well as to assess the changing trend of risk and risk allocations. In 2019, the Company further implemented various risk warnings and risk education programs, and held “Compliance Risk Control Awareness and Code of Conducts Examination” attended by all the staff members, enhanced targeted monitoring and investigation of major risks, improved internal control system and matrix, and kept promoting the applications of various operational risk management tools such as the Key Risk Indicators (KRI), the Risk Control Self-Assessment (RCSA) and Loss Data Collection (LDC).

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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### **6. Information Technology Risk Management**

Information technology risks refer to the operational, legal and reputational risks incurred from natural factors, human factors, technical defects and management flaws while the information technology is applied in the Company.

The Information Technology Department of the Company is responsible for the management of planning, establishment and operation maintenance of the information technology system. The Company carries out centralized management and backup of the data in transaction system, implementation of mutual separation of development, testing and operation maintenance of information technology system, as well as mutual separation of data management and application system, and implements strict control of access authority and track record, controls the choice of relevant software, hardware and external suppliers of information technology system, enhances external system management, performs real-time and automatic monitoring of the connection of important communication network and operation of the significant business system. In addition, the emergency management of business continuity of the Company is centrally led by the Risk Management Department, and the Information Technology Department is responsible for the technical support work.

### **7. Legal Risk and Compliance Risk Management**

Legal risks refer to the risk from contracts not being performed due to invalidity within the law, or improper entering into of the contracts; Compliance risks refer to the risk that the Company may be exposed to legal sanction or regulatory measures, major property loss or reputation loss as a result of its non-compliance with the laws and regulations, regulatory requirements, rules, relevant codes stipulated by self-regulatory organizations as well as code of conduct applicable for our own business activities.

## SECTION 4 MANAGEMENT DISCUSSION AND ANALYSIS

### (Continued)

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The Legal and Compliance Department of the Company unified to manage legal affairs of the Company and controlled legal risks. It centralized to review all agreements and contracts of the Company, provided legal opinions on major business matters of the Company and performed centralized management, as well as instructed to handle litigations of the Company. Meanwhile, as the department responsible for compliance management under the guidance of the Chief Compliance Officer to carry out independent compliance management of the Company. The main responsibilities of compliance management of the Legal and Compliance Department are daily tracking, analysis, issue of laws and regulatory rules currently in effect and timely identifying, evaluating and managing relevant compliance risk in business operation and business innovation of the Company through various means and methods of compliance inspection, compliance review, compliance checking, compliance supervision. Specific or part-time compliance management officers are engaged in all functional departments, business lines and securities branches of the Company, and are responsible for daily compliance issues in their own departments. The compliance management of the Company has permeated all divisions of the Company, such as decision-making, implementation, supervision and feedback, which have been included in the whole process of executive management of the Company. The Company proactively cultivates a culture of compliance and improves the self-restraint mechanisms in order to ensure compliant operations and standardized development.

#### **8. Reputation Risk Management**

Reputation risks refer to the risks of negative comments to the Company from relevant stakeholders as a result of our operations, management and other activities or external events.

The Company strictly upholds the compliance operation concept in accordance with laws, enhances information disclosure management, treasuring and proactively maintaining its reputation. The Executive Office of the Company, the leading management department for management of significant emergency issues and public opinions, is responsible for comprehending the emergency issues and other issues which may have impact on the reputation of the Company by improving reputation risk management system and mechanism and timely obtaining the relevant information reported by the media to monitor, evaluate and coordinate response to the reputation risk.

## SECTION 5 REPORT OF DIRECTORS

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### I. BUSINESS REVIEW

In face of the complicated and ever-changing market environment in 2019, the Company actively took responsive measures and forge forward, ensuring favorable development of various businesses. Please refer to the section headed “Section 4 – Management Discussion and Analysis” in the report for the details on principal businesses, operating model and industry review.

### II. MAJOR RISKS AND UNCERTAINTIES

The major risks the Company is exposed to include market risks, credit risks, liquidity risks and operational risks. For the risk management objectives and policies of the Company, please refer to the description on risk management of the Company set out in this annual report. Please refer to the “Section 4 – Management Discussion and Analysis – III. Discussion and Analysis on Future Development of the Company – (VI) Potential Risks” of this annual report for the major risks and uncertainties the Company faced in 2019.

### III. RELEVANT LAWS AND REGULATIONS OF SIGNIFICANT INFLUENCE

Adhering to the principle of operating according to laws and regulations, the Company complies with the national laws, administrative regulations and various rules and normative documents promulgated by regulatory authorities.

In order to control operational risks, the Company established a sound and systematic mechanism by setting up a basic system at company level, under which each business line, department and branch shall establish a highly controllable management system, operational process and standardized regulations. The system covers all businesses and processes of the Company. In 2019, the Company formulated, amended and reviewed over 200 policies on internal management to enhance internal control capabilities according to regulatory requirements and the needs for business management of the Company; the Legal and Compliance Department of the Company is the department for the management of policies of the Company and shall be responsible for reviewing and approving the policies of the Company, requiring the business and management departments of the Company implement all requirements of the regulatory authorities and self-regulatory organizations in all businesses systems of the Company in a timely manner, ensuring that each policy is implemented in accordance with the laws and regulations and guaranteeing the coordination and uniformity among policies.

## SECTION 5 REPORT OF DIRECTORS (Continued)

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### IV. PROFIT DISTRIBUTION AND PROPOSED DIVIDEND

The formulation and implementation of the cash dividend policy and the 2019 profit distribution plan of the Company are set out in the “Section 4 Management Discussion and Analysis – XI. Profit Distribution Policy of the Company” section of this annual report.

### V. TAX RELIEF

#### (I) Tax Relief of A Shareholders

Pursuant to “Notice on Relevant Issues Concerning Differential Individual Income Tax Policies on Dividends and Bonuses of Listed Companies” (Cai Shui [2015] No. 101) (《關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2015]101號)) and “Notice on Relevant Issues Concerning the Implementation of Differential Individual Income Tax Policies on Dividends and Bonuses of Listed Companies” (Cai Shui [2012] No. 85) (《關於實施上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2012]85號)), issued by the Ministry of Finance, the State Administration of Taxation and CSRC, for the dividends and bonuses received by individual investors from listed companies, from the date when individual investors obtain the Company’s stocks to the equity registration date, if the term of shareholding exceeds one year, individual income tax will be temporarily exempted; if the term of shareholding does not exceed one year (including one year), the listed company will not withhold individual income tax, and will make corresponding adjustments in accordance with the above notification requirements when individual investors transfer stocks.

For shareholders of resident enterprises, income tax dividends and bonuses are calculated and paid by itself in accordance with regulations.

## SECTION 5 REPORT OF DIRECTORS (Continued)

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For qualified foreign institutional investors (QFII), pursuant to the “Notice on Relevant Issues Concerning the Payment of Dividends, Bonuses and Interests and Withholding the Enterprise Income Tax by Chinese Resident Enterprises to Qualified Foreign Institutional Investors” (Guo Shui Han [2009] No. 47) (《關於中國居民企業向QFII支付股息、紅利、利息代扣代繳企業所得稅有關問題的通知》(國稅函[2009] 47號)) issued by the State Administration of Taxation, the listed company withholds corporate income tax at a rate of 10%. If the dividends received by QFII shareholders require to enjoy the treatment of Tax Treaty (arrangement), they may apply for tax refunds to the competent tax authorities after receiving the dividends in accordance with the regulations.

Pursuant to the “Notice on the Tax Policies Concerning the Pilot Programs Mechanism of Shanghai-Hong Kong Stock Connect Stock Market” (Cai Shui [2014] No. 81) (《股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) issued by the State Administration of Taxation issued by the Ministry of Finance, the state Administration of Taxation and CSRC for the dividends and bonuses received by Hong Kong market investors (including enterprises and individuals) by investing A Shares listed on the Shanghai Stock Exchange, before fulfilling the condition of provision of identities of investors, period of shareholding and other details and data to CSDC by Hong Kong Securities Clearing Co., Ltd., differential taxation policies are not implemented temporarily in accordance with the period of shareholding. Instead, the listed company withholds income tax at a rate of 10%, and handles the withholding declaration with its competent tax authorities. For Hong Kong investors who are tax residents in other countries and whose country enters into Tax Treaty with China that dividend and bonus income tax rate is less than 10%, enterprise or individual may, on its own or entrusting withholding agent, submit an application for tax treaty treatment to the competent tax authorities of the listed company. After the review by the competent tax authorities, tax refund shall be implemented based on the difference between the tax paid and the taxable amount calculated according to the tax treaty rate.



## SECTION 5 REPORT OF DIRECTORS (Continued)

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### (II) Tax Relief of H Shareholders

Pursuant to the Notice on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) issued by the PRC State Administration of Taxation, the dividends received by overseas resident individual shareholders from the shares issued by domestic non-foreign invested enterprises in Hong Kong are subject to the payment of individual income tax according to the items of “interests, dividend and bonus income,” which shall be withheld by the withholding agents in accordance with the relevant laws. Overseas resident individual shareholders who hold shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries where they are residents and China, or the tax arrangements between the Mainland and Hong Kong (Macau). The relevant dividend tax rate under the relevant tax agreements and tax arrangements is generally 10%, and for the purpose of simplifying tax administration, domestic non-foreign invested enterprises issuing shares in Hong Kong may, when distributing dividends, generally withhold individual income tax at the rate of 10%, and are not obligated to file an application. In circumstances where the tax rate for dividends is not equal to 10%, the following provisions shall apply: (1) for citizens from countries falling under agreements subject to tax rates lower than 10%, the withholding agents will file applications on their behalf to seek entitlement to the relevant agreed upon preferential treatments, and upon approval by the tax authorities, excessive withheld tax amounts will be refunded; (2) for citizens from countries falling under agreements subject to tax rates higher than 10% but lower than 20%, the withholding agents shall withhold individual income tax at the agreed upon effective tax rate upon distribution of dividends (bonus), and are not obligated to file an application; (3) for citizens from countries without tax agreements or under other circumstances, the withholding agents shall withhold individual income tax at a tax rate of 20% upon distribution of dividends.

Pursuant to the regulations in the Circular Concerning Questions on Withholding and Payment of Enterprise Income Tax when PRC Resident Enterprises Distribute to Overseas Non-resident Corporate Shareholders of 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息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, any PRC resident enterprises distributing dividends for the years from 2008 to overseas non-resident corporate shareholders shall withhold enterprise income tax at a uniform rate of 10%.

## SECTION 5 REPORT OF DIRECTORS (Continued)

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Pursuant to the Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets (Cai Shui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)), the Announcement on the Continued Implementation of Individual Income Tax Policy of the Shanghai and Hong Kong as well as Shenzhen and Hong Kong Stock Markets Interconnection Mechanism and Mutual Recognition of Funds between the Mainland and Hong Kong (MOF announcement No. 93 2019)《關於繼續執行滬港、深港股票市場交易互聯互通機制和內地與香港基金互認有關個人所得稅政策的公告》(財政部公告2019年第93號) and the Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) issued by the Ministry of Finance, the State Administration of Taxation and CSRC, for dividends derived by mainland individual investors from investing in H-shares listed on the Hong Kong Stock Exchange through Shenzhen Hong Kong Stock Connect, H-share companies shall withhold individual income tax at a tax rate of 20% for the investors. For mainland securities investment funds investing in Shares listed on the Hong Kong Stock Exchange through Shenzhen Hong Kong Stock Connect, the above rules also apply and individual income tax shall be levied on dividends derived therefrom. Dividends derived by mainland enterprise investors from investing in shares listed on the Hong Kong Stock Exchange through Shenzhen Hong Kong Stock Connect shall be included in their total revenue, and the enterprise income tax thereon may be levied according to the tax law. For dividends derived by mainland resident enterprises where the relevant H shares have been continuously held for more than 12 months, the enterprise income tax thereon may be exempt according to the tax law.

## VI. ANALYSIS AND DESCRIPTION OF REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES, AND RECTIFICATION ON SIGNIFICANT ACCOUNTING ERRORS

### Changes in accounting policies in relation to leasing

Since January 1, 2019, the Group has applied the Accounting Standards for Enterprises No. 21 – Leasing amended and promulgated by the MOF in December 2018. Such changes have constituted changes in accounting policies, and the adjustment to relevant amounts has been determined in the financial statements. The Group chose not to restate the information during the comparison period, but initially implemented the cumulative impact of the New Leasing Standards, and adjusted the retained earnings and the amounts of other relevant items in the financial statements as of January 1, 2019.

## SECTION 5 REPORT OF DIRECTORS (Continued)

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The changes in relevant accounting policies did not cause significant impact on the equity attributable to the parent company in the consolidated financial statements of the Group on January 1, 2019.

Changes in accounting policies resulting from the adoption of the above revised accounting standards were approved by the Board of the Company on March 18, 2019. Specific impact on the changes in the accounting policies mentioned above was disclosed on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) in March 2019.

### VII. SIGNIFICANT FINANCING

During the Reporting Period, significant financing activities of the Company are as follows:

#### (I) Details of previously raised funds

The proceeds previously raised referred to in this report include the proceeds raised through overseas listed foreign shares (H Shares) in December 2016 and the over-allotment of overseas listed foreign shares (H Shares) in January 2017 (hereinafter referred to collectively as “proceeds raised through overseas listed foreign shares”) and also proceeds raised through domestic listed RMB ordinary shares (A Shares) in June 2018 (hereinafter referred to as “proceeds raised through domestic listed RMB ordinary shares”).

##### 1. *Proceeds raised through overseas listed foreign shares*

Pursuant to the Reply on the Issue of Overseas Listed Foreign Shares by CSC Financial Co., Ltd. (Zheng Jian Xu Ke [2016] No. 2529) issued by the CSRC on 4 November 2016, CSC Financial Co., Ltd. (the “Company”) was authorized to issue to the public 1,076,470,000 overseas listed foreign shares (H Shares) at an offer price of HK\$6.81 per share (equivalent to RMB6.06). The proceeds were paid up in Hong Kong dollars, amounting to HK\$7,330,760,700.00 (equivalent to RMB6,518,732,337.26). Upon deduction of the issuance expense equivalent to RMB200,903,380.25, the proceeds raised amounted to the equivalent of RMB6,317,828,957.01. The above-mentioned proceeds were paid up on 9 December 2016.

## SECTION 5 REPORT OF DIRECTORS (Continued)

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On 5 January 2017, the Company exercised partial over-allotment options to issue 69,915,238 overseas listed foreign shares (H shares) at the offer price of HK\$6.81 per share (equivalent to RMB6.09). The proceeds were paid up in Hong Kong dollars, amounting to HK\$476,122,770.78 (equivalent to RMB425,534,726.38). Upon deduction of the issuance expense equivalent to RMB10,671,134.34, the proceeds raised were equivalent to RMB414,863,592.04, which were paid up on 5 January 2017. The above-mentioned proceeds raised amounted to an equivalent of RMB6,732,692,549.05, and such proceeds were verified by PwC Zhong Tian, Beijing Branch, which issued the capital verification report numbered PricewaterhouseCoopers Zhong Tian Beijing Yan Zi [2017] No. 037.

As of 31 December 2019, the balance of such proceeds raised in the designated bank account of H Share proceeds was equivalent to RMB185,218,400, including unused proceeds and bank deposit interest.

### **2. Proceeds raised through domestic listed RMB ordinary shares**

Pursuant to the Reply on the Initial Public Offering and the Listing of Shares by CSC Financial Co., Ltd. (Zheng Jian Xu Ke [2018] No. 828) issued by the CSRC on 25 May 2018, the Company was authorized to issue to 400,000,000 domestic listed RMB ordinary shares (A Shares) at an offer price of RMB5.42 per share. The proceeds were paid up in RMB, amounting to RMB2,168,000,000.00. Upon the deduction of issuance expense equivalent to 99,302,819.71, proceeds raised were RMB2,068,697,180.29, which were paid up on 13 June 2018. The above mentioned proceeds raised through domestic listed RMB ordinary shares were verified by PwC Zhong Tian which issued the capital verification report numbered PricewaterhouseCoopers Zhong Tian Yan Zi [2018] No. 0388.

As of December 31, 2019, such proceeds have been used up, and the designated bank account of A Share proceeds has been cancelled.

## SECTION 5 REPORT OF DIRECTORS (Continued)

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### (II) Actual Use Of The Proceeds Previously Raised

#### 1. Proceeds raised through overseas listed foreign shares

According to the prospectus for overseas listed foreign shares (H Shares) issued by the Company in 2016, the Company planned to use an amount equivalent to RMB6,310.8920 million in total for five specific projects. The balance of additional proceeds from the exercise of any over-allotment option will be allocated to the above mentioned projects on a pro rata basis. The proceeds raised through the exercise of over-allotment options by the Company was equivalent to RMB414.8636 million, amounting to an equivalent of RMB6,725.7556 million when taken together with the proceeds raised as disclosed in the above mentioned H Share prospectus. As of 31 December 2019, the actual amount invested in the projects involving the use of the proceeds previously raised amounted to the equivalent of RMB6,608.4483 million in total.

The use of proceeds raised through overseas listed foreign shares of the Company as of 31 December 2019 is as follows:

*Unit: RMB ten thousand*

Total proceeds raised:	673,269.25	The accumulated amount of proceeds raised that has been used:	660,844.83
Total amount of proceeds raised with purpose changed:	Nil	Total amount of raised proceeds used in each year:	660,844.83
Proportion of raised proceeds with purpose changed:	Nil	2016:	204,106.16
		2017:	320,177.66
		2018:	125,000.00
		2019:	11,561.01

## SECTION 5 REPORT OF DIRECTORS (Continued)

No.	Investment project		Total investment amount of the raised proceeds		The accumulated investment amount of the raised proceeds as of 31 December 2019				Difference between actual investment and proposed investment amount after fundraising (Note 1)	The date on which the project is ready for use (or the completion progress of the project as of the closing date)
	Proposed investment project	Actual investment project	Proposed investment amount before fundraising (Note 3)	Proposed investment amount after fundraising (Note 3)	Actual investment	Proposed investment amount before fundraising	Proposed investment amount after fundraising	Actual investment (Note 2)		
1	Meeting investment and financing needs of customers	Meeting investment and financing needs of customers	35%, an amount equivalent to 235,401.45	35%, an amount equivalent to 235,644.24	235,644.24	235,401.45	235,644.24	235,644.24	-	N/A
2	Enhancing investment and market-making capacity	Enhancing investment and market-making capacity	20%, an amount equivalent to 134,515.11	20%, an amount equivalent to 134,653.85	134,479.82	134,515.11	134,653.85	134,479.82	(174.03)	N/A
3	Product seed fund	Product seed fund	20%, an amount equivalent to 134,515.11	20%, an amount equivalent to 134,653.85	134,653.85	134,515.11	134,653.85	134,653.85	-	N/A
4	Enhancing cross-border business capacity and international competitiveness, increasing proportion of overseas assets and revenue	Enhancing cross-border business capacity and international competitiveness, increasing proportion of overseas assets and revenue	15%, an amount equivalent to 100,886.33	15%, an amount equivalent to 100,990.39	88,740.00	100,886.33	100,990.39	88,740.00	(12,250.39)	N/A
5	Working capital and other general business use	Working capital and other general business use	10%, an amount equivalent to 67,257.56	10%, an amount equivalent to 67,326.92	67,326.92	67,257.56	67,326.92	67,326.92	-	N/A
	Total		<u>672,575.56</u>	<u>673,269.25</u>	<u>660,844.83</u>	<u>672,575.56</u>	<u>673,269.25</u>	<u>660,844.83</u>	<u>(12,424.42)</u>	N/A

## SECTION 5 REPORT OF DIRECTORS (Continued)

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*Note 1:* The difference between the actual investment amount and the proposed investment amount was the unused proceeds as at 31 December 2019 and the exchange gains and losses caused by the difference between the actual exchange rate and the exchange rate of the total investment after fundraising. The Company has compared, item by item, the proposed investment projects stated in the H Share prospectus with the specific usage as disclosed. As of 31 December 2019, H Share proceeds proposed to be used but not used by the Company amounted to RMB122.5039 million. The Company will use the remaining H Share proceeds according to the actual development needs. Among these, the H Share proceeds intended to be used for enhancing cross-border business capacity and international competitiveness (equivalent to RMB122.5039 million) will be maintained at the overseas fundraising account temporarily and remitted to the overseas subsidiaries for further use according to the actual business needs of the overseas subsidiaries after obtaining the approval of the relevant regulatory authorities. In addition, as of 31 December 2019, the proceeds proposed to be used in enhancing investment and market-making capacity equivalent to RMB1,346.5385 million has all been settled and used up. The difference between actual investment and proposed investment amounted to RMB1.7403 million, which was the exchange gains and losses caused by the difference between the actual exchange rate and the exchange rate of the total investment after fundraising.

*Note 2:* The actual investment of proceeds raised through overseas listed foreign shares is translated into RMB equivalent based on the actual exchange rate. Amount in the designated bank account for proceeds raised will be transferred to the Company's own general account upon the approval given by the Company for the purposes of the actual investment projects. Proceeds raised would not be separated from other proceeds within the self-owned general account. The Company recognized the actual use of the proceeds raised by further review and approval on the use and payment of the proceeds within the general account pursuant to the purposes of the actual investment projects.

*Note 3:* The difference between proposed investment before and after fundraising was mainly the difference arising from foreign exchange translation.

The Company has made no guarantee on benefits generated from the use of proceeds upon the issuance of overseas listed foreign shares. A portion of proceeds raised through overseas listed foreign shares has already been used on the work proposed in the prospectus upon being paid up; correspondingly, net assets and net capital of the Company were both increased. Since proceeds used in all of the investment projects of proceeds raised include original self-owned proceeds and proceeds raised, it is not possible to separately calculate the benefits realized with the proceeds raised as of 31 December 2019.

## SECTION 5 REPORT OF DIRECTORS (Continued)

### 2. Proceeds raised through domestic listed RMB ordinary shares

Pursuant to the prospectus for domestic listed RMB ordinary shares of the Company in 2018, the proceeds raised is planned to be fully used on replenishing the working capital of the Company. As of 31 December 2019, the actual amount invested in the projects involving the use of the proceeds amounted to RMB2,068.6972 million.

The use of proceeds raised through domestic listed RMB ordinary shares of the Company as of 31 December 2019 is as follows:

*Unit: RMB ten thousands*

Total proceeds raised:	206,869.72	The accumulated amount of proceeds raised that has been used:	206,869.72
Total amount of proceeds raised with purpose changed:	Nil	Total amount of raised proceeds used in each year:	206,869.72
Proportion of raised proceeds with purpose changed:	Nil	2018:	206,869.72

No.	Investment project		Total investment amount of the raised proceeds			The accumulated investment amount of the raised proceeds as of 31 December 2019			The date on which the project is ready for use (or the completion progress of the project as of the closing date)	
	Proposed investment project	Actual investment project	Proposed investment amount before fundraising	Proposed investment amount after fundraising	Actual investment	Proposed investment amount before fundraising	Proposed investment amount after fundraising	Actual investment	Difference between actual investment and proposed investment After fundraising	N/A
1	Replenishing working capital of the Company	Replenishing working capital of the Company	206,869.72	206,869.72	206,869.72	206,869.72	206,869.72	206,869.72	-	N/A
Total			<u>206,869.72</u>	<u>206,869.72</u>	<u>206,869.72</u>	<u>206,869.72</u>	<u>206,869.72</u>	<u>206,869.72</u>	-	N/A



## SECTION 5 REPORT OF DIRECTORS (Continued)

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The Company has made no guarantee on benefits generated from the use of proceeds upon the issuance of domestic listed RMB ordinary shares. Proceeds raised through domestic listed RMB ordinary shares has been fully used on the work proposed in the prospectus upon being paid up; correspondingly, net assets and net capital of the Company were both increased. Since proceeds used in all of the investment projects of proceeds raised include original self-owned proceeds and raised proceeds, it is not possible to separately calculate the benefits realized with the raised proceeds as of 31 December 2019.

### (III) Bond Financing

During the Reporting Period, the Company non-publicly issued three tranches of subordinated bonds with a total issuance amount of RMB14.5 billion; one tranche of perpetual subordinated bonds with a total issuance amount of RMB5.0 billion; publicly issued one tranche of financial bonds with a total issuance amount of RMB4.0 billion; and eight tranches of short-term financing bonds with a total issuance amount of RMB28.0 billion. Details are as set out below:

1. In January 2019, the Company non-publicly issued a 3-year fixed rate subordinated bond (“19 CSC C1”) with a face value of RMB5.5 billion. The bond pays interest annually at 4.00% per annum and is not guaranteed.
2. In April 2019, the Company non-publicly issued a 3-year fixed rate subordinated bond (“19 CSC C2”) with a face value of RMB5.0 billion. The bond pays interest annually at 4.20% per annum and is not guaranteed.
3. In April 2019, the Company publicly issued a 90-day fixed rate commercial paper with a face value of RMB3.0 billion (“19 CSC CP001”). The bond pays the principal and interest at 3.00% per annum at maturity and is not guaranteed.
4. In May 2019, the Company non-publicly issued a 3-year fixed rate subordinated bond (“19 CSC C3”) with a face value of RMB4.0 billion. The bond pays interest annually at 4.12% per annum and is not guaranteed.
5. In May 2019, the Company publicly issued a 90-day fixed rate commercial paper with a face value of RMB3.0 billion (“19 CSC CP002”). The bond pays the principal and interest at 2.99% per annum at maturity and is not guaranteed.

## SECTION 5 REPORT OF DIRECTORS (Continued)

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6. In June 2019, the Company publicly issued a 90-day fixed rate commercial paper with a face value of RMB3.0 billion (“19 CSC CP003”). The bond pays the principal and interest at 3.06% per annum at maturity and is not guaranteed.
7. In July 2019, the Company publicly issued a 90-day fixed rate commercial paper with a face value of RMB3.0 billion (“19 CSC CP004”). The bond pays the principal and interest at 2.70% per annum at maturity and is not guaranteed.
8. In August 2019, the Company publicly issued a 3-year fixed rate financial bond with a face value of RMB4.0 billion (“19 CSC Financial Bond 01”). The bond pays interest annually at 3.52% per annum and is not guaranteed.
9. In August 2019, the Company non-publicly issued a perpetual subordinated bond with a face value of RMB5.0 billion (“19 CSC Y1”). Every five interest-accruing years constitute a repricing period of the bond. At the end of each repricing period, the Company is entitled to extend the maturity of such Tranche of Bonds to one repricing period (i.e. for a period of 5 years) or redeem such Tranche of Bonds in full. The coupon rate of the bond at the first repricing period is 4.45%. The coupon rate will be reset for every five years starting from the 6th interest-accruing year if the Company elect to exercise renewal option.
10. In September 2019, the Company publicly issued a 88-day fixed rate commercial paper with a face value of RMB4.0 billion (“19 CSC CP005”). The bond pays the principal and interest at 2.75% per annum at maturity and is not guaranteed.
11. In October 2019, the Company publicly issued a 91-day fixed rate commercial paper with a face value of RMB4.0 billion (“19 CSC CP006”). The bond pays the principal and interest at 2.88% per annum at maturity and is not guaranteed.
12. In October 2019, the Company publicly issued a 90-day fixed rate commercial paper with a face value of RMB4.0 billion (“19 CSC CP007”). The bond pays the principal and interest at 3.02% per annum at maturity and is not guaranteed.
13. In December 2019, the Company publicly issued a 86-day fixed rate commercial paper with a face value of RMB4.0 billion (“19 CSC CP008”). The bond pays the principal and interest at 3.05% per annum at maturity and is not guaranteed.

## SECTION 5 REPORT OF DIRECTORS (Continued)

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Subsequent Events after the Reporting Period:

1. In January 2020, the Company publicly issued a 88-day fixed rate commercial paper with a face value of RMB4.0 billion (“20 CSC CP001”). The bond pays the principal and interest at 2.79% per annum at maturity and is not guaranteed.
2. In January 2020, the Company publicly issued a 88-day fixed rate commercial paper with a face value of RMB4.0 billion (“20 CSC CP002”). The bond pays the principal and interest at 2.79% per annum at maturity and is not guaranteed.
3. In February 2020, the Company publicly issued a 83-day fixed rate commercial paper with a face value of RMB4.0 billion (“20 CSC CP003”). The bond pays the principal and interest at 2.52% per annum at maturity and is not guaranteed.
4. In March 2020, the Company publicly issued a 91-day fixed rate financing bond (“20 CSC CP004”) with a face value of RMB4 billion. The bond pays the principal and interest at 2.42% per annum at maturity and is not guaranteed.
5. In March 2020, the Company publicly issued a corporate bond with a face value of RMB6 billion, which is divided into two categories, of which, the first one is the “20 credit investment G1” at the scale of RMB5 billion, with a term of three years and a rate of 2.94% and the second one is the “20 credit investment G2” at a scale of RMB1 billion, with a term of five years and a rate of 3.13%. The bond applies the fixed interest rate and its simple interest is calculated on an annual basis with interest repayment per annum and it is not guaranteed.

## VIII. REPURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

The Company or any of its subsidiaries did not repurchase, sell or redeem securities of the Company for the year ended December 31, 2019.

## IX. BIOGRAPHICAL DETAILS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of Directors, Supervisors and senior management of the Company are set out in “Section 8 Directors, Supervisors, Senior Management and Employees – I. Changes in Shareholding and Remuneration – (II) Biographical Details of the Current Directors, Supervisors and Senior Management of the Company” of this annual report.

### **X. SERVICE CONTRACTS AND APPOINTMENT LETTERS OF DIRECTORS AND SUPERVISORS**

The Company entered into service contracts or appointment letters with Directors of the current session of the Board with their term of office starting from the date of the approval of election at the Shareholders' general meeting and the obtaining of the relevant qualification, until the expiry date of the term of the session of the Board.

In addition, the Company or its subsidiaries did not enter into any service contract with the Directors and Supervisors which will be terminated in one year without any compensation (other than statutory compensation).

### **XI. PERMITTED INDEMNITY PROVISIONS**

The Company has purchased insurance for the Directors against legal liabilities arising from performance of their duties. The applicable law governing the relevant insurance policies was PRC law. The Company reviews the coverage of such insurance each year. During the Reporting Period, there were no claims for compensation against the Directors or senior management of the Company.

### **XII. MANAGEMENT CONTRACTS**

During the Reporting Period, apart from employment contracts of employees, no management or administrative contracts were entered into or subsisting in respect of the whole or a substantial part of any business of the Company.

### **XIII. REMUNERATION POLICIES**

The details of remuneration policies of the Company's Directors, Supervisors and senior management are set out in the "Section 8 Directors, Supervisors, Senior Management and Employees – V. Performance of Duties of Directors, Supervisors and Senior Management and VI. Remuneration of Directors, Supervisors and Senior Management" of this annual report.

Details of the Company's employee remuneration policies and employee compensation are set out in "Section 8 Directors, Supervisors, Senior Management and Employees – VII. Employees of the Parent Company and Major Subsidiaries – (II) Remuneration Policies" and "Notes to the Financial Statements" of this annual report.

## SECTION 5 REPORT OF DIRECTORS (Continued)

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### **XIV. DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL CONTRACTS**

During the Reporting Period, the Company or its subsidiaries did not enter into any transaction, arrangement or contract of significance in which the Directors or Supervisors or their respective connected entities had a material interest, whether directly or indirectly.

### **XV. DIRECTORS' INTERESTS IN BUSINESSES COMPETING WITH THE COMPANY**

During the Reporting Period, none of the Directors had interests in any business which competes with the businesses of the Company.

### **XVI. INTERESTS AND SHORT POSITIONS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY**

To the best knowledge of all Directors, as of December 31, 2019, no Directors, Supervisors or members of senior management of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or any of the Company's associated corporations (as defined in Part XV of the Securities and Futures Ordinance), which were required, pursuant to Section 352 of the Securities and Futures Ordinance, to be entered into the register referred to therein, or required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

As of December 31, 2019, no Directors and Supervisors or any of their spouses or children under 18 years of age had been granted the rights to purchase Shares or bonds of the Company for the benefit or exercise any aforesaid rights by themselves, nor have any Directors and Supervisors or any of their spouses or children under 18 years of age been granted the aforesaid rights from any other corporate body due to the arrangement made by the Company or any its subsidiaries.

### **XVII. INTERESTS AND SHORT POSITIONS TO BE DISCLOSED BY THE SHAREHOLDERS PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE**

Details of interests and short positions to be disclosed by the Shareholders pursuant to the Securities and Futures Ordinance are set out in the "Section 7 Changes in Shares and Information on Substantial Shareholders – V. Disclosure of Interests – Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" of this annual report.

### **XVIII. PRE-EMPTIVE RIGHTS**

The Company was established in accordance with the PRC laws with no arrangement regarding pre-emptive rights.

### **XIX. RESERVES AND RESERVES OF DISTRIBUTABLE PROFITS**

Please refer to the “Consolidated Statement of Changes in Equity” and Note 46 to the consolidated financial statements” of this annual report for details of changes in the reserves and the reserves of distributable profits of the Company.

### **XX. PROPERTY, PLANT AND EQUIPMENT**

Please refer to “Note 17 to the consolidated financial statements” of this annual report for property, plant and equipment of the Group as of December 31, 2019.

### **XXI. MAJOR CLIENTS AND SUPPLIERS**

The Company has a high-quality and diversified client base (primarily consisting of industry-leading corporations, institutional investors and high-net-worth individuals). The Company develops and maintains long-term relationships with clients and is dedicated to providing them with a comprehensive suite of products and services. The Company has gained its clients’ trust through deep engagement and thorough knowledge and understanding of their businesses.

In 2019, the total revenue and other income of the Company from the top five clients in the aggregate did not exceed 10% of our total revenue and other income in the aggregate. By virtue of the nature of our business, the Company has no major suppliers.

### **XXII. RELATIONSHIP WITH EMPLOYEES, CLIENTS, SUPPLIERS AND PERSONS WHO ARE MATERIALLY RELATED**

Employees’ remuneration consists of fixed salary, performance-based bonuses, insurance and other benefits. The Company continues to promote and implement staff training programs featuring comprehensive planning, implementation by levels and clear purposes. For details about the remuneration and training plans for employees of the Company, please refer to the “Section 8 Directors, Supervisors, Senior Management and Employees – VII. Employees of the Parent Company and Major Subsidiaries – (II) Remuneration Policies” and “– (III) Training Program” of this annual report.

## SECTION 5 REPORT OF DIRECTORS (Continued)

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For information on the relationship between the Company and securities brokers, please refer to the “Section 8 Directors, Supervisors, Senior Management and Employees – VII. Employees of the Parent Company and Major Subsidiaries – (IV) Information of Securities Brokers” section of this annual report. For information on the relationship between the Company and major clients and suppliers, please refer to the “Section 5 Report of Directors – XXI. Major Clients and Suppliers” section of this annual report.

### XXIII. SUFFICIENT PUBLIC FLOAT

Upon listing of the H Shares, the Hong Kong Stock Exchange granted a waiver to the Company, approving that the minimum public float for the H Shares shall be the highest of (1) 15% of the total issued Share capital of the Company; (2) such percentage of H Shares to be held by the public immediately after the completion of the global offering (assuming that the overallotment option is not exercised); and (3) such percentage of H Shares to be held by the public immediately after the completion of the global offering (as increased by the H Shares to be issued upon any exercise of the over-allotment option). Upon the completion of the global offering (including the partial exercise of over-allotment option) and based on the minimum public float granted by the Hong Kong Stock Exchange, the minimum public float for the H Shares of the Company is no lower than 17.40%.

Upon the completion of issuance of A Shares, the number of H Shares held by the public represented not less than 16.49% of the total issued Share capital. Based on the public information available to the Company and the knowledge of the Directors as of the Latest Practicable Date before the publishing of this annual report, the Company has satisfied the public float requirements by maintaining a total public float of A Shares and H Shares of not less than 17.40%.

### XXIV. CORPORATE GOVERNANCE

The details of corporate governance are set out in the “Section IX Corporate Governance Report” section of this annual report.

### XXV. PERFORMANCE OF SOCIAL RESPONSIBILITIES

The Company actively fulfills its social responsibility. To achieve its objectives of establishing a better platform for employees, providing better services for clients and making a greater contribution to society, the Company strictly implements industry policies and environmentally friendly policies announced by the government. The Company, as a financial institution, fulfills its economic responsibility, social responsibility and environmental responsibility pursuant to regulatory requirements, facilitating the harmonic and sustainable development of the relationship between the Company and the society and the environment. The Company assigns different roles for different tasks and has established a long-lasting working mechanism for the implementation of social responsibility.

## SECTION 5 REPORT OF DIRECTORS (Continued)

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The Company conducts its businesses in a lawful manner and strives to increase the market share of its businesses and operating results. The Company continuously improves its corporate governance structure, placing efforts on enhancing the scientific standard of decision-making and operational efficiency, and increasing the standard of information disclosure. In addition, the Company continues to strengthen internal controls and improve the capability of its compliance management and risk management. The Company actively commences the construction of combating corruption and upholding integrity, and improves supervision and management mechanism. The Company is gradually forming a client-oriented integrated operation model and keeps upgrading its client services and clients satisfaction. Moreover, it actively participates in the establishment of multi-level capital markets, including the NEEQ and regional equity trading markets, and whole-heartedly provides services in investment, financing and financial advisory for the development of small- and medium-sized enterprises. Upholding the principle of “people-oriented”, the Company optimizes its remuneration and benefits policy, encourages the training of and communication among employees, improves the working environment, safeguards the legal rights of employees, improves talent cultivation system and boosts the development of talent team, and provides platforms and opportunities for talents. The Company cares about the physical and mental health of employees and organizes different types of activities to enrich the leisure time and cultural life of employees by holding healthy walk campaigns, knowledge contests and parents-child activities as well as setting up various leisure clubs. In addition to maintaining its daily operations, with a strong sense of social responsibility, the Company actively participates in charity events and activities, demonstrating its mission to reward and contribute to the society.

The Company continued to strengthen the effort on targeted poverty alleviation, donating RMB6.826 million to nearly 20 poverty-stricken counties at the national level throughout the year; Financial poverty alleviation has achieved outstanding results, helping poverty-stricken counties at the national level raise a total of RMB2.7 billion, including the IPO project of Zubo Design, whose place of registration is in Tibet, and the poverty alleviation special corporate bond project of Anyuan County Investment Company in Jiangxi province. The Company organized more than 40 people to participate in the charity activity of “Shanxingzhe” (善行者).

### XXVI. AUDITORS AND AUDIT COMMITTEE

Please refer to the “Section 6 Other Significant Events – II. Appointment or Termination of Auditors” of this annual report for details of the engagement or dismissal of auditors.

The consolidated financial results for the year have been reviewed by the Audit Committee. The Audit Committee and the board of directors have reviewed the accounting principles and practice adopted by the Group, and discussed auditing, internal control, financial reports and other matters.



## SECTION 5 REPORT OF DIRECTORS (Continued)

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### XXVII. ENVIRONMENTAL POLICY AND PERFORMANCE

CSC has always been upholding the environmental concept of “low-carbon environmental protection and green operation”. As a financial service institution, emissions in the course of business operation of CSC primarily include nitrogen oxide, SO<sub>2</sub> and greenhouse gas due to fuel consumption of motor vehicles, and indirect greenhouse gas emissions due to consumption of electricity in the offices; the consumption of resources primarily includes fuel oil for public vehicles, outsourced electric power, water for office use and papers for office use. Based on the characteristics of the industry, CSC had no significant impact on the environment and natural resources, but CSC still attaches importance to its environmental performance management. On the one hand, the Company recognized and strictly complied with the laws and regulations and related policies in relation to environment stipulated by the state and relevant regulatory authorities, such as the Environmental Protection Law of the PRC, the Energy Conservation Law of the PRC, the Comprehensive Work Plan for Energy Conservation and Emission Reduction in the 13th Five-Year Plan Period (《“十三五”節能減排綜合工作方案》) issued by the State Council, etc., while on the other hand, the Company achieved energy conservation and emission reduction through various measures, such as the measure of a paper-free office, assigning designated persons to inspect the use of electricity in the offices, the energy conservation settings of air-conditioners in the public area, reducing the standby power consumption of electrical appliances, installing water conservation facilities, strengthening control over fuel consumption and the management and control of use of business vehicles, etc., to ensure that the management of emissions and use of resources by CSC meet the requirements of relevant laws and regulations and truly turn the concept of “low-carbon environmental protection and green operation” into actions.

### XXVIII. FUTURE DEVELOPMENT/PROSPECT

Please refer to “Section 4 Management Discussion and Analysis – III. Discussion and Analysis on Future Development of the Company” of this annual report for the Company’s future development and prospect.

By order of the Board  
**WANG Changqing**  
*Chairman*

Beijing, the PRC, March 26, 2020

## SECTION 6 OTHER SIGNIFICANT EVENTS

### I. ANALYSIS AND EXPLANATION OF THE BOARD OF DIRECTORS ON THE REASONS AND IMPACT OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR ACCOUNTING METHODS

Analysis and explanation of the Board of Directors on the reasons and impact of the changes in accounting policies, accounting estimates or accounting methods are set out in “Section 5 Report of Directors – VI. Analysis and Description of Reasons for and Impact of Changes in Accounting Policies and Accounting Estimates, and Rectification on Significant Accounting Errors” of this annual report.

### II. APPOINTMENT OR TERMINATION OF AUDITORS

*Unit: RMB ten thousand*

Current appointment	
Name of the PRC auditor	PricewaterhouseCoopers Zhong Tian LLP
Remuneration for the PRC auditor	164
Term of service of the PRC auditor	5 years
Name of the overseas auditor	PricewaterhouseCoopers
Remuneration for the overseas auditor	104
Term of service of the overseas auditor	5 years

*Note:* The above is the audit expenses for the annual report of the Company, which does not include the audit expenses for subsidiaries of the Company.

*Unit: RMB ten thousand*

Name		Remuneration
Internal control auditor	PricewaterhouseCoopers Zhong Tian LLP	40

### III. EXPLANATION OF APPOINTMENT OR TERMINATION OF AUDITORS

At the 2018 annual general meeting of the Company, it was considered and approved that PwC Zhong Tian and PwC be reappointed as the external auditors of the Company for 2019, respectively. They shall be responsible for the provision of the relevant audit services in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards, respectively. PricewaterhouseCoopers Zhong Tian LLP was reappointed as the internal control auditor of the Company for 2019.

## SECTION 6 OTHER SIGNIFICANT EVENTS (Continued)

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### IV. PUNISHMENT AND RECTIFICATION OF THE LISTED COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, ACTUAL CONTROLLERS AND PURCHASERS

#### 1. On April 22, 2019, Heilongjiang Securities Regulatory Bureau took administrative supervision measures against the Business Division of Harbin Xinyang Road Securities of CSC

On April 22, 2019, the Heilongjiang Regulatory Bureau of CSRC (hereinafter referred to as the “Heilongjiang Securities Regulatory Bureau”) issued the “Decision on Taking Corrective Supervision Measures against Business Division of Harbin Xinyang Road Securities of CSC Financial Co., Ltd.” ([2019] No. 6) (《關於對中信建投證券股份有限公司哈爾濱新陽路證券營業部採取責令改正監管措施的決定》([2019]6號)) for the business division of Harbin Xinyang Road Securities of CSC. Heilongjiang Securities Regulatory Bureau found that the business division of Harbin Xinyang Road Securities of CSC has committed several problems, such as faulty internal control, weak compliance awareness of the staff, and failure to effectively prevent and control risks. Based on the above facts, Heilongjiang Securities Regulatory Bureau order the Company to adopt correction and supervision measures.

Business division of Harbin Xinyang Road Securities of CSC attached great importance to the problem, and submitted the rectification report to the Heilongjiang Securities Regulatory Bureau in a timely manner as required. The rectification is as follows: (1) contractual warehousing and receiving management of the business division has met the management requirements of special management, responsibility of two personnel, mutual containment, serial number control and strict registration from the position and process setting; (2) Setting of post, division of function and responsibility and authority management of the business division have been in compliance with the relevant regulatory requirements, forming an effective balance mechanism of mutual restraint and supervision; (3) Business division requires all staff to make improvement in customer identification, implement the requirements of the real-name system, resolutely refuse to handle business for customers with identity problems, and report to the headquarters of the company and regulatory departments promptly when there are material suspicious cases; (4) Business division shall complete the rectification work of the return visit to relevant customers for the problems regarding the dissatisfaction of return visit to new account customers; (5) Business division further strengthened the pre-entry investigation of integrity and on-job integrity management.

## SECTION 6 OTHER SIGNIFICANT EVENTS (Continued)

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### **2. On July 5, 2019, the Beijing Securities Regulatory Bureau took administrative supervision measures on CSC, ordering the Company to increase the number of internal compliance inspections**

On July 5, 2019, the Beijing Regulatory Bureau of CSRC (hereinafter referred to as the “Beijing Securities Regulatory Bureau”) issued the “Decision on Ordering to Take Corrective and Supervision Measures to Increase the Number of Internal Compliance Inspections of CSC Financial Co., Ltd.” ([2019] No. 69) (《關於對中信建投證券股份有限公司採取責令增加內部合規檢查次數措施的決定》([2019]69號)), and pointed out that China Capital Management Limited, as a private subsidiary of CSC, actually carried out business before the completion of the publicity of the rectification of the organizational structure specification; CSC carried out certain kinds of proprietary trading such as treasury futures without separation of investment decision-making and trading execution, and decided to order CSC to take supervision measures to increase the number of internal compliance inspection.

The Company attached great importance to the problem, and submitted the rectification report to the Beijing Securities Regulatory Bureau in a timely manner as required. The rectification is as follows: (1) establishing a centralized trading room to achieve the complete separation of investment decisions and transactions; (2) implementing complete separation of investment and transaction of treasury futures and refining the key point in the various steps; (3) improving relevant systems and strengthening institutional building; (4) further standardizing the use of codes for transaction of treasury bond futures; (5) strengthening transaction monitoring and analysis; (6) strengthening training in conflict of interest, information segregation and employee practice; (7) strengthening compliance notice and internal compliance management; (8) ordering rectification of capital regulations of CSC and carrying out in-depth analysis; (9) carrying out warning education internally by CSC to improve employees’ ideological awareness;(10) dealing with responsible personnel, adjusting the position of related personnel, and improving internal control management. In addition, the Company carried out special compliance inspection and submitted inspection reports to relevant departments and subsidiaries of the Company in accordance with the requirements of regulatory authorities; compliance accountability was imposed to responsible personnel and departments (subsidiaries).

## SECTION 6 OTHER SIGNIFICANT EVENTS (Continued)

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### 3. On October 28, 2019, the CSRC took administrative supervision measures to issue a warning letter to CSC

On October 28, 2019, the CSRC issued the “Decision on Taking Corrective Supervision Measures to Issue a Warning Letter to CSC Financial Co., Ltd.” ([2019] No. 44) (《關於對中信建投證券股份有限公司採取出具警示函監管措施的決定》([2019]44號)), and pointed out that during the process of application for the initial public offering of shares on the STAR Market of Hengan Jiaxin (Beijing) Co., Ltd. (hereinafter referred to as the “Issuer”) sponsored by CSC, it was stated in the report of the prospectus that the prospectus was entered into by the Issuer on December 28 and December 29, 2018, and four major contracts (with a total amount of RMB158.5976 million), of the acceptance report were entered into in the same year, but it was yet to collect the payment and draw up the invoices by the end of 2018. The Issuer confirmed the income of the above four contracts in 2018. During the review process of the SSE, the Issuer, on the ground of prudence, made adjustments to the recognition points of the income of the above four contracts, and confirmed the income after making adjustments to meet the contract agreement and after the major economic benefits had flowed into the Company. Accordingly, the Issuer reduced the operating income of 2018 by RMB136.8284 million and the net profit by RMB78.2717 million, and the net profit attributable to the owner of the parent company after deduction changed from RMB87.3299 million (before adjustment) to RMB9.0582 million (after adjustment), accounting for 89.63% of the net profit attributable to the owner of the parent company before the deduction. The information disclosed by the Issuer before and after the confirmation of relevant income of the above 4 major contracts is inconsistent and has substantive discrepancy. CSRC finally decided to take regulatory measures by issuing a warning letter to CSC.

The Company attached great importance to the problem and submitted the rectification report to the CSRC in a timely manner as required. The rectification is as follows: (1) The Company gathered the related personnel to strengthen the study of relevant laws and regulations, such as the Administrative Measures of Registration of the Initial Public Offering of Shares on the STAR Market (Trial) (《科創板首次公開發行股票註冊管理辦法(試行)》) and the Administrative Measures for Sponsor Business of Securities Issuance and Listing (《證券發行上市保薦業務管理辦法》), emphasized the requirements for the truthfulness, accuracy and completeness of information disclosure in the course of practice, and required practitioners to be conscientious and responsible in the course of subsequent practice, so as to eliminate such phenomenon fundamentally;(2) Through strengthening the internal audit, the Company has urged entire relevant personnel of the Company to strictly comply with the requirements of the Company Law, the Administrative Measures of Registration of the Initial Public Offering of Shares on the STAR Market (Trial) and the Administrative Measures for Sponsor Business of Securities Issuance and Listing, and to strengthen the requirements for the quality of practice, so as to prevent the recurrence of the above situation;(3) The Company will take measures on the compliance and accountability of relevant responsible personnel.

### V. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Group had no major litigation or arbitration that involves an amount exceeding RMB10 million and accounting for more than 10% of the absolute value of the Company's latest audited net assets to be disclosed under the Listing Rules of the SSE. The progress of litigation and arbitration disclosed by the Company in previous periodic reports is as follows:

#### 1. **Civil lawsuit between Yao Zhenyu and SDIC Essence Futures Co., Ltd. and the Company**

Please refer to the 2018 interim report of the Company for relevant background information. This case was put to trial on October 19, 2017. SDIC Essence Futures Co., Ltd. submitted an application on the jurisdiction in the court, but it was rejected by the People's Court of Chaoyang District on October 27, 2017. On November 21, 2017, the case was put to trial again and the People's Court of Chaoyang District was informed of the basic facts of the case. On March 29, 2018, the case was put to trial for the third time. The plaintiff altered the request of the lawsuit, claiming that the "Rongjin Phase I Asset Management Scheme" was valid but not effective, and required SDIC Essence Futures Co., Ltd. and the Company to return the investment payment of RMB16.50 million. the People's Court of Chaoyang District made a judgment on October 30, 2019, rejecting all claims of the plaintiff.

#### 2. **Contract dispute between Zou Rong and QIC Group Holdings Ltd. and the Company**

Please refer to the 2018 interim report of the Company for background information. On November 7, 2017, Beijing Second Intermediate People's Court duly put on record and made the first-instance judgement on June 4, 2018, rejecting all claims of Zou Rong, the plaintiff. Zou Rong refused to accept the first-instance judgement and filed an appeal to the Beijing High People's Court. The Beijing High People's Court made the judgement on August 30, 2019, rejecting all claims of Zou Rong, the appellant.

## SECTION 6 OTHER SIGNIFICANT EVENTS (Continued)

### 3. The Company, as the manager, on behalf of “CSC Longxing No. 916 Directional Asset Management Scheme”, applied for pre-litigation property preservation and arbitration case in relation to the default matters in stock-pledged repurchase business

Please refer to the 2018 interim report of the Company for background information. In the Verdict issued by the Beijing Arbitration Commission in August 2019, Pan Yicen was ordered to pay RMB110,000,000 as the principal and RMB180,644.44 as the interest to the Company, and pay the penalty interest based on the principal of RMB110,000,000 and the standard of 0.05% per day and RMB850,000 of the legal fees. The Company shall enjoy the priority of compensation to recover the proceeds from the auction and sale of the 23,061,773 shares in Tianguang Zhongmao (stock code: 002509) pledged by Pan Yicen; Luo Weiguang was jointly and severally liable for all the debts of Pan Yicen to the Company; Pan Yicen and Luo Weiguang paid RMB10,000 for property preservation fees, RMB191,969.93 for guarantee and RMB556,684.2 for arbitration fees to the Company. The Company applied to the Intermediate People’s Court of Foshan for enforcement in November 2019. In December 2019, the Intermediate People’s Court of Foshan issued the Notice of Acceptance of Execution Case (《執行案件受理通知書》) ((2019) Yue 06 Zhi No. 2192) in December 2019. The case is still under enforcement procedures. In this case, the Company is not required to bear legal fees, preservation arbitration fees and other fees, and will transfer the payment to the law firm, the court, and the guarantee company upon receipt of relevant fees paid by the principal. The above amounts are calculated in RMB.

In addition, the Company, as the subject of bond issuance, has since January 1, 2019 to the date of issuance of this report, issued the following interim announcements on involvement in litigation and arbitration on the bond section on the website of SSE:

Summary and type of events	Index for inquiries
The case that the Company, as the applicant, applied for arbitration in relation to the default of stock-pledged repurchase business by Wang Yue, the financier	Announcement on Involvement in Arbitration of CSC Financial Co., Ltd. and Announcement on Involvement in Litigation, Arbitration and Update by the subsidiary of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on July 22, 2019 and February 8, 2020, respectively

## SECTION 6 OTHER SIGNIFICANT EVENTS (Continued)

Summary and type of events	Index for inquiries
<p>The case that Beijing Runxin Dingtai Investment Center (L.P.) (北京潤信鼎泰投資中心(有限合夥)), the Privately Offered Fund for which Beijing Runxin Dingtai Capital Management Co., Ltd. (北京潤信鼎泰資本管理有限公司), an indirect wholly-owned subsidiary of the Company and China Capital Management Limited (中信建投資本管理有限公司), a wholly-owned subsidiary of the Company act as the mangers, as the plaintiff, applied for litigation in relation to the event of default in equity investment by Guangdong Southern Radio, Film and Television Media Group Co., Ltd. (廣東南方廣播影視傳媒集團有限公司) and Guangdong South Lead TV &amp; Film Co., Ltd. (廣東南方領航影視傳播有限公司).</p>	<p>Announcement on Involvement in Litigation and Arbitration of the subsidiary of CSC Financial Co., Ltd. and Announcement on Involvement in Litigation, Arbitration and Update by the subsidiary of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on July 29, 2019 and February 8, 2020, respectively</p>
<p>The case that China Securities (International) Brokerage Company Limited (中信建投(國際)證券有限公司), an indirect wholly-owned subsidiary of the Company, applied for litigation in relation to the event of default in stock-pledged repurchase business by Ho Born Investment Holdings Limited (浩邦投資控股有限公司), the financier, and Shi Hongliu, the guarantor.</p>	<p>Announcement on Involvement in Litigation and Arbitration of the subsidiary of CSC Financial Co., Ltd. and Announcement on Involvement in Litigation, Arbitration and Update by the subsidiary of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on July 29, 2019 and February 8, 2020, respectively</p>



## SECTION 6 OTHER SIGNIFICANT EVENTS (Continued)

Summary and type of events	Index for inquiries
<p>The case that China Securities Funds Management Limited (中信建投基金管理有限公司), a holding subsidiary of on behalf of “CSC—China Minsheng Bank —Jinan RCB Asset Management Plan No. 1” (中信建投-民生銀行-濟南農商1號資產管理計劃), the special account product under its management, as the applicant, applied for arbitration in relation to the event of default in bonds by Wuxi Wuzhou International Ornament City Co., Ltd. (無錫五洲國際裝飾城有限公司) and Wuzhou International Holdings Limited (五洲國際控股有限公司).</p>	<p>Announcement on Involvement in Litigation and Arbitration of Subsidiaries of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on July 29, 2019</p>
<p>The case that the Company, as the applicant, applied for arbitration in relation to the event of default in stock-pledged repurchase business by Huang Qingle, the financier, Huang Huiting and Huang Zhihong, the guarantors.</p>	<p>Announcement on Involvement in Litigation, Arbitration and Update by CSC Financial Co., Ltd. issued on the bond section on the website of SSE on August 12, 2019</p>
<p>The case that the Company, as the applicant, applied for arbitration in relation to the event of default in stock-pledged repurchase business by Beijing Shouhang Ripple Tube Manufacturing Co., Ltd. (北京首航波紋管製造有限公司), the financier, and Huang Qingle, Huang Huiting and Huang Zhihong, the guarantors.</p>	<p>Announcement on Involvement in Litigation, Arbitration and Update by CSC Financial Co., Ltd. issued on the bond section on the website of SSE on August 12, 2019</p>
<p>The case that the Company, as the applicant, applied for execution in relation to the event of default in stock-pledged repurchase business by Huang Ruibing, the financier, Wang Jinhua, joint debtor.</p>	<p>Announcement on Involvement in Litigation, Arbitration and Update by CSC Financial Co., Ltd. issued on the bond section on the website of SSE on August 12, 2019</p>

## SECTION 6 OTHER SIGNIFICANT EVENTS (Continued)

Summary and type of events	Index for inquiries
<p>The case that the Company, as the applicant, applied for execution in arbitration in relation to the event of default in stock-pledged repurchase business by Feng Xianchao, the financier.</p>	<p>Announcement on Involvement in Litigation, Arbitration and Update by CSC Financial Co., Ltd. issued on the bond section on the website of SSE on August 20, 2019</p>
<p>Update on the case that the Company, as a third party, was involved in a lawsuit filed against Shanghai Bikong Longxiang Investment Management Co., Ltd. (上海碧空龍翔投資管理有限公司) by Xinjiang Investment Development (Group) Co., Ltd. (新疆投資發展(集團)有限公司) in respect of the dispute of trading in securities investment funds.</p>	<p>Announcement on Involvement in Litigation, Arbitration and Update by CSC Financial Co., Ltd. issued on the bond section on the website of SSE on August 20, 2019</p>
<p>The case that the Company, as the applicant, applied for arbitration in relation to the event of default in margin financing and securities lending businesses by Lv Xiaoqi, the financier.</p>	<p>Announcement on Involvement in Arbitration of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on October 8, 2019</p>
<p>The case that the Company as the plaintiff, applied for litigation in relation to the event of default in collateralized stock repurchase business by Huijin Juhe (Ningbo) Investment Management Co., Ltd. (匯金聚合(寧波)投資管理有限公司), the financier and Juntian (Ningxia) Investment Management Co., Ltd., the guarantor.</p>	<p>Announcement on Involvement in Litigation of Subsidiaries of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on February 29, 2020</p>

## **SECTION 6 OTHER SIGNIFICANT EVENTS (Continued)**

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### **VI. MATERIAL CONTRACTS AND EXECUTION**

During the Reporting Period, the Group did not have significant contracting or lease arrangements, nor were there such arrangements carried forward to the Reporting Period from the previous period.

### **VII. RELATED PARTY TRANSACTION/CONNECTED TRANSACTION**

The Group conducts connected transactions in strict compliance with both the Listing Rules of the SSE and the Hong Kong Listing Rules, and “Policy on Management of Connected Transactions of CSC Financial Co., Ltd.” (中信建投証券股份有限公司關連交易管理制度). The Group’s connected transactions were conducted based on the principles of fairness, openness and impartiality, and the connected transaction agreements were entered into based on the principles of equality, voluntariness, fairness and compensation.

During the Reporting Period, the Company was in compliance with the requirements of connected transactions set out in Chapter 14A under the Hong Kong Listing Rules. During the Reporting Period, the Company did not have any connected transaction which would be required to be disclosed under such rules. Details on related party transactions under the relevant accounting standards can be found in Note 51 in the appended consolidated financial statements. Pursuant to Rule Chapter 14A.10 of the Hong Kong Listing Rules, the Hong Kong Stock Exchange will not normally treat a PRC government bodies as a connected person. As such, the transactions between the Group and BSCOMC or Central Huijin and its associates do not constitute connected transactions.

### **VIII. MATERIAL ACQUISITIONS AND DISPOSAL DURING THE REPORTING PERIOD**

During the Reporting Period, the Group did not have any material acquisitions, disposals, swaps or asset reorganizations of subsidiaries, associates, joint operations or joint ventures.

### **IX. RESULTS OF CLASSIFICATION AND RATING OF THE COMPANY BY SECURITIES REGULATORS**

In 2019, in the classification and rating of securities firms by the CSRC, the Company was rated “Class A Grade AA” for ten consecutive years. The Company is one of the only three PRC securities companies in the industry which received such a rating for ten consecutive years during 2010 to 2019 with such a rating being the highest rank granted by the CSRC. In addition, China Securities Futures was rated “Class A Grade A Futures Company” under the classification base on futures firms announced in 2019.

# SECTION 7 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS

## I. SHARE CAPITAL STRUCTURE OF THE COMPANY

As of December 31, 2019, the share capital structure of the Company was as follows:

Name of Shareholders	Type of Shares	Number of Shares	Percentage in the total number of Shares
BSCOMC (北京國管中心)	A Shares	2,684,309,017	35.11%
Central Huijin (中央匯金) <sup>(Note 1)</sup>	A Shares	2,386,052,459	31.20%
HKSCC Nominees Limited (香港中央結算(代理人)有限公司) <sup>(Note 2)</sup>			
Glasslake Holdings (鏡湖控股)	H Shares	351,647,000	4.60%
CSRF (結構調整基金)	H Shares	112,740,500	1.47%
Other Shares held under the name of HKSCC Nominee Limited	H Shares	796,343,685	10.41%
Other Shares held under the name of HKSCC Nominee Limited	A Shares	22,963,392	0.30%
CITIC Securities (中信証券)	A Shares	382,849,268	5.01%
Tengyun Investment (騰雲投資)	A Shares	300,000,000	3.92%
Shanghai Shangyan (上海商言)	A Shares	150,624,815	1.97%
Other public holders of A Shares	A Shares	458,562,525	6.00%
Other public holders of H Shares	H Shares	292,577	0.01%
<b>Total</b>		<b>7,646,385,238</b>	<b>100.00%</b>

*Note 1:* The difference of shareholding of Central Huijin in the above table and other parts of the report is due to round-off.

*Note 2:* As of December 31, 2019, the Company noted from the Shareholders' interests disclosed on the Hong Kong Stock Exchange that Glasslake Holdings held 351,647,000 H Shares of the Company, representing 4.60% of the total share capital of the Company and CSRF held 112,740,500 H Shares of the Company, representing 1.47% of the total share capital of the Company. The total number of H Shares of the Company held by HKSCC Nominees Limited acting as the nominee for all institutional and individual investors that maintain an account with it was 1,260,731,185 H Shares as of December 31, 2019. Save for 351,647,000 H Shares and 112,740,500 H Shares of the Company held by Glasslake Holdings and CSRF, respectively, to the knowledge of the Company, the number of remaining H Shares of the Company held under the name of HKSCC Nominees Limited was 796,343,685 H Shares.

## SECTION 7 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS (Continued)

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### II. SHAREHOLDERS

As of December 31, 2019, the total number of Shareholders as shown on the register of members of the Company was 121,909, of which 121,837 were A Shareholders and 72 were H Share registered Shareholders. The H Share registered Shareholders include HKSCC Nominees Limited, which held H Shares and A Shares of the Company as the nominee for all institutional and individual investors that maintained an account with it as of December 31, 2019.

### III. INFORMATION ON SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As of December 31, 2019, BSCOMC, the largest Shareholder of the Company, and Central Huijin, the second largest Shareholder of the Company, held 35.11% and 31.21% of the Shares of the Company, respectively.

As of the Latest Practicable Date, BSCOMC and Central Huijin held 35.11% and 31.21% of the Shares of the Company, respectively.

#### (I) BSCOMC

BSCOMC is a wholly people-owned enterprise approved by Beijing Municipal Government with its entire capital contributed by Beijing State-owned Assets Supervision and Administration Commission. It was established on December 30, 2008 with a registered capital of RMB35 billion. BSCOMC is an investment and financing entity focusing on the operation of state-owned capital and the management of state-owned equities with the objective of achieving the securitization of state-owned capital and maximizing its value. BSCOMC primarily acts as the industry investment entity for achieving the strategic goals of Beijing Municipality Committee and Beijing Municipal Government, the financing entity for capital operation in a market-oriented manner, the industry consolidation entity for promoting the reform and reorganization of state-owned enterprises and realizing an orderly advance and retreat of state-owned capital, the venture investment entity for promoting pioneering industry development and technological innovation of enterprises, the equity management entity holding the equity of enterprises which are listed as a whole or whose main businesses are listed, and the service entity for debt restructuring of enterprises and solving the historical problems. BSCOMC constitutes a PRC Government Body under the Hong Kong Listing Rules.

## SECTION 7 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS (Continued)

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### (II) Central Huijin

Central Huijin is a state-owned investment company established in accordance with the PRC Company Law. Central Huijin, which is headquartered in Beijing, was established in December 2003 and mandated to exercise the rights and the obligations as an investor in major state-owned financial enterprises, on behalf of the PRC Government. In September 2007, the Ministry of Finance issued special treasury bonds and acquired all the shares of Central Huijin from the People's Bank of China. The acquired shares were injected into China Investment Corporation ("CIC") as part of its initial capital contribution. However, Central Huijin's principal shareholder rights are exercised by the State Council. The members of the Board of Directors and Supervisory Committee of Central Huijin are appointed by, and are accountable to, the State Council. In accordance with authorization by the State Council, Central Huijin makes equity investments in major state-owned financial enterprises, and shall, to the extent of its capital contribution, exercise the rights and perform the obligations as an investor on behalf of the PRC Government in accordance with applicable laws, to achieve the goal of preserving and enhancing the value of state-owned financial assets. Central Huijin does not conduct any other business or commercial activities. In view of the fact that Central Huijin was established by the PRC Government as a state-owned investment company engaging in investments in the financial industry, its other affiliated enterprises are also engaged in or participate in securities business. Such business activities are all carried out under the principle of fair market competition, and Central Huijin does not intervene in the day-to-day business operations of the enterprises in which it invests.

## SECTION 7 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS (Continued)

### IV. DISCLOSURE OF INTERESTS

#### Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

To the knowledge of the Directors, as of December 31, 2019, the following Shareholders (except Directors, Supervisors and senior management) had interests or short positions in the Shares and underlying Shares of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO:

Name	Capacity	Number of Shares Directly or Indirectly Held	Class of Shares	Nature of Interest	Approximate Percentage of Shareholding in the Total Issued Ordinary Share Capital	Approximate Percentage of Shareholding in the Relevant Class of Shares
1. BSCOMC (北京國管中心)	Beneficial owner	2,684,309,017	A Shares	Long positions	35.11%	42.04%
2. Central Huijin (中央匯金)	Beneficial owner	2,386,052,459	A Shares	Long positions	31.21%	37.37%
3. CITIC Securities (中信証券)	Beneficial owner	383,099,268	A Shares	Long positions	5.01%	6.00%
	Approved lending agent	250,000	A Shares	Short positions Long positions (Shares available for loan)	0.003% 0.003%	0.004% 0.004%
4. Glasslake Holdings (鏡湖控股) <sup>(note 2)</sup>	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.60%	27.89%
5. Affluent East Investments Limited (東滿投資有限公司) <sup>(note 2)</sup>	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.60%	27.89%
6. CITIC Limited (中信股份) <sup>(note 2)</sup>	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.60%	27.89%
7. CITIC Group (中信集團) <sup>(note 2)</sup>	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.60%	27.89%
8. CSRF (結構調整基金) <sup>(note 3)</sup>	Beneficial owner	112,740,500	H Shares	Long positions	1.47%	8.94%
9. CCB (Beijing) Investment Fund Management Co., Ltd. (建信(北京)投資基金管理有限責任公司) <sup>(note 3)</sup>	Interest of Controlled Corporation	112,740,500	H Shares	Long positions	1.47%	8.94%

## SECTION 7 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS (Continued)

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*Notes:*

- (1) Tengyun Investment is owned indirectly by Mr. Huang Tao and Mr. Huang Shiyong, as to 60% and 40%, respectively. Mr. Huang Tao and Mr. Huang Shiyong are brothers. Therefore, each of Mr. Huang Tao and Mr. Huang Shiyong is deemed to be interested in the A Shares held by Tengyun Investment and Century Jinyuan under the SFO.
- (2) Glasslake Holdings is wholly-owned by Affluent East Investments Limited (東滿投資有限公司) ("Affluent East"), which is in turn a wholly-owned subsidiary by CITIC Limited. CITIC Group indirectly holds a majority of equity interest in CITIC Limited. Therefore, each of Affluent East, CITIC Limited and CITIC Group is deemed to be interested in the H Shares held by Glasslake Holdings under the SFO.
- (3) CSRF is held as to 38.2% by CCB (Beijing) Investment Fund Management Co., Ltd. (建信(北京)投資基金管理有限責任公司) ("CCB"), which is in turn held as to 38.2% by China Investment Corporation (中國投資有限責任公司) ("CIC"). Therefore, each of CCB and CIC is deemed to be interested in the H Shares held by CSRF under the SFO.

Save as disclosed above, as of December 31, 2019, to the knowledge of the Directors, no other person (except Directors, Supervisors and senior management) had interests or short positions in the Shares and underlying Shares of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO.

As of December 31, 2019, Directors did not hold any positions as directors or employees in companies which had interests or short positions in the Company that needed to be notified to the Company under division 2 and 3 of Part XV of the SFO.

### **V. ISSUANCE OF SHARES OR CHANGES IN REGISTERED CAPITAL OF THE COMPANY OR ITS SUBSIDIARIES**

On January 21, 2019, the Company made the closure of Proposed Non-public Issuance of A Shares on the HKExnews website of the Hong Kong Stock Exchange. In March 2020, the non-public issuance of A Shares of the Company was approved by the CSRC..



# SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## I. CHANGES IN SHAREHOLDING AND REMUNERATION

### (I) Changes in Shareholding and Remuneration of Current and Former Directors, Supervisors and Senior Management during the Reporting Period

Unit: Share

Name	Position (Note)	Gender	Age	Commencement date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year	Number of Shares held at the end of the year	Increase or decrease in the number of Shares during the year	Reasons for increase or decrease	Total remuneration before tax received from the Company during the Reporting Period (RMB ten thousand)	Whether remuneration is received from related parties of the Company
WANG Changqing	Chairman of the Board, Executive Director and Chairman of Executive Committee	Male	56	April 2018	April 2021	0	0	0	-	351.27	No
YU Zhongfu	Vice Chairman of the Board and Non-executive Director	Male	49	April 2018	April 2021	0	0	0	-	0	No
LI Geping	Executive Director, General Manager, Member of Executive Committee and Chief Financial Officer	Male	52	April 2018	April 2021	0	0	0	-	338.19	No
ZHANG Qin	Non-executive Director	Female	49	April 2018	April 2021	0	0	0	-	0	No
ZHU Jia	Non-executive Director	Female	37	April 2018	April 2021	0	0	0	-	0	No
WANG Hao	Non-executive Director	Male	51	April 2018	April 2021	0	0	0	-	0	No
WANG Bo	Non-executive Director	Male	56	April 2018	April 2021	0	0	0	-	0	No

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Name	Position (Note)	Gender	Age	Commencement date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year	Number of Shares held at the end of the year	Increase or decrease in the number of Shares during the year	Reasons for increase or decrease	Total remuneration before tax received from the Company during the Reporting Period (RMB ten thousand)	Whether remuneration is received from related parties of the Company
XU Gang	Non-executive Director	Male	50	April 2018	April 2021	0	0	0	-	0	Yes
FENG Genfu	Independent Non-executive Director	Male	62	April 2018	April 2021	0	0	0	-	21.00	Yes
ZHU Shengqin	Independent Non-executive Director	Female	43	April 2018	April 2021	0	0	0	-	21.00	Yes
DAI Deming	Independent Non-executive Director	Male	57	April 2018	April 2021	0	0	0	-	21.00	Yes
BAI Jianjun	Independent Non-executive Director	Male	64	April 2018	April 2021	0	0	0	-	21.00	Yes
LIU Qiao	Independent Non-executive Director	Male	49	April 2018	April 2021	0	0	0	-	21.00	Yes
LI Shihua	Chairman of the Supervisory Committee	Male	60	April 2018	April 2021	0	0	0	-	323.66	No
AI Bo	Supervisor	Female	49	April 2018	April 2021	0	0	0	-	0	No
ZHAO Lijun	Supervisor	Female	56	April 2018	April 2021	0	0	0	-	0	No
LIN Xuan	Employee	Female	48	April 2018	April 2021	0	0	0	-	318.44	No
ZHAO Ming	Representative Supervisor	Male	48	April 2019	April 2021	0	0	0	-	285.50	No
ZHOU Zhigang	Member of Executive Committee	Male	55	April 2018	April 2021	0	0	0	-	315.08	No
YUAN Jianmin	Member of Executive Committee	Male	58	April 2018	April 2021	0	0	0	-	305.74	No

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Name	Position (Note)	Gender	Age	Commencement date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year	Number of Shares held at the end of the year	Increase or decrease in the number of Shares during the year	Reasons for increase or decrease	Total remuneration before tax received from the Company during the Reporting Period (RMB ten thousand)	Whether remuneration is received from related parties of the Company
JIANG Yueqin	Member of Executive Committee	Male	53	April 2018	April 2021	0	0	0	-	315.75	No
ZHOU Xiaoyu	Member of Executive Committee	Male	55	April 2018	April 2021	0	0	0	-	303.86	No
LI Tiesheng	Member of Executive Committee	Male	48	April 2018	April 2021	0	0	0	-	213.37	No
WANG Guangxue	Member of Executive Committee and Secretary of the Board	Male	47	April 2018	April 2021	0	0	0	-	368.35	No
ZHANG Xinfan	Member of Executive Committee	Male	51	April 2018	April 2021	0	0	0	-	357.84	No
LIU Naisheng	Member of Executive Committee	Male	49	April 2018	April 2021	0	0	0	-	411.42	No
HUANG Ling	Member of Executive Committee	Male	43	April 2018	April 2021	0	0	0	-	378.82	No
DING Jianqiang	Member of Executive Committee and Chief Compliance Officer	Male	46	April 2019 and May 2019	April 2021	0	0	0	-	342.97	No
LU Ya	Member of Executive Committee and Chief Risk Officer	Female	54	April 2019	April 2021	0	0	0	-	354.78	No

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Name	Position (Note)	Gender	Age	Commencement date of office	Expiry date of term of office	Number of Shares held at the beginning of the year	Number of Shares held at the end of the year	Increase or decrease in the number of Shares during the year	Reasons for increase or decrease	Total remuneration before tax received from the Company during the Reporting Period (RMB ten thousand)	Whether remuneration is received from related parties of the Company
XIAO Gang	Member of Executive Committee and Chief Information Officer	Male	50	April 2019	April 2021	0	0	0		318.63	No
PENG Wende	Member of Executive Committee	Male	53	July 2019	April 2021	0	0	0		365.49	No
DONG Shi	Former Vice Chairman and Non-executive Director	Male	55	April 2018	November 2019	0	0	0	-	0	No
HU Bin	Former Member of Executive Committee	Male	38	April 2018	May 2019	0	0	0		96.21	No
Total	/	/	/	/	/	0	0	0	/	6,170.37	/

*Note 1:* The calculation point of "age" in the above table starts from 31 March 2020.

*Note 2:* Such legal person or other organization has become related party of the Company as a result of the independent non-executive Director of the Company acting as an independent non-executive director in a legal person or other organization other than the Company and its controlling subsidiaries. During the Reporting Period, independent non-executive Directors received remuneration from the above-mentioned related parties.

*Note 3:* Ms. Lu Ya served as an employee representative Supervisor from January to March 2019, and served as a member of Executive Committee from April to December 2019.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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### (II) Biographical Details of Current Directors, Supervisors and Senior Management of the Company

Name

**WANG Changqing** **Mr. Wang Changqing (王常青)**, born in June 1963, is the Chairman and an Executive Director of the Board, secretary of the Party Committee, and the Chairman of the Executive Committee of the Company. Mr. Wang joined the Company in November 2005, and has been serving as an Executive Director since February 2007, the Chairman of the Board and Chairman of the Executive Committee since September 2011, and the secretary of the Party Committee since September 2011. Mr. Wang has been serving as a director of China Securities International since July 2012 and the chairman of the board of directors Zhong'an Huixin Investment Management Co., Ltd. (中安匯信投資管理有限公司) since July 2017. Mr. Wang is currently the vice chairman of the Securities Association of China (the "SAC"), the chairman of the investment banking committee of the SAC, the executive vice president of the Securities Association of Beijing, a member of the second session of the supervisory committee of the SSE. Mr. Wang served as the deputy plant manager of the Copper Powder Plant (銅粉分廠) in Beijing Smelting Factory (北京冶煉廠) from August 1984 to September 1986, the deputy director of production planning department in the Beijing Non-Ferrous Metal Industry Corporation (北京市有色金屬工業總公司) from October 1986 to November 1992; the director and deputy general manager of Beijing Kaibao Travel and Food Company (北京凱寶旅游食品公司) from November 1992 to October 1993; the head of the equity underwriting department of the Beijing representative office of Daiwa Securities Group Inc. from October 1993 to September 1999; the general manager of the investment banking department of the Shanghai branch, the deputy general manager of the investment banking department, the administrative head and managing director of the investment banking business and vice-chairman of the corporate finance committee in CITIC Securities Co., Ltd. (a company listed on the Hong Kong Stock Exchange (stock code: 06030) and the SSE (stock code: 600030)) from October 1999 to November 2005; and the deputy general manager, general manager and member of the Executive Committee of the Company from November 2005 to September 2011. Mr. Wang obtained a Bachelor of Engineering degree from Northeastern Institute of Technology (currently known as Northeastern University) in the PRC in July 1984 and a Master's degree in Economics from Renmin University of China in January 2002.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Name

### YU Zhongfu

**Mr. YU Zhongfu (于仲福)**, born in November 1970, is the Vice Chairman of the Board and a Non-executive Director. Mr. Yu has been serving as a Director of the Company since March 2011, the Vice Chairman of the Board since August 2016, the deputy general manager of BSCOMC since May 2009. Mr. Yu served as a staff of Shijingshan District Political Consultative Conference, staff and deputy chief of industry section of Planned Economy Committee of Shijingshan District, Beijing from July 1992 to September 1996; a senior staff, principal staff, subsequently deputy director of department of small and medium enterprises of Beijing Municipality Commission of Economy from September 1996 to July 2003; the deputy director (in charge) of the division of enterprise reform of Beijing Municipality Commission of Economy from July 2003 to November 2003; the deputy director of division of reform and development (general office), deputy director and then director of division of enterprise reform of State-owned Assets Supervision and Administration Commission of Beijing Municipality from November 2003 to May 2009; and a director of Beiqi Foton Motor Co., Ltd. (a company listed on the SSE, stock code: 600166) from July 2013 to November 2015; a director of Wangfujing Group Co., Ltd. (a company listed on the SSE, stock code: 600859) from June 2011 to June 2018; a non-executive director of Beijing Jingneng Clean Energy Co., Limited (a company listed on the HKEX, stock code: 00579) from December 2011 to May 2018; a director of Beijing Urban-Rural Commercial (Group) Co., Ltd. (a company listed on the SSE, stock code: 600861) from October 2017 to April 2018; a director of BBMG Corporation (a company listed on the SSE, stock code: 601992) from December 2017 to August 2018; and a director of Beijing Rural Commercial Bank Co., Ltd. from May 2010 to November 2019. Mr. Yu obtained a Bachelor of Engineering degree from North China University of Technology in the PRC in July 1992. He completed a post-graduate program in finance at Central University of Finance and Economics in the PRC and obtained a certificate of completion in July 2002. He also obtained a Master of Public Administration (MPA) degree from a joint program organized by Peking University and the National Institute of Administration in the PRC in July 2011.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Name

### LI Geping

**Mr. LI Geping (李格平)**, born in November 1967, is an Executive Director, deputy secretary of the Party Committee, the General Manager, a member of the Executive Committee and Chief Financial Officer. Mr. Li joined the company in February 2018, and has been serving as the deputy secretary of the Party committee of the Company since February 2018 and an Executive Director, the General Manager and a member of the Executive Committee of the Company since April 2018, and the Chief Financial Officer of the Company since May 2018. Mr. Li served as a lecturer in Zhongnan University of Finance and Economics from July 1987 to June 1992 (during the period he studied economics in Zhongnan University of Finance and Economics, obtaining the master's degree of economics). Mr. Li worked in the Hubei branch of People's Bank of China (中國人民銀行), and served as the secretary to the board of directors and deputy general manager of business department in Shanghai, the general manager of securities business department in Shenzhen of Hubei Securities, the manager of asset management department and deputy head of research institute of Huber Securities (湖北證券) from June 1992 to April 1996. Mr. Li successively served as the assistant to the general manager and the general manager of asset management service department, the assistant of the president and the general manager of international business department, the head of the research institute, the deputy president and the general manager of investment banking department of Hubei Securities from April 1996 to February 2000. Mr. Li successively served as a director, the vice president, the president, a member of the Party committee, the deputy secretary of the Party committee of Changjiang Securities Company Limited (長江證券有限責任公司), the chairman of the board of directors of Changjiang BNP Paribas Peregrine Securities Co. Limited (長江巴黎百富勤證券有限責任公司) (part-time), the chairman of the board of directors of Nuode Asset Management Co., Ltd. (諾德基金管理有限責任公司) (part-time) (during the period he studied in the financial department of the research institute in Chinese Academy of Social Sciences, obtaining a doctoral degree of economics) from February 2000 to December 2007. Mr. Li served as a member of the Party committee, the deputy secretary of the Party committee, a director, the president of Changjiang Securities Company Limited, the chairman of the board of directors of Nuode Asset Management Co., Ltd. (part-time), the chairman of the board of directors of Changjiang Securities Underwriting and Sponsorship Co., Ltd. (長江證券承銷保薦有限公司) (part-time), the chairman of the board of directors of Changjiang Growth Capital Investment Co., Ltd. (長江成長資本投資有限公司) (part-time) from December 2007 to June 2011. He served as the secretary general of the Securities Association of China (中國證券業協會) from June 2011 to April 2012, a member of Party committee and the secretary general of the Securities Association of China from April 2012 to February 2014, the deputy head of the regulatory department of securities and funds authority of the CSRC from February 2014 to December 2016, and the head of securities institution management department/insurance institution management department of Central Huijin from December 2016 to February 2018. Mr. Li obtained a bachelor degree of economics and a master's degree of economics from Zhongnan University of Finance and Economics (now known as Zhongnan University of Economics and Law) in July 1987 and July 1992, respectively. He obtained a doctoral degree of economics from the financial department of the research institute in Chinese Academy of Social Sciences in July 2004, and has enjoyed government special subsidies issued by the State Council since 2005. Mr. Li is also a researcher.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

### Name

#### ZHANG Qin

**Ms. ZHANG Qin (張沁)**, born in August 1970, is a Non-executive Director. She has been serving as a Director of the Company since April 2018, an assistant to the general manager and the general manager of audit and monitoring department of BSCOMC since July 2016 and an assistant to the general manager and the general manager of legal and audit department of BSCOMC since March 2018. Ms. Zhang was engaged in fundamental accounting in Tianjin Huafeng Industrial Group Co., Ltd. (天津華豐工業集團公司) from August 1992 to September 1994, and served as an accountant in Beijing Capital Development Co., Ltd. (北京市房地產開發經營總公司) from July 1997 to July 1998. She served as an accountant and the deputy manager in Beijing Tianhong Group Co., Ltd. (北京天鴻集團公司) from July 1998 to March 2006, and served as the chief financial officer of property operation and service department in Beijing Capital Development Holding (Group) Co., Ltd. (北京首都開發控股集團(有限)公司) from March 2006 to April 2008. Ms. Zhang served as the deputy general manager of Beijing Shoukai Renxin Property Co., Ltd. (北京首開仁信置業有限公司) from April 2008 to May 2010, and has served as the deputy general management of financial management department of BSCOMC since May 2010. Ms. Zhang obtained a bachelor of engineering from Beijing University of Chemical Technology in August 1992, and obtained a master's degree of economics from Capital University of Economics and Business in July 1997. Mr. Zhang obtained a title of senior accountant in October 2002.

#### ZHU Jia

**Ms. ZHU Jia (朱佳)**, born in October 1982, is a Non-executive Director. She has been serving as a Director of the Company since April 2018, and served as the assistant to the general manager of investment management department of Beijing Financial Holdings Group Limited since April 2019. Ms. Zhu worked in the Beijing branch of the Bank of East Asia (Hong Kong) (東亞銀行(香港)北京分行) from November 2004 to January 2010. She successively served as the business manager of investment management department, the business manager of investment management second division and other positions in BSCOMC from January 2010 to April 2019. Ms. Zhu obtained a bachelor degree of accounting from Zhengzhou University in July 2003, and obtained a bachelor degree of business administration from Fort Hays State University in the US in July 2003. She obtained a master's degree of finance and investment from the University of Exeter in November 2004. Ms. Zhu was accredited with an intermediate level of finance and economics in November 2010.



## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Name

**WANG Hao**

**Mr. WANG Hao (汪浩)**, born in December 1968, is a Non-executive Director. Mr. Wang has been serving as a Director of the Company since December 2017, as a director of Central Huijin from July 2018 and as the dispatched external supervisor of China Everbright Group Limited since November 2019. Mr. Wang served as a credit officer, deputy director, director of the credit department, assistant to president, vice president and director of credit management department, vice president (in charge of overall operation), president and party secretary of Liuzhou branch of Bank of China Limited (a company listed on the HKEX (stock code: 03988) and the SSE (stock code: 601988)) from July 1991 to April 2003. He served as the president and party secretary of Guilin branch of Bank of China from April 2003 to July 2004, an assistant to the president and a member of the Communist Party Committee of Guangxi Zhuang Autonomous Region branch of Bank of China from July 2004 to October 2008, a deputy general manager of Ho Chi Minh City branch of Bank of China from October 2008 to December 2009, and president of Ho Chi Minh City branch of Bank of China from December 2009 to January 2018, and as the president of Ho Chi Minh City branch of Bank of China (Hong Kong) Limited from January 2018 to July 2018. Mr. Wang obtained a Bachelor's degree in Economics from Fudan University in July 1991 and a Master's degree in business administration from China Europe International Business School in September 2005.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Name

### WANG Bo

**Mr. WANG Bo (王波)**, born in May 1963, is a Non-executive Director. He has been serving as a Director of the Company since April 2018, and an external director of Central Huijin since September 2017 and a director of China Export & Credit Insurance Corporation (中國出口信用保險公司) since June 2017. Mr. Wang worked for Mudanjiang branch of the People's Bank of China (中國人民銀行牡丹江分行) from December 1981 to April 1982, and served as a member and deputy head of credit department, the head of foreign trading credit department, the head of sales department, the deputy president, a member of Party committee, deputy secretary of the Party committee (in charge of work), the president and the secretary of the Party committee in Mudanjiang branch, Heilongjiang of the Bank of China (中國銀行黑龍江省牡丹江分行) from April 1982 to May 2005. He served as the general manager in loan administration department in Heilongjiang branch of the Bank of China (中國銀行黑龍江省分行) from May 2005 to July 2006, and served as the president and the secretary of the general branch of party in Zhaolin sub-branch in Harbin, Heilongjiang of the Bank of China (中國銀行黑龍江省哈爾濱市兆麟支行) from July 2006 to January 2009. He served as the general manager of human resources department in Heilongjiang branch of the Bank of China from January 2009 to May 2011, and served as the assistant of president and a member of the Party committee in Jilin branch of the Bank of China (中國銀行吉林省分行) from May 2011 to October 2014. Mr. Wang served as a member of Party committee and the secretary of the disciplinary committee of the Inner Mongolia Autonomous Region branch of the Bank of China (中國銀行內蒙古自治區分行) from October 2014 to August 2017. Mr. Wang obtained a bachelor degree of economics from Heilongjiang University in December 2003, and obtained a master's degree in business administration of senior management personnel from Jilin University in December 2013. Mr. Wang was accredited as an economist in December 1990.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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### Name

#### **XU Gang**

**Mr. XU Gang (徐剛)**, born in November 1969, is a Non-executive Director. Mr. Xu Gang has been serving as a Director of the Company since June 2017, the vice chairman and deputy general manager of CITIC Industrial Investment Group Corp., Ltd. (中興業投資集團有限公司) since March 2018. Mr. Xu served as a cadre of the corporate management department of China Geological Machinery and Instrument Industry Corporation (中國地質機械儀器工業總公司) from July 1991 to December 1995; a deputy project manager of Hainan Haihua High-tech Engineering Company (海南海華高技術工程公司) from January 1996 to July 1997; a project manager of investment banking department of Huaxia Securities Co., Ltd. (華夏證券股份有限公司) from September 1997 to December 1997; a research manager of the research consultation department, senior manager of the asset management department, deputy head and head of the financial product development team, deputy general manager of research consultation department, head and general manager of the finance team, executive head of the research department, executive head of the stock sales and trading department, director of the economic development management committee, member of the executive committee and other positions of CITIC Securities Co., Ltd. (中信證券股份有限公司) from February 1998 to January 2016, a director of CITIC Futures Company Limited (中信期貨有限公司) from May 2011 to October 2016, a director of CITIC Wantong Securities Co., Ltd (中信萬通證券有限責任公司) (currently known as CITIC Securities (Shandong) Co., Ltd. (中信證券(山東)有限責任公司)) from November 2011 to October 2016, a director of China Asset Management Co., Ltd. from May 2012 to November 2016, a director of Qingdao Blue Ocean Equity Exchange Limited. (青島藍海股權交易中心有限責任公司) from December 2013 to March 2017; a director of E-Capital Transfer Co., Ltd. (證通股份有限公司) from January 2015 to June 2016; the chief researcher of the strategic development department of CITIC Group Limited (中信集團有限公司) from March 2017 to March 2018; a director of Qianhai Equity Exchange (Shenzhen) Co., Ltd. (前海股權交易中心(深圳)有限公司) from December 2012 to April 2018; and a director of Xiamen Cross-strait Equity Exchange Limited (廈門兩岸股權交易中心有限公司) from October 2013 to April 2018. Mr. Xu obtained a master's degree and a Ph.D. degree in economics from Nankai University in July 1996 and July 2000, respectively.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Name

### FENG Genfu

**Mr. FENG Genfu (馮根福)**, born in June 1957, is an Independent Non-executive Director. Mr. Feng has been serving as an Independent Director of the Company since April 2015; a professor and doctoral supervisor of the School of Finance and Economics of Xi'an Jiaotong University since May 2000; and an independent director of Huaren Pharmaceutical Co., Ltd. (a company listed on the SZSE, stock code: 300110) since August 2019. Mr. Feng served as the director and chief editor of the editorial department of university journal as well as the dean of the Business School and the doctoral supervisor of Shaanxi Institute of Finance and Economics from July 1982 to April 2000; Mr. Feng served at the School of Finance and Economics of Xi'an Jiaotong University from May 2000 to February 2016 and once served as the dean thereof; Mr. Feng served as an independent director of China Kejian Corporation Limited (a company listed on the SZSE, stock code: 000035) from May 2002 to May 2004; an independent director of Shaanxi Jinye Science Technology and Education Group Co., Ltd. (a company listed on the SZSE, stock code: 000812) from April 2002 to April 2006; an independent director of Shaanxi Fenghuo Electronics Co., Ltd. (a company listed on the SZSE, stock code: 000561) from March 2010 to June 2015; an independent director of AVIC Aircraft Co., Ltd. (a company listed on the SZSE, stock code: 000768) from April 2008 to April 2014; an independent director of China Non-ferrous Metal Industry's Foreign Engineering and Construction Co., Ltd. (a company listed on the SZSE, stock code: 000758) from April 2008 to May 2014; an independent director of Shaanxi Broadcast & TV Network Intermediary Co., Ltd. (a company listed on the SSE, stock code: 600831) from May 2008 to December 2014; an independent director of Shaanxi Aerospace Power Hi-Tech. Co., Ltd. (a company listed on the SSE, stock code: 600343) from March 2007 to September 2014; an independent director of Bode Energy Equipment Co., Ltd. (a company listed on the SZSE, stock code: 300023) from August 2015 to March 2017; an independent director of Hubei Biocause Pharmaceutical Co., Ltd. (a company listed on the SZSE, stock code: 000627) from May 2016 to August 2018; an independent director of Changchai Co., Ltd. (a company listed on the SZSE, stock code: 000570) from October 2016 to December 2019; and an independent non-executive director of Datang International Power Generation Co., Ltd. (a company listed on the HKEX, stock code: 00991 and the SSE, stock code: 601991) from August 2014 to January 2020. Mr. Feng obtained a Bachelor's degree in Economics from Shaanxi Institute of Finance and Economics in the PRC in July 1982, a Master's degree from Shaanxi Institute of Finance and Economics in July 1988, a Doctor's degree from Shaanxi Institute of Finance and Economics in July 1997, and has been enjoying special governmental allowance from the State Council since 1993.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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### Name

#### ZHU Shengqin

**Ms. ZHU Shengqin (朱聖琴)**, born in December 1976, is an Independent Non-executive Director. Ms. Zhu has been serving as an Independent Director of the Company since April 2015; an executive director of China Huiyuan Juice Group Limited (a company listed on the HKEX, stock code: 01886) since August 2014; the vice chairman of Beijing Huiyuan Holdings Limited since August 2016; and an independent director of Bona Film Group Limited since August 2017. Ms. Zhu joined China Huiyuan Juice Group Limited in 1996. She has held various positions, including the marketing manager, deputy general manager of the investment division, director of the office of the board, officer of operation teams, and a vice president of the group. She served as the chairman of the board of Sunrise Financial Leasing Company Limited from August 2015 to November 2017 and an independent director of V-Fund Management Co., Ltd. (先鋒基金管理有限公司) from October 2015 to November 2017. Ms. Zhu obtained an MBA degree from Cheung Kong Graduate School of Business in the PRC in September 2007 and an EMBA degree from PBC School of Finance, Tsinghua University in the PRC in January 2016.

#### DAI Deming

**Mr. DAI Deming (戴德明)**, born in October 1962, is an Independent Non-executive Director. Mr. Dai has been serving as an Independent Director of the Company since August 2016; a professor and doctoral supervisor of the department of accounting of Renmin University of China since July 1996 and January 1997, respectively; an independent director of China Zheshang Bank Co., Ltd. (a company listed on the HKEX, stock code: 02016 and the SSE, stock code: 601916) since February 2015; a director of Haier Smart Home Co., Ltd. (a company listed on the SSE, stock code: 600690) since June 2015; an independent director of BOC Aviation Limited (a company listed on the HKEX, stock code: 02588) since May 2016; and an independent director of Power Construction Corp of China Ltd. (a company listed on the SSE, stock code: 601669) since March 2018; and an independent director of Poly Developments and Holdings Group Co., Ltd. (a company listed on the SSE, stock code: 600048) since September 2018. He is also the vice chairman of the Accounting Society of China. Mr. Dai served as an independent director of Shanxi Taigang Stainless Steel Co., Ltd. (a company listed on the SZSE, stock code: 000825) from May 2011 to October 2016; and an independent director of Beijing Xinwei Telecom Technology Group Co., Ltd. (a company listed on the SSE, stock code: 600485) from September 2014 to August 2016; and an independent director of Beijing Capital Development Co., Ltd. (a company listed on the SSE, stock code: 600376) from September 2015 to May 2018. Mr. Dai obtained a Bachelor's degree in Economics, majoring in Industry Finance and Accounting from Hunan College of Finance and Economics (currently known as Hunan University) in the PRC in July 1983, a Master's degree in Economics, majoring in Professional Accounting from Zhongnan University of Economics in the PRC in October 1986, and a Doctor's degree in Economics from Renmin University of China in June 1991.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Name

**BAI Jianjun**

**Mr. BAI Jianjun (白建軍)**, born in July 1955, is an Independent Non-executive Director. Mr. Bai has been serving as an Independent Director of the Company since August 2016; an independent director of Sichuan Xinwang Bank Co., Ltd. (四川新網銀行股份有限公司) (a company listed on the HKEX (stock code: 01658) and on the SSE (stock code:601658)) since December 2016; and an external supervisor of Postal Savings Bank of China Co., Ltd. since October 2019. Mr. Bai has been teaching in Peking University since July 1987 and serves as a professor and doctoral supervisor at the Law School, director of the Research Institute of Empirical Legal Affairs and deputy director of the Financial Law Research Center. Mr. Bai pursued his visiting research at New York University in United States from September 1991 to October 1992 and had been a visiting professor at Niigata University in Japan from October 1996 to October 1997. He served as an independent director of Boyayingjie Science Technology Co., Ltd. (a company listed on the NEEQ, stock code: 430082) from November 2010 to February 2017; and an external supervisor of China Construction Bank Corporation (a listed company on the HKEX (stock code: 0939) and on the SSE (stock code: 601939)) from June 2013 to June 2019. Mr. Bai obtained a Master's degree in Law from Peking University in the PRC in July 1987 and the Juris Doctor degree from Peking University in the PRC in June 2003.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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### Name

#### LIU Qiao

**Mr. LIU Qiao (劉俏)**, born in May 1970, is an Independent Non-executive Director. Mr. Liu has been serving as an Independent Director of the Company since August 2016; a member of the expert panel of the SZSE since March 2006; a supervisor of the post-doctoral station of SZSE since September 2007; the professor of finance and economics, doctoral supervisor, associate dean and director of EMBA Center at the Guanghua School of Management of Peking University since December 2010; a supervisor of the post-doctoral station of CSRC since September 2011; a supervisor of the post-doctoral station of China Minsheng Bank Corp., Ltd since September 2011; a supervisor of the post-doctoral station of China Financial Futures Exchange since September 2012; an independent director of ZH International Holdings Limited (a company listed on the HKEX, stock code: 00185) since July 2015; and an independent director of Beijing Capital Co., Limited (a company listed on the SSE, stock code: 600008) since December 2017; and an independent director of China Merchants Bank Co., Ltd. (a company listed on the Hong Kong Stock Exchange (stock code: 03968) and SSE (stock code: 600036)) since November 30, 2018. Mr. Liu served as an assistant professor at School of Economics and Finance of the University of Hong Kong from September 2000 to November 2001; a consultant of the Asia-Pacific Corporate Finance & Strategy Practice of McKinsey & Company from December 2001 to July 2003; an assistant professor and associate professor (with tenure) at the Faculty of Business and Economics of the University of Hong Kong from August 2003 to December 2010; and an independent director of Hexie Health Insurance Co., Ltd. from October 2014 to July 2017. Mr. Liu obtained a Bachelor of Science degree in Economics and Mathematics from Renmin University of China in July 1991, a Master's degree in International Finance and Economics from the Institute of Finance of PBOC (currently known as PBC School of Finance, Tsinghua University in China) in April 1994 and a Ph.D. in Economics from University of California, Los Angeles in the United States in June 2000. Mr. Liu was granted the Outstanding Youth Award of National Natural Science Foundation of China (國家自然科學基金傑出青年獎) in December 2013 and awarded the title of distinguished professor (特聘教授) of Changjiang Scholars Program by Ministry of Education in December 2014.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

### Name

#### LI Shihua

**Mr. LI Shihua (李士華)**, born in November 1959, is the Chairman of the Supervisory Committee. Mr. Li joined our Company in November 2005 and has been serving as the Chairman of the Supervisory Committee since April 2014. Mr. Li has been serving as the chairman of the supervisory committee of China Securities Futures since May 2011. Mr. Li currently also serves as a member of the self-regulation oversight committee of the Securities Association of China and a member of Senior Professional Titles Evaluation Committee. Mr. Li served as the deputy director and director (section level) of the business department of Hengshui branch and deputy chief of technology reform division of Hebei provincial branch of Industrial and Commercial Bank of China from December 1985 to September 1997; the director of the board office and general manager of the administration department of Huaxia Securities from September 1997 to November 2005; the general manager of the Administration Department, the administrative head of the President's Office, the member of Executive Committee, the secretary of the Board and the secretary of the Disciplinary Committee of the Company from November 2005 to April 2014; and the Deputy Secretary of the Party Committee of the Company from June 2014 to November 2019. Mr. Li graduated from the undergraduate school of Hebei Institute of Education in the PRC in June 1995 and from the post graduate school of Chinese Academy of Social Sciences in April 1998.

#### AI Bo

**Ms. AI Bo (艾波)**, born in February 1971, is a Supervisor. Ms. Ai has been serving as a Supervisor of the Company since August 2016; and has been working at the department of discipline inspection and supervision of China Investment Corporation since 2012 and once served as the senior manager thereof; Ms. Ai served as the secretary of the discipline supervisory committee of China Investment Corporation from November 2017 to November 2019; and the deputy head of the First Inspection Team of China Investment Corporation since July 2019. Ms. Ai worked for the secretariat for confidential matters of the general office of the Ministry of Supervision, the general supervision office of supervision department under the Central Commission for Discipline Inspection and the second discipline inspection office under the Central Commission for Discipline Inspection from July 1991 to May 2008, and served as the deputy director of the second discipline inspection office under the Central Commission for Discipline Inspection from September 2005 to May 2008. Ms. Ai served as the designated supervisor of Central Huijin Investment Limited (designated to work for New China Life Insurance Company Ltd.) from January 2010 to March 2016. Ms. Ai obtained a Master's degree in Management from Kunming University of Science and Technology in the PRC in June 2015 and obtained a certificate of certified enterprise risk manager in June 2014.



## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Name

**ZHAO Lijun**

**Ms. ZHAO Lijun (趙麗君)**, born in October 1963, is a Supervisor. Ms. Zhao has been serving as a Supervisor of the Company since April 2018; the deputy director of working group for party construction/Party committee office/corporate culture department of China Investment Co., Ltd. since January 2019. During such time Ms. Zhao served as deputy secretary of Party committee, secretary of Party committee and managing director since November 2019. Ms. Zhao successively served as a teaching assistant of the academic department, teaching assistant of social science and lecturer of Harbin Ship Engineering Institute from July 1986 to November 1996. She successively served as vice minister of the propaganda department (named as associate professor in September 1997), director of information centre (part-time since January 2001), vice principal of party school and deputy secretary of Party committee (named as professor in September 2004 of Harbin Engineering University) from November 1996 to December 2006; as researcher of National Commission of Science and Technology Policy and Regulation Division from December 2006 to July 2008; as researcher of Party committee directly under State Administration of Science, Technology and Industry for National Defense, head of Party committee office from July 2008 to March 2010; as senior manager of human resources department, head of management team of party affairs, senior manager of office/board office/Party committee office, and team leader of working group for party construction/Party committee office of China Investment Co., Ltd. from March 2010 to January 2017. During such time Ms. Zhao also served as an external supervisor of Central Huijin Investment Ltd from January 2012 to January 2017 (seconded to China Everbright Industrial (Group) Company Ltd.); and served as deputy director of the office of China Investment Co., Ltd. from January 2017 to August 2019. Ms. Zhao obtained a bachelor's degree in law from the Department of Law of Heilongjiang University in July 1986, a master's degree in law (economics) from Harbin Engineering University in March 2006. Ms. Zhao obtained the PRC bar qualification in September 1989.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Name

**LIN Xuan**

**Ms. LIN Xuan (林煊)**, born in February 1972, is an employee representative Supervisor and the administrative head of Internal Audit Department. Ms. Lin joined the Company in November 2005. She has served as an employee representative Supervisor since April 2018 and the administrative head of Internal Audit Department since July 2018. Ms. Lin currently serves as a member of Beijing Financial Staff Union. Ms. Lin worked for Huaxia Securities Co., Ltd. (華夏證券股份有限公司) from April 1997 to November 2005 and served as business director and assistant to general manager of the investment banking department and the acquisitions department; and has served as assistant to general manager, director, executive director and managing director of investment banking department from November 2005 to July 2018. Ms. Lin obtained a bachelor's degree in Economics from Renmin University of China in July 1994, a master's degree in Economics from the Graduate School of the People's Bank of China (currently known as PBC School of Finance, Tsinghua University in China) in June 1997, a PhD degree in Economics from Chinese Academy of Social Sciences (in-service study) in July 2009, and A-share sponsor representative qualification in 2004.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Name

**ZHAO Ming**

**Mr. ZHAO Ming (趙明)**, born in May 1971, is an employee representative Supervisor, administrative head of Financial Planning Department and Treasury Operation Department. He has served as the general manager of Zhong'an Huixin Investment Management Co., Ltd. since September 2017; the administrative head of Financial Planning Department and Treasury Operation Department of the Company since July 2018; and an employee representative Supervisor since April 2019. Mr. Zhao worked in Daya Bay Public Security Bureau, Huizhou City, Guangdong Province from July 1993 to August 1998. He worked in Investment Banking Department of Huaxia Securities Co., Ltd. from July 2001 to March 2003. He served as manager of Investment Banking Department of Shanghai Electric Group Finance Company Co., Ltd. (上海電氣集團財務有限責任公司) from April 2003 to May 2005; senior business director of Investment Banking Department of Huaxia Securities Co., Ltd. from June 2005 to October 2005; senior business director, director and executive general manager of the Investment Banking Department of the Company from November 2005 to October 2010; vice chairman and general manager of Shanghai Heying Electromechanical Technology Co., Ltd. (上海和鷹機電科技股份有限公司) from May 2011 to October 2013; and executive general manager and managing director of the Capital Market Department and Investment Banking Department of the Company from November 2013 to July 2017. Mr. Zhao obtained a Bachelor's Degree in law from the People's Public Security University of China in June 1993, a Master of Laws from Southwest University of Political Science and Law in June 2001, a Master of Business Administration from China Europe International Business School in October 2011 and qualified as a lawyer in 1995 and a certified public accountant in 2003.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Name

**ZHOU Zhigang**

**Mr. ZHOU Zhigang (周志綱)**, born in May 1964, is a member of the Executive Committee. Mr. Zhou joined our Company in November 2005. He has been serving as a member of the Executive Committee since February 2009, and a member of Party Committee since December 2005. Mr. Zhou has been serving as a director of China Securities Futures since August 2006. Mr. Zhou currently also serves as a member of the compliance management committee of the Securities Association of China. Mr. Zhou served as the assistant director of the application software chamber of Institute of Computer Technology of East China from September 1988 to May 1992; the deputy director of computer center, deputy director and director of the research and development center of Shanghai Wanguo Holdings Ltd. from May 1992 to May 1996; the chief engineer and the general manager of the E-commerce department of Huaxia Securities Co., Ltd. from May 1996 to November 2005; deputy general manager and chairman of Brokerage Business Management Committee of the Company from November 2005 to April 2014, the Chief Risk Officer of the Company from April 2016 to April 2019; and the Chief Compliance Officer of the Company from April 2016 to May 2019. Mr. Zhou obtained a Bachelor of Science degree from Fudan University in the PRC in July 1985 and obtained a Master of Science degree from Fudan University in the PRC in July 1988. He obtained a certificate of senior engineer in September 1999.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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### Name

#### **YUAN Jianmin**

**Mr. YUAN Jianmin (袁建民)**, born in May 1961, is a member of the Executive Committee. Mr. Yuan joined our Company in November 2005 and has been serving as a member of the Executive Committee since February 2009 and a member of Party Committee since February 2007. Mr. Yuan has been serving as a director of China Securities Futures since August 2006. Mr. Yuan also serves as a member of the margin financing and securities lending committee of the Securities Association of China. Mr. Yuan served as the deputy director of the real estate credit department under the construction and economy department of the head office, the deputy director of computer management department of the computing center, a director of the planning and finance division of science department, the senior manager of the finance and business department of Beijing development center of information technology department of China Construction Bank Corporation from August 1982 to January 2005; the deputy general manager of Science Development Center of China Jianyin Investment from February 2005 to October 2005; and the deputy general manager, administrative head of the Treasury Operation Department and administrative head of the Securities and Financing Department of our Company from November 2005 to January 2016. Mr. Yuan obtained a Bachelor's degree in Economics from Liaoning Institute of Finance and Economics in the PRC in August 1982 and a Master's degree in Economics from Dongbei University of Finance and Economics in the PRC in November 1999. He obtained a certificate of senior economist in December 1993.

#### **JIANG Yueqin**

**Mr. JIANG Yueqin (蒋月勤)**, born in December 1966, a member of the Executive Committee. Mr. Jiang joined our Company in January 2007 and has been serving as a member of the Executive Committee since May 2009 and a member of Party Committee since December 2007. He has been serving as the chairman of the board of directors of China Securities Funds since September 2013. Currently, Mr. Jiang also serves as a vice chairman of the AMAC and a member of the asset management business committee of the Securities Association of China. Mr. Jiang served as a programmer of Shenzhen Shekou Xinxin Software Company from May 1992 to March 1993; the deputy general manager of Shenzhen branch, and general manager of trading department and chief dealer of CITIC Securities Co., Ltd. from March 1993 to December 2001; the general manager of Changsheng Fund Management Co., Ltd. from 2001 to 2006; the assistant to general manager, administrative head of Institutional Business Department and administrative head of Asset Management Department of our Company from January 2007 to January 2016. Mr. Jiang obtained a Bachelor of Engineering degree from University of Electronic Science and Technology in the PRC in July 1989 and a Master of Engineering degree from University of Electronic Science and Technology in the PRC in March 1992.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Name

### ZHOU Xiaoyu

**Mr. ZHOU Xiaoyu (周笑予)**, born in June 1964, is a member of the Executive Committee, the administrative head of the Human Resources Department, and director of Party Committee Office. Mr. Zhou joined our Company in November 2005 and has been serving as the Administrative Head of the Human Resources Department since November 2011, a member of the Executive Committee since January 2016, and a member of Party Committee since July 2013. Mr. Zhou has been a director of China Securities Futures since August 2012. Mr. Zhou currently serves as a member of the human resources committee of the Securities Association of China. Mr. Zhou served as an assistant engineer and engineer in Guangzhou Design Institute of Ministry of Light Industry from August 1985 to August 1988 and from August 1991 to February 1993, respectively; the executive deputy general manager in Shenzhen branch, the general manager of the business department in Dalian branch, the general manager of Shenyang Branch and the general manager of the brokerage business management of Huaxia Securities Co., Ltd. from February 1993 to November 2005; and the general manager of the Brokerage Business Management Department, the administrative head of the Treasury Operation Department and the administrative head of the Margin Financing and Securities Lending Department of our Company from November 2005 to November 2011. Mr. Zhou obtained a Bachelor of Engineering degree from Tianjin Institute of Light Industry in the PRC in July 1985 and Master of Engineering degree from South China University of Technology in the PRC in July 1991.

### LI Tiesheng

**Mr. LI Tiesheng (李鐵生)**, born in July 1971, is a member of the Executive Committee. Mr. Li joined our Company in June 2013 and has been serving as a member of the Executive Committee since June 2013 and a director of China Securities Investment since November 2017. Mr. Li served as the business manager of the securities department and the futures department as well as the deputy general manager and general manager of Shenzhen Zhongbaoxin Financial Consultant Co. Ltd in China People's Insurance Trust and Investment Company from August 1993 to March 2000; the deputy manager of Hong Kong Jiangnan Finance Company Limited, deputy director of Great Wall Securities Co., Ltd., general manager of New Jiangnan Investment Company Limited, a member of party committee and the vice-president of Beijing Branch of China Merchants Bank Co., Ltd. from March 2000 to July 2013. Mr. Li obtained a Bachelor of Engineering degree from Beijing Institute of Technology in the PRC in July 1993 and completed the postgraduate course in Renmin University of China in October 1997.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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### Name

**WANG Guangxue** **Mr. WANG Guangxue (王廣學)**, born in June 1972, is a member of the Executive Committee, the Secretary of the Board and the Administrative Head of the Executive Office of our Company. Mr. Wang joined our Company in November 2005 and has been serving as the Administrative Head of the Executive Office of our Company since November 2011. He has been serving as a member of the Executive Committee and the Secretary of the Board since January 2014, and served as the chairman of China Securities Futures since June 2019. Mr. Wang served as a staff of the foreign economic relations department of planning committee of Liyang City, Jiangsu Province (now known as the development and reform commission of Liyang City) from August 1992 to September 1995; the business manager, senior business director and assistant to general manager of the investment banking department of Huaxia Securities co., Ltd. from July 1998 to November 2005; and the assistant to general manager and deputy general manager of the Investment Banking Department of our Company from November 2005 to November 2011. Mr. Wang obtained a Bachelor of Science degree from Qingdao Ocean University (currently known as Ocean University of China) in the PRC in July 1992 and a Master's degree in Economics from Fudan University in the PRC in June 1998. He also obtained a Ph.D. in Economics (in-service study) from Fudan University in the PRC in July 2002. He obtained a certificate of sponsor representative of A Shares in April 2004.

**ZHANG Xinfan** **Mr. ZHANG Xinfan (張昕帆)**, born in December 1968, is a member of the Executive Committee, Chairman of the Brokerage Business Management Committee and the Co-Chairman of the Institutional Business Committee. Mr. Zhang joined our Company in November 2005 and has been serving as a member of the Executive Committee since January 2014 and the Chairman of the Brokerage Business Management Committee since April 2014. Mr. Zhang has been serving as a director of China Securities International since June 2014 and the Co-Chairman of the Institutional Business Committee since September 2018. Mr. Zhang served as a loan officer, the director of the securities branch of Dalian branch of Industrial and Commercial Bank of China from August 1991 to October 1994; the manager of Dalian securities branch, the deputy general manager of Shenyang branch and the deputy general manager of the corporate brokerage business management head office of Huaxia Securities Co., Ltd. from November 1994 to November 2005; and the deputy general manager of the Brokerage Business Management Department, the manager of the securities branch of Beijing Dongzhimen South Street, administrative head of the Wealth Management Department of the Brokerage Business Management committee and the vice-chairman of the Brokerage Business Management Committee of our Company from November 2005 to September 2016. Mr. Zhang obtained a Bachelor's degree in Economics from Dongbei University of Finance and Economics in the PRC in July 1991 and an EMBA degree from Guanghua School of Management, Peking University in the PRC in April 2001. He obtained a certificate of senior economist in August 1999.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Name

### LIU Naisheng

**Mr. LIU Naisheng (劉乃生)**, born in February 1971, is a member of the Executive Committee, the Administrative Head of the Investment Banking Department. Mr. Liu joined our Company in March 2006. He has been serving as a member of the Executive Committee since January 2014 and the Administrative Head of the Investment Banking Department since January 2019. Mr. Liu has been serving as a member of the Fourth Session and the Fifth Session of Listing Committee of SSE since August 2017; and a member of the Sixth Session of Listed Companies Merger and Reorganisation Vetting Committee of the CSRC from July 2016 to June 2019. Mr. Liu worked in China Xinxing Corporation (Group) from July 1995 to October 1997. He worked in China Science and Technology International Trust and Investment Co., Ltd. from October 1997 to October 2002. He was engaged in investment banking business in China Science and Technology Securities Co., Ltd. from October 2002 to March 2006. He served as the deputy general manager of the Investment Banking Department of our Company from March 2006 to April 2011; and the Administrative Head of the Investment Banking Department of the Company from April 2011 to January 2019. Mr. Liu obtained a Bachelor of Engineering degree from the Beijing Institute of Machinery (currently known as Beijing Information Science & Technology University) in the PRC in July 1995 and an MBA degree (in-service study) from School of Economics and Management, Tsinghua University in the PRC in July 2007. He obtained a certificate of sponsor representative of A Shares in February 2005. He was awarded as the “Best Investment Banker of the Year 2012” by Securities Times in May 2013, and the “Best Investment Banker of the Year 2014” by New Fortune in March 2015.

### HUANG Ling

**Mr. HUANG Ling (黃凌)**, born in October 1976, is a member of the Executive Committee, Chairman of the Institutional Business Committee and Co-Chairman of the Investment Banking Committee. Mr. Huang joined our Company in November 2005 and has been serving as a member of the Executive Committee from January 2014, and Chairman of the Institutional Business Committee and Co-Chairman of the Investment Banking Committee from September 2018. Mr. Huang served as a senior business director of the administration department of Huaxia Securities Co., Ltd. from July 2000 to November 2005; the senior business director and the assistant to general manager of the debt business department of our Company from November 2005 to May 2008; and the Administrative Head of the Debt Underwriting Department of the Company from May 2008 to January 2019. Mr. Huang obtained a Bachelor's degree in Economics, majoring in International Finance, from China Institute of Finance in June 1998 and a Master's degree in Economics, majoring in Finance from the Graduate School of the PBOC (currently known as PBC School of Finance, Tsinghua University in China) in October 2000. He obtained a Ph.D. in Economics majoring in Finance from Hunan University in the PRC in June 2005. He obtained a certificate of senior economist in November 2007.



## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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### Name

**DING Jianqiang** **Mr. DING Jianqiang (丁建強)**, born in May 1973, is a member of Executive Committee, Chief Compliance Officer and administrative head of the Legal and Compliance Department of the Company. Mr. Ding joined our Company in November 2005, and has been serving as the administrative head of the Legal and Compliance Department since January 2007; a member of Executive Committee of the Company since April 2019; and the Chief Compliance Officer of the Company since May 2019. Mr. Ding served as an assistant to the general manager of Legal Affairs Department of Huaxia Securities Co., Ltd. from September 2002 to December 2005, the assistant to the general manager of the Legal and Compliance Department from December 2015 to January 2007, and the Chief Lawyer of the Company from August 2018 to April 2019. Mr. Ding obtained a Bachelor's Degree in law from China University of Political Science and Law in July 1997, and obtained professional qualification as a lawyer in October 1997.

**LU Ya** **Ms. LU Ya (陸亞)**, born in February 1966, is a member of Executive Committee, Chief Risk Officer and Administrative Head of the Risk Management Department. Ms. Lu joined our Company in November 2005, and has been serving as an Administrative Head of the Risk Management Department since January 2008, a supervisor of China Capital Management since August 2009, a supervisor of China Securities Investment since November 2017 and chairperson of supervisory committee of China Securities Funds since April 2019. Ms. Lu has been serving as a member of Executive Committee and the Chief Risk Officer since April 2019. Ms. Lu worked in Renmin University of China from August 1988 to August 1990. Ms. Lu served as the accounting head of the securities department of Beijing Real Estate Trust and Investment Company from July 1993 to December 1993; the analyst of the research and development department of China Securities Market Research and Design Centre from January 1994 to June 1994; the Certified Public Accountant of Beijing Jing Du Certified Public Accountants from July 1994 to August 1995; the senior auditor of the audit department, the head of the securities investment department and the assistant general manager of the risk management department of Huaxia Securities Co., Ltd. (華夏證券股份有限公司) from September 1995 to November 2005; the assistant to general manager of the Risk Management Department of the Company from November 2005 to December 2007; an employee representative Supervisor of the Company from March 2011 to April 2019; and the Chief Risk Officer of the Company from August 2018 to April 2019. Ms. Lu obtained a Bachelor's degree in Economics from the School of Accounting of Renmin University of China in July 1988 and a Master's degree in Economics from the School of Accounting of Renmin University of China in June 1993. She was qualified as a Certified Public Accountant in 1993 and obtained a certificate of senior accountant in 1999.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Name

**XIAO Gang**

**Mr. XIAO Gang (肖鋼)**, born in June 1969, is a member of Executive Committee, Chief Information Officer and administrative head of the IT Department. Mr. Xiao joined our Company in November 2005 and has been serving as the administrative head of the IT Department since August 2012; the Chief Information Officer since August 2018; and a member of Executive Committee since April 2019. He served as a member of Information Technology Committee of China Securities Industry Association since March 2016; an expert in Fintech Research and Development Center (Shenzhen) of Securities and Futures Industry since December 2017. Mr. Xiao worked in Beijing Kangtaike Electronic Technology Co., Ltd. (北京康泰克電子技術有限公司) from July 1992 to February 1994. He served as a senior engineer of Computer Center of Huaxia Securities Co., Ltd. from March 1994 to December 2005; a senior engineer of the IT Department of the Company from December 2005 to January 2007; and the deputy general manager of the IT Department of the Company from January 2007 to August 2012. Mr. Xiao obtained a Bachelor's Degree in Computer Application from Beijing Union University in July 1992; a professional qualification as an engineer in August 1994.

**PENG Wende**

**Mr. PENG Wende (彭文德)**, born in June 1966, is a member of Executive Committee. He joined our Company in November 2005 and has been serving as a director of China Securities International since May 2019; general manager and director of executive committee China Securities (International since June 2019; and a member of Executive Committee since July 2019. Mr. Peng served as head of Engineering Department of Xinda Industrial Co., Ltd. (鑫達實業有限公司) from July 1988 to September 1990; department deputy manager, manager and deputy general manager of Guangzhou Branch of Huaxia Securities Co., Ltd. from March 1993 to March 2002; general manager of Beijing Sanlihe Securities Sales Department of Huaxia Securities Co., Ltd. from March 2002 to September 2003; general manager of Chongqing Branch of Huaxia Securities Co., Ltd. September 2003 to December 2005; general manager of Southwest Management Headquarters of the Company from December 2005 to December 2006; and chairman of China Securities Futures from December 2006 to June 2019. Mr. Peng obtained a Bachelor's Degree in Engineering from Huazhong University of Science and Technology from September 1984 to July 1988; a Master of Management Engineering from South China University of Technology from September 1990 to March 1993; a Doctoral Degree in Business Management from Sun Yat-sen University from September 1998 to December 2001. He obtained the title of intermediate economist in July 1998.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

### II. POSITIONS HELD BY CURRENT AND FORMER DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE SHAREHOLDERS DURING THE REPORTING PERIOD

#### (I) Positions in the Shareholders

Name	Shareholder	Position	Commencement date of term of office	Expiry date of term of office
YU Zhongfu	BSCOMC	Deputy General Manager	May 2009	Until expiry
ZHANG Qin	BSCOMC	Assistant to General Manager, General Manager of Legal and Audit Department	July 2016	Until expiry
WANG Hao	Central Huijin	Specially Dispatched Director	July 2018	Until expiry
WANG Bo	Central Huijin	Specially Dispatched Director	September 2017	Until expiry
AI Bo	CIC	Deputy Head of the First Inspection Team	July 2019	Until expiry
ZHAO Lijun	CIC	Deputy Director of Working Group for Party Construction/Party Committee Office/Corporate Culture Department	January 2019	Until expiry
DONG Shi	Central Huijin	Specially Dispatched Director	October 2008	August 2019

Explanations on positions in the Shareholders

Nil

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

### (II) Positions in Other Entities

Name	Entity	Position	Commencement date of term of office	Expiry date of term of office
ZHU Jia	Beijing Financial Holdings Group Limited	Assistant to the General Manager of Investment Management Department	April 2019	Until expiry
XU Gang	CITIC Industrial Investment Group Corp., Ltd.	Vice Chairman and General Manager	March 2018	Until expiry
FENG Genfu	School of Finance and Economics of Xi'an Jiaotong University	Professor and Doctoral Supervisor	May 2000	Until expiry
ZHU Shengqin	China Huiyuan Juice Group Limited	Executive Director	August 2014	Until expiry
DAI Deming	Accounting Department of Renmin University of China	Professor/Doctoral Supervisor	July 1996/ January 1997	Until expiry
BAI Jianjun	Law School of Peking University	Professor and Doctoral Supervisor	July 1987	Until expiry
LIU Qiao	Guanghua School of Management of Peking University	Professor, Doctoral Supervisor and Dean	December 2010	Until expiry

Explanations on positions in other units

Nil

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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

Name	Positions	Changes	Reason
ZHAO Ming	Employee Representative Supervisor	Elected	New appointment
DING Jianqiang	Member of Executive Committee, Chief Compliance Officer	Appointed	New appointment
LU Ya	Member of Executive Committee, Chief Risk Officer	Appointed	New appointment
XIAO Gang	Member of Executive Committee, Chief Information Officer	Appointed	New appointment
PENG Wende	Member of Executive Committee	Appointed	New appointment
DONG Shi	Former Vice Chairman of the Board and Non-executive Director	Resigned	Resigned
LU Ya	Former Employee Representative Supervisor	Resigned	Work adjustment
HU Bin	Former Member of Executive Committee	Resigned	Resigned

### IV. RELATIONSHIPS AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no relationship among the Directors, Supervisors or senior management including relationships in terms of finance, business, family or other significant relationships.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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### V. PERFORMANCE OF DUTIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

#### (I) Performance of Duties of Directors and Supervisors

In 2019, the Directors of the Company strictly complied with domestic and overseas laws, regulations, regulatory requirements and the Articles of Association and diligently and responsibly performed their responsibilities and obligations in reviewing the issues of the Board and Board Committees, providing valuable opinions and recommendations on strategic and development planning, corporate governance, business development, risk management and compliance management and other aspects, safeguarding the interests of Shareholders and promoting sustainable and healthy development of the Company.

During the year, the executive Directors earnestly performed their dual duties in decision-making and execution, actively implemented the resolutions of Shareholders' general meetings and Board meetings, and conducted in-depth study of the development and operating strategies of the Company to boost its outstanding operating results. The non-executive Directors attended the meetings of the Board and Board Committees pursuant to the requirements and made scientific and prudent decisions by considering meeting documents, receiving special reports, conducting research and analysis, and reviewing reports on the Company's operation to keep abreast of the Company's operational status. The independent non-executive Directors consistently expressed their personal opinions in an independent and objective manner, offered advice and recommendations on the Company's development based on their professional strengths, and faithfully performed their duties so as to safeguard the interests of the Company and its Shareholders, especially the legitimate interests of minority Shareholders.

In 2019, the Supervisors of the Company strictly complied with the requirements of the Company Law and the Company's Articles of Association, earnestly performed their duties of supervision, participated in the approval of significant decisions of the Company, regularly investigated the operating status of the Company and its business operations, and effectively supervised the performance of duties by the Directors and the executive management of the Company, so as to actively safeguard the interests of Shareholders.

Details of the performance of duties of Directors and Supervisors have been set forth in the "Section 9 Corporate Governance Report – IV. Directors and Board of Directors" and "– VI. Supervisors and the Supervisory Committee" section of this annual report.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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### (II) Performance of Duties of Senior Management

In 2019, the executive management of the Company comprehensively implemented all resolutions and requirements of the Board. In accordance with industry trends and changes in operating environment, the executive management proposed a strategy of balanced development of light and heavy asset businesses, online and offline businesses, domestic and overseas businesses, as well as conventional and innovative businesses to continue to utilize the synergy among businesses and further strengthen the business layout. They proactively made suggestions for improvement and optimization in relation to certain major issues affecting the development of the Company, eventually achieving positive results.

Given a complicated and dynamic market environment, the executive management of the Company has continuously optimized its internal control system and risk management mechanism to raise the compliance level of risk control, while ensuring the seizing of opportunities and promoting innovation in compliance with laws and regulations. The Company was rated “Class A Grade AA” for ten consecutive years.

The executive management of the Company played an important role in achieving satisfactory operating results despite a severe market environment and intense competition in the industry, and accomplished the mission of operation and management assigned to it by the Board.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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

Decision-making procedures in relation to remuneration of Directors, Supervisors and senior management	<p>The Board of the Company established the Remuneration and Nomination Committee, which is responsible for formulating and reviewing the remuneration policies and plans for Directors and senior management of the Company. The Remuneration and Nomination Committee considers and conducts resolutions and decision-making in accordance with the Articles of Association and the “Rules of Procedures of Remuneration and Nomination Committee of the Board of CSC Financial Co., Ltd.”. In addition, the Company also formulated the “Management Measures of Remuneration in the Headquarter of CSC Financial Co., Ltd.” (《中信建投證券股份有限公司總部薪酬管理辦法》) and the “Incentive Measures of Remuneration of Staff in Brokerage Business System of CSC Financial Co., Ltd.” (《中信建投證券股份有限公司經紀業務系統員工薪酬激勵辦法》) to be the basic remuneration policy of the Company so as to regulate procedures such as decision-making of remuneration. Currently, Independent Non-Executive Directors of the Company receive remuneration from the Company with reference to industry practice, while other Non-Executive Directors do not receive remuneration from the Company; the remuneration of executive Directors, Supervisors and senior management of the Company is determined according to the remuneration evaluation system of the Company.</p>
Basis of determination of the remuneration of Directors, Supervisors and senior management	<p>It is executed in strict accordance with the Remuneration Management System (《薪酬管理制度》), and is related to positions and performance.</p>



## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Actual payment of the remuneration of Directors, Supervisors and senior management

As stipulated in the Administrative Measures on Loyalty Awards (《忠誠獎管理辦法》) approved by the Board, the loyalty awards allocated to qualified employees (including Directors, Supervisors and senior management personnel) shall be released at least lock-up of three years after the distribution year. According to such administrative measures, the amount of loyalty award after tax of Directors, Supervisors and senior management personnel for previous years was distributed in 2019: for the year 2014: Wang Changqing, RMB2.2 million; Li Shihua, RMB1.705 million; Zhou Zhigang, RMB1.595 million; Yuan Jianmin, RMB1.595 million; Jiang Yueqin, RMB1.815 million; Zhou Xiaoyu, RMB1.43 million; Li Tiesheng, RMB1.1 million; Wang Guangxue, RMB1.595 million; Zhang Xinfan, RMB1.595 million; Liu Naisheng, RMB1.815 million; Huang Ling, RMB1.815 million; and Hu Bin, RMB0.88 million; for the year 2015: Wang Changqing, RMB1.4 million; Li Shihua, RMB1.4 million; Zhou Zhigang, RMB1.4 million; Yuan Jianmin, RMB1.4 million; Jiang Yueqin, RMB1.4 million; Zhou Xiaoyu, RMB1.4 million; Lin Xuan: RMB2.2135 million; Li Tiesheng, RMB1 million; Wang Guangxue, RMB1.8 million; Zhang Xinfan, RMB1.8 million; Liu Naisheng, RMB2.4 million; Huang Ling, RMB2.4 million; Lu Ya, RMB1.4435 million; and Hu Bin, RMB1.4 million (the above remuneration is denominated in RMB).

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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Aggregate remuneration received by all Directors, Supervisors and senior management as of the end of the Reporting Period

Approximately RMB137.9046 million

### Subsequent Events:

On March 26, 2020, the twentieth meeting of the second session of the Board of the Company considered and approved the Resolution on the Additional Appointment of Mr. Li Yunan as a Member of the Executive Committee of the Company, to appoint Mr. Li Yunan as a member of the Executive Committee of the Company.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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### VII. EMPLOYEES OF THE PARENT COMPANY AND MAJOR SUBSIDIARIES

#### (I) Employees

Number of incumbent employees of the parent company	8,498
Number of incumbent employees of major subsidiaries	911
Total number of incumbent employees	9,409
Number of resigned and retired employees for whom the parent company and major subsidiaries undertook costs	174

#### *Professional Structure*

Items	Number of employees
Brokerage business	5,658
Investment banking	1,036
Information technology	509
Financial planning	305
Administration	65
Research	201
Fixed income business	134
Asset management business	220
Margin financing and securities lending businesses	46
Security investment	76
Settlement	130
Legal compliance/audit	444
Risk management	97
Others	488
Total	9,409

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

### *Education Level*

Education level	Number of employees (person)
Doctorate degree	81
Master's degree	3,301
Bachelor's degree	4,509
College or below	1,518
Total	9,409

### **(II) Remuneration Policies**

The Company established a sound human resources management system in compliance with the requirements of the PRC laws in relation to labor contracts and labor protections, formulated various regulations and policies in relation to remuneration, position and grade, performance assessments, benefits and holidays, etc., and stringently implemented such policies. The Company effectively protected staff's interest in various aspects such as labor protection, working environment, payment of wages, social insurance, healthcare and vacation. The Company consistently carried out the principle of marketization to determine the remuneration standard. Remuneration for employees includes fixed salary, performance-related bonuses and insurance benefits. Fixed salary is determined according to the position and grade, and the standard of position and grade integrates the factors of experience, capability, professional knowledge and experience, while performance-related bonuses are associated with the completion of results and assessment results in the corresponding year. The total amount of annual bonuses is withdrawn from total amount of profit in accordance with the ratio determined by the Board. The Company established a comprehensive benefit protection system, and the statutory benefits are paid in accordance with the contents and standards as stipulated by the PRC government. Benefits of the Company covered various aspects, including replenishment of medical insurance, enterprise annuity, paid leave and medical examination.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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### (III) Training Program

The Company continues to promote and implement staff training programs with comprehensive layout, overall planning, implementation by levels and clear purposes and constantly strengthens the development of a team with talents. The Company proactively improves its multi-level training system which focuses on the “ladder of training for the growth of employees” against different career development paths of employees of its headquarters and branches. Utilizing E-learning systems and mobile learning APP as carriers for learning resources and face-to-face teaching as the major training medium, the Company creates room for learning and growth for employees and comprehensively improves the professional skills and professionalism of the employees through multi-channel, multi-way and multi-means training which broadens the scope and depth of training.

1. The Company enhanced the training of senior employees on leadership and management skills, broadened their innovative idea and international view, improved their reform management capability, strategic analysis capability, executive management capability, business synergy capability, risk prevention capability and integrated humanity quality, and nurtured quality leaders for enterprise operation and management.
2. The Company strengthened the training of mid-level staff on implementation, competence and professional skills, and strived to improve their professional knowledge, project implementation capability, business development and innovation capability as well as team management capability.
3. The Company strengthened the training of branch leaders and backup management talents, strengthened their comprehensive training in self-management, team management, system thinking, and problem analysis and resolution capabilities, to promote the improvement of business awareness and management level.
4. The Company popularized vocational training and common skills training for employees at the basic level, strengthened the education of its corporate culture, professional compliance, business operation, workflow, regulations and system, and enhanced their communication and presentation capability, customer service capability, team coordination capability and office operation capability.

## SECTION 8 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

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5. The Company attached high importance to recruitment at university campuses and training of new employees, and commenced a series of enrollment and trainee cultivation program to recruit outstanding graduates and students with working and placement opportunities. The Company provided more than 70 hours of pre-job online courses for newly recruited employees of the headquarters and university campuses, and organized induction training.

### **(IV) Information of Securities Brokers**

As of December 31, 2019, a total of 168 securities branches of the Company implemented the system of securities brokers. There were a total of 1,214 brokers who obtained professional brokerage qualifications as reviewed and approved by the Securities Association of China.

## SECTION 9 CORPORATE GOVERNANCE REPORT

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### I. OVERVIEW OF CORPORATE GOVERNANCE

In accordance with the provisions of relevant laws, regulations and regulatory documents, including the Company Law, the Securities Law, the Regulation on the Supervision and Administration of Securities Companies and the Rules for Governance of Securities Companies, the Company has established a solid and comprehensive corporate governance structure comprising the general meeting, the Board, the Supervisory Committee and the Executive Committee of the Company, and formed a complete corporate governance system in standard operation covering consideration, resolution, mandate and execution with clearly defined responsibilities among the organ of power, the decision-making body, the supervision body and the operation and management.

In accordance with the provisions of relevant laws, regulations and regulatory documents, the Company has formulated relevant corporate governance systems, including the Articles of Association, the Rules of Procedures for Shareholders' General Meeting of the Company, the Rules of Procedures for Board Meetings and the Rules of Procedures for Supervisory Committee, Rules of Procedures for Executive Committee. Such systems defined the scope of responsibilities and working procedures of the general meeting, the Board, the Supervisory Committee, and the Executive Committee and provided an institutional guarantee to the standard operation of the Company. In addition, the Board established the Development Strategy Committee, the Risk Management Committee, the Audit Committee and the Remuneration and Nomination Committee, and also developed rules of procedures for these committees and clearly defined the working responsibilities, rules of procedures and working system of each special committee to give full play to their functions.

During the Reporting Period, the Company strictly complied with the Corporate Governance Code, followed all code provisions and met the requirements of part of the recommended best practices set out in the Corporate Governance Code.

### II. DEALING IN SECURITIES BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Hong Kong Listing Rules (the "Model Code") in respect of the securities transactions entered into by the Directors and Supervisors. The Company has made specific inquiries to all Directors and Supervisors on any incompliance with the Model Code. All the Directors and Supervisors have confirmed that they have completely complied with the provisions and standards of the Model Code during the Reporting Period and up to the date of this annual report.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

### III. SHAREHOLDERS AND GENERAL MEETINGS

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

The Shareholders' general meeting is the body exercising the authority of the Company and shall exercise the duties and powers in accordance with the law, the Articles of Association and the Rules of Procedures for Shareholders' General Meeting of the Company. The Company convened the Shareholders' general meetings in strict compliance with the relevant rules and procedures such that all Shareholders are treated equally and can fully exercise their rights. During the Reporting Period, the Company convened five general meetings to engage in dialogue with the Shareholders so as to understand their concerns, suggestions and opinions regarding the Company's development.

#### (II) Overview of General Meetings

During the Reporting Period, the Company convened five Shareholders' general meetings, the details and resolutions of which are as follows:

Session	Date of convening	Query index of the designated website for publishing resolutions	Date of disclosure for publishing resolutions
2019 First Extraordinary General Meeting	14 March 2019	<a href="http://www.sse.com.cn">www.sse.com.cn</a> <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> <a href="http://www.csc108.com">www.csc108.com</a>	15 March 2019
2019 Second Extraordinary General Meeting	21 May 2019	<a href="http://www.sse.com.cn">www.sse.com.cn</a> <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> <a href="http://www.csc108.com">www.csc108.com</a>	22 May 2019
First A Shareholders' Class Meeting in 2019	21 May 2019	<a href="http://www.sse.com.cn">www.sse.com.cn</a> <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> <a href="http://www.csc108.com">www.csc108.com</a>	22 May 2019
First H Shareholders' Class Meeting in 2019	21 May 2019	<a href="http://www.sse.com.cn">www.sse.com.cn</a> <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> <a href="http://www.csc108.com">www.csc108.com</a>	22 May 2019
2018 Annual General Meeting	25 June 2019	<a href="http://www.sse.com.cn">www.sse.com.cn</a> <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> <a href="http://www.csc108.com">www.csc108.com</a>	26 June 2019



## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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On March 14, 2019, the 2019 First Extraordinary General Meeting considered and approved the Resolution on Application for Continuing to Issue Perpetual Subordinated Bonds.

On May 21, 2019, the 2019 Second Extraordinary General Meeting considered and approved the Resolution on the Fulfilment of Conditions for the Non-public Issuance of A Shares by the Company, the Resolution on the Non-public Issuance of A Shares, the Resolution on Formulating the Plan for the Non-public Issuance of A Shares, the Resolution on the Report on the Use of Proceeds Previously Raised by the Company, the Resolution on the Feasibility Report on the Use of Proceeds from the Non-public Issuance of the A Shares of the Company, the Resolution on the Dilution of Current Returns by the Non-public Issuance of A Shares and Remedial Measures and the Resolution on the Authorization to the Board to Deal with Relevant Matters in Relation to the Non-public Issuance with Full Discretion to be Submitted at the General Meeting.

On May 21, 2019, the First A Shareholders' Class Meeting in 2019 considered and approved the Resolution on the Fulfilment of Conditions for the Non-public Issuance of A Shares by the Company, the Resolution on the Non-public Issuance of A Shares and the Resolution on the Authorization to the Board to Deal With Relevant Matters in Relation to the Non-public Issuance with Full Discretion to be Submitted at the General Meeting.

On May 21, 2019, the First H Shareholders' Class Meeting in 2019 considered and approved the Resolution on the Fulfilment of Conditions for the Non-public Issuance of A Shares by the Company, the Resolution on the Non-public Issuance of A Shares and the Resolution on the Authorization to the Board to Deal With Relevant Matters in Relation to the Non-public Issuance with Full Discretion to be Submitted at the General Meeting.

On June 25, 2019, the 2018 Annual General Meeting considered and approved the Resolution on the 2018 Work Report of the Board of Directors of the Company, the Resolution on the 2018 Work Report of the Supervisory Committee of the Company, the Resolution on the 2018 Final Financial Accounts Plan of the Company, the Resolution on the 2018 Annual Report of the Company, the Resolution on the Profit Distribution of the Company in 2018, the Resolution on the Cap on Investment Amount for Proprietary Business of the Company in 2019, the Resolution on the Expected Related Party Transactions of the Company in 2019, the Resolution on the Re-appointment of Accounting Firm of the Company for 2019 and on the Auditor Fees, and to Authorize the Board to Adjust and Determine Specific Audit and Review Fees Based on Actual Situation, and reviewed the Report on the Independent Non-executive Directors for 2018 of the Company.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

### (III) Attendances of Shareholders' General Meetings by Directors of the Company

Name of Director	Attendances of Shareholders' General Meetings Actual attendance
WANG Changqing	2/5
YU Zhongfu	5/5
LI Geping	2/5
ZHANG Qin	4/5
ZHU Jia	1/5
WANG Hao	5/5
WANG Bo	1/5
XU Gang	0/5
FENG Genfu	2/5
ZHU Shengqin	1/5
DAI Deming	1/5
BAI Jianjun	4/5
LIU Qiao	0/5
DONG Shi	1/5
Shareholders' general meetings convened during the year	5

## IV. BOARD AND BOARD MEETINGS

### 1. Composition of the Board

The Company has a Board which is accountable to the Shareholders' general meeting. In accordance with the provisions of the Articles of Association, the Board consists of 14 members, five of whom are Independent Non-executive Directors. The number of internal Directors in the Board shall not exceed one-half of the total number of Directors. The Board shall have one chairman and two vice chairmen who shall be elected and removed by more than one half of all the Directors. The chairman and vice chairman shall serve a term of three years and may be re-elected upon the expiry of their terms. WANG Changqing served as the Chairman of the Board. The General Manager is LI Geping, who is responsible for overseeing the day-to-day operations of the Group.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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Directors are appointed at the Shareholders' general meeting to serve a term of three years and are eligible for re-election upon the expiration of their term. Independent Non-executive Directors shall not hold office for more than six consecutive years. The Company confirms that the Company has received the annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Therefore, the Company believes that each independent non-executive Director is independent as specified in the Listing Rules. Independent non-executive Directors are able to exercise independent and objective judgments and protect the interests of minority Shareholders.

The biographies of all Directors are set out in "Section 8 Directors, Supervisors, Senior Management and Employees" in this annual report.

### **2. Powers and Duties of the Board**

In accordance with the Articles of Association, the Board shall exercise the following powers and duties: (1) to convene the Shareholders' general meetings and submit work report to such meetings; (2) to implement the resolutions of the Shareholders' general meetings; (3) to decide on the operation plan and investment scheme of the Company; (4) to determine the objectives of the Company's compliance management, assume responsibility for the effectiveness of compliance management of the Company and perform the corresponding duties of compliance management; (5) to prepare the draft annual budget and final accounts of the Company; (6) to prepare the profit distribution plan and the loss recovery plan of the Company; (7) to prepare the plan for the Company to increase or reduce its registered capital, issuance of corporate bonds and other securities and listing plans; (8) to prepare plans of the Company with respect to mergers, divisions, dissolution or changes of the form of the Company; (9) to prepare plans of the Company with respect to material acquisitions and acquisition of the Company shares; (10) to appoint or remove the General Manager, the Chief Compliance Officer, the Chief Risk Officer and the Secretary of the Board nominated by the Chairman of the Board and decide the remunerations and rewards and punishments thereof; to appoint or remove the Chief Financial Officer, members of the Executive Committee and other senior management members nominated by the Chairman of the Board or the General Manager, and decide the remunerations and rewards and punishments thereof; (11) to decide on the establishment of the internal management organizations of the Company; (12) to determine the composition of special committees under the Board, and the chairman (convener) of each special committee; (13) to establish a basic management system of the Company; (14) to prepare plans to amend the Articles of Association; (15) to file an application for bankruptcy on behalf of the Company; (16) to prepare plans of the Company with respect to material external investments, material assets acquisition and disposal, material guarantees and material connected transactions; (17) to

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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consider and approve the external investment matters that do not require approval by the Shareholders' general meeting as prescribed in the Articles of Association; (18) to consider and approve the assets acquisition and disposal matters that do not require approval by the Shareholders' general meeting as prescribed in the Articles of Association; (19) to consider and approve the connected transactions that should be considered and approved by the Board pursuant to laws, regulations and the listing rules of the place where the Company shares are listed; (20) to consider and approve the external donation matters not meeting the requirements of the Articles of Association; (21) to decide on the Company's external investments, acquisition and disposal of assets, pledge of assets, external guarantees, trust management, connected transactions and other matters within the scope of authorization by the Shareholders' general meeting; (22) to decide on mergers, divisions, establishments or revocations of domestic branches; (23) to manage the disclosure of information by the Company; (24) to propose to the Shareholders' general meeting with respect to the engagement or replacement of the audit firm of the Company; (25) to receive the work report of the General Manager of the Company and examine such work; and (26) to exercise any other duties and powers specified in relevant laws, administrative regulations, departmental rules, normative documents, the listing rules of the place where the Company shares are listed or authorized by the Articles of Association. The management of the Company is responsible for carrying out the resolutions or decisions of the Board and other duties specified in the Articles of Association.

### 3. Operation of the Board

Since the establishment of the Company, the Board of the Company has always strictly complied with the provisions of relevant laws and regulations, the Articles of Association and the Rules of Procedures for Board Meetings. Convening and holding procedures and voting procedures of the Board meetings have complied with the provisions of the Company Law and the Articles of Association, and all resolutions made are legal and valid.

As of December 31, 2019, the Board of the Company comprised 13 Directors, including Mr. WANG Changqing, Mr. YU Zhongfu, Mr. LI Geping, Ms. ZHANG Qin, Ms. ZHU Jia, Mr. WANG Hao, Mr. WANG Bo, Mr. XU Gang, Mr. FENG Genfu, Ms. ZHU Shengqin, Mr. DAI Deming, Mr. BAI Jianjun and Mr. LIU Qiao. Among them, Mr. WANG Changqing was the Chairman, Mr. YU Zhongfu was the Vice Chairman. Five of these 13 Directors, including Mr. FENG Genfu, Ms. ZHU Shengqin, Mr. DAI Deming, Mr. BAI Jianjun and Mr. LIU Qiao, were Independent Non-executive Directors. One vacant Director due to the resignation of Mr. DONG Shi will be appointed separately by performing relevant nomination and election procedures.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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### 4. Convening of Board Meetings

On January 21, 2019, the 10th meeting of the second session of the Board was convened, which considered and approved the Resolution on the Resolution on Fulfilment of Conditions for the Non-public Issuance of A Shares by the Company, the Resolution on the Non-public Issuance of A Shares, the Resolution on Formulating the Plan for the Non-public Issuance of A Shares, the Resolution on the Report on the Use of Proceeds Previously Raised by the Company, the Resolution on the Feasibility Report on the Use of Proceeds from the Non-public Issuance of the A Shares of the Company, the Resolution on the Dilution of Current Returns by the Non-public Issuance of A Shares and Remedial Measures, and the Resolution on the Authorization to the Board to Deal with Relevant Matters in Relation to the Non-public Issuance with Full Discretion to be Submitted at the General Meeting, the Resolution on the Convening of 2019 Second Extraordinary General Meeting and First A Shareholders' Class Meeting in 2019, First H Shareholders' Class Meeting in 2019.

On March 18, 2019, the 11th meeting of the second session of the Board was convened, which considered and approved the Resolution on the 2018 Work Report of the Board of Directors of the Company, the Resolution on the 2018 Work Report of the Independent Non-executive Directors of the Company, the Resolution on the Report on Performance of Duties by the Audit Committee of the Board of the Company for 2018, the Resolution on Amendments to Major Accounting Policies and Accounting Estimation of the Company, the Resolution on the 2018 Final Financial Accounts Plan of the Company, the Resolution on the Profit Distribution of the Company in 2018, the Resolution on the 2018 Risk Report of the Company, the Resolution the 2018 Compliance Report of the Company, the Resolution on the 2018 Internal Control Evaluation Report of the Company, the Resolution on the 2018 Social Responsibility cum the Environmental, Social and Governance Report of the Company, the Special Report on the Deposit and Actual Use of Raised Funds of the Company for 2018, the Resolution on the 2018 Annual Report and Results Announcement of the Company, the Resolution on the 2019 Financial Plan of the Company, the Resolution on Additional Appointment of Member of the Executive Committee, and Adjustment to Chief Compliance Officer and Chief Risk Officer of the Company, the Resolution on the 2019 Risk Management Policies of the Company, the Resolution on the Cap on Investment Amount for Proprietary Business of the Company in 2019, the Resolution on the Expected Related Party Transactions of the Company in 2019, the Resolution on the Re-appointment of Accounting Firm for 2019 of the Company, the Resolution on the Increase of Capital Contribution to China Securities Investment Limited, the Resolution on Convening the 2018 General Meeting of the Company, and reviewed the Resolution on the 2018 Operation Position and 2019 Operation Plans of the Company, the Resolution on Issuance of Debt Financing Instruments of the Company for 2018.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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On April 25, 2019, the 12th meeting of the second session of the Board was convened, which considered and approved the Resolution on the 2019 First Quarterly Report of the Company.

On May 28, 2019, the 13th meeting of the second session of the Board was convened, which considered and approved the Resolution on Cessation of Mr. HU Bin as a Member of Executive Committee of the Company, the Resolution on the Additional Appointment of Mr. PENG Wende as a Member of Executive Committee of the Company and the Resolution on the Increase of Capital Contribution to China Securities Investment Limited.

On August 23, 2019, the 14th meeting of the second session of the Board was convened, which considered and approved the Resolution on the 2019 Interim Report (A Shares) of the Company, the Resolution on the 2019 Interim Results Announcement and Interim Report (H Shares) of the Company, the Resolution on the Special Report on the Deposit and Use of Raised Funds of the Company for the First Half of 2019, the Resolution on the Risk Report of the Company for the First Half of 2019, the Resolution on the Appointment of External Evaluation Authority for the Effectiveness of Compliance Management of the Company for 2019, the Resolution on the Cancellation of Some Securities Business Departments and the Resolution on the Adjustment to Risk Management Policies of the Company for 2019.

On October 29, 2019, the 15th meeting of the second session of the Board was convened, which considered and approved the Resolution on the 2019 Third Quarterly Report of the Company.

On December 24, 2019, the 16th meeting of the second session of the Board was convened, which considered and approved the Resolution on Donation to Build the Resident-friendly Drinking Water Project in Xuejia Village, Lantian County, Xi'an City, Shaanxi Province and the Resolution on Donation to Build the Chairman Mao Luju Memorial Hall in Dai County, Shanxi Province.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

### 5. Attendances of Board Meetings by Directors

Attendances of Board Meetings							
Name of Director	Whether Independent Non-executive Director or not	Scheduled attendance at Board meetings held for the year	Attendance in person	Board Meetings Attendance			Whether the Director failed to attend two consecutive meetings in person or not
				by way of telecommunication	Attendance by proxy	Absence	
WANG Changqing	No	7	7	1	0	0	No
YU Zhongfu	No	7	7	1	0	0	No
LI Geping	No	7	7	3	0	0	No
ZHANG Qin	No	7	6	1	1	0	No
ZHU Jia	No	7	5	1	2	0	No
WANG Hao	No	7	7	1	0	0	No
WANG Bo	No	7	7	3	0	0	No
XU Gang	No	7	6	3	1	0	No
FENG Genfu	Yes	7	7	3	0	0	No
ZHU Shengqin	Yes	7	7	7	0	0	No
DAI Deming	Yes	7	7	4	0	0	No
BAI Jianjun	Yes	7	7	3	0	0	No
LIU Qiao	Yes	7	7	7	0	0	No
DONG Shi	No	6	5	0	1	0	No

Board meetings convened during the year	7
Including: on-site meetings	6
Meetings convened by way of telecommunication	1
On-site meetings with telecommunication	6

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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### 6. Training of Directors and Supervisors

In 2019, the Company constantly followed up the training demands of each Director and Supervisor throughout the year, and assisted them in receiving training through on-site, remote or other means of training by fully leveraging the training platforms of regulatory authorities and self-regulatory organizations, in combination with special training plans provided by Beijing Listed Company Association for the Directors and Supervisors of A-share listed companies under Beijing jurisdiction. The Company also assisted the Directors and Supervisors to timely understand the update of regulatory rules for the new system and rules issued by the regulatory authorities and the stock exchange where the shares of the Company were listed. In addition, the Company organized the Directors and Supervisors to review the connected transactions, disclosable transactions and inside information in relation to compliance operation of H-share listed companies.

### 7. Board Diversity Policy

The Remuneration and Nomination Committee has adopted a board diversity policy concerning the diversity of Board members (the “Board Diversity Policy”) pursuant to paragraph A.5.6 of the Corporate Governance Code. The Company regards the increasing of diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. In designing the composition of the Board, diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience and other factors. All appointments of the Board will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, the ultimate decision will be based on merit and contribution that the selected candidates can make to the Board. The composition of the Board will be disclosed in the Corporate Governance Report annually.



## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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### 8. Directors Nomination Policy

Article 140 of the Articles of Association specifies the methods and procedures to nominate Directors: (1) the candidates for Directors may be nominated by the Board of Directors based on the number of Directors to be elected subject to the number specified by the Articles of Association; (2) shareholder(s) individually or jointly holding three per cent (3%) or more of the shares of the Company may nominate the candidates for Directors, but the number of persons nominated shall comply with the provisions of the Articles of Association and shall not exceed the number of persons to be elected; (3) before the convening of general meeting of the Company, candidates for Directors shall make written commitments stating their acceptance of the nomination, confirming that the information of candidates for Directors is true and complete, and undertaking to faithfully perform the duties of Directors if elected; (4) the written notices of the intention to nominate a candidate for election as a Director and the acceptance of nomination by such candidate, shall be given to the Company no less than seven (7) days prior to the date of convening the general meeting; (5) the period given by the Company to relevant nominators and nominees to submit the aforesaid notices and documents (which period shall commence from the day following the date of despatch of the notice of general meeting) shall be no less than seven (7) days. Also, Article 141 of the Articles of Association specifies: Independent Directors refer to the Directors who do not hold any other positions in the Company (other than as a Director of the Company), and are not related to the Company and its shareholders in a way that may hinder their independent and objective judgment, and comply with the independent requirements under the listing rules of the place where the Company shares are listed. The Company's Board of Directors shall include Independent Directors. There shall be no less than three (3) Independent Directors and they shall constitute no less than one-third (1/3) of the Board of Directors. At least one Independent Director shall possess the appropriate professional qualifications or have appropriate accounting or related financial management expertise and one Independent Director shall reside in Hong Kong. Apart from the qualifications and obligations of Directors provided in the relevant provisions in Section 1 of Chapter 6 of the Articles of Association, an Independent Director shall also meet the following requirements: shall have five (5) years or more of experience in the work of securities, finance, law or accounting; shall have a university diploma at or above the undergraduate level, and a bachelor's degree or higher degree; shall have the time and capacity necessary for the performance of his/her duties as an Independent Director; shall have the basic knowledge of the operation of a financial institution and be familiar with the relevant laws, regulations and rules, and with a good reputation; shall meet the independence requirements provided in the relevant provisions required by the Securities Regulatory Authorities of the State Council and the securities regulatory rules of the place where the Company's shares are listed.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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The Remuneration and Nomination Committee will consider the following factors when evaluating candidates for Director: including but not limited to personal reputation; achievements and experience in the financial services industry, especially the securities industry; time available; diversity in all aspects of the Board, including but not limited to regulatory requirements, gender, age, cultural and educational background, work experience, professional experience and years of service.

### V. BOARD COMMITTEES UNDER THE BOARD OF THE COMPANY

#### (I) Development Strategy Committee

##### 1. *Duties of the Committee*

The Development Strategy Committee is responsible for researching and forecasting the Company's long-term development strategy and establishing the Company's development strategy plans. As of the end of the reporting period, the Development Strategy Committee comprises seven Directors, namely Mr. WANG Changqing, Mr. YU Zhongfu, Mr. LI Geping, Ms. ZHU Jia, Mr. WANG Hao, Mr. XU Gang and Mr. FENG Genfu (Mr. DONG Shi has resigned as the member of the Development Strategy Committee during the reporting period). Mr. WANG Changqing is the current Chairman of the Development Strategy Committee.

As specified in the Articles of Association, the primary duties of the Development Strategy Committee include, but are not limited to, the following: (1) understanding and mastering the overall operations of the Company; (2) understanding, analyzing and mastering the current conditions of international and domestic markets; (3) understanding and mastering relevant policies of the State; (4) studying the short, medium and long-term development strategies of the Company or the relevant issues; (5) providing consultancy advice on the Company's major decisions on long-term development strategy and major investments, reform etc.; (6) reviewing and approving research reports on development strategies; (7) issuing routine research reports regularly or from time to time; and (8) performing such other duties determined by the Board and required by the listing rules or regulatory requirement of the place where the Shares of the Company are listed.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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### 2. *Work Summaries and Meetings of the Committee*

During the Reporting Period, the Development Strategy Committee has convened four meetings. Details of the meeting of the Development Strategy Committee are set out below:

Date of meeting	Subject Matters
March 13, 2019	The Resolution on the 2018 Work Report of the Board of the Company and the Resolution on 2018 Final Financial Accounts of the Company, the Resolution on the 2019 Financial Plan of the Company and the Resolution on the Increase of Capital Contribution to China Securities Investment Limited were considered
April 11, 2019	Listened to the special report of the Company brokerage business of the Company, and studied and discussed its development strategies
June 27, 2019	Listened to the special report on the subsidiaries in Hong Kong, and studied and discussed the development strategies of overseas business and cross-border business
October 29, 2019	Listened to the special report on the Company's information technology planning scheme, and studied and discussed its development strategies

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

### 3. Attendance of Meetings of the Development Strategy Committee

Name of Committee Member	Position in the Board and the Committee	Actual attendance/ Scheduled attendance
WANG Changqing	Chairman, Executive Director and Chairman of the Development Strategy Committee	4/4
YU Zhongfu	Vice Chairman, Non-executive Director and Member of the Development Strategy Committee	4/4
LI Geping	Executive Director and Member of the Development Strategy Committee	4/4
ZHU Jia	Non-executive Director and Member of the Development Strategy Committee	4/4
WANG Hao	Non-executive Director and Member of the Development Strategy Committee	4/4
XU Gang	Non-executive Director and Member of the Development Strategy Committee	4/4
FENG Genfu	Independent Non-executive Director and Member of the Development Strategy Committee	4/4
DONG Shi (resigned)	Vice Chairman, Non-executive Director and Member of the Development Strategy Committee	4/4

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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### (II) Risk Management Committee

#### 1. *Duties of the Committee*

The Risk Management Committee shall be mainly responsible to monitor the overall risk management of the Company and control such risks within reasonable limits, so as to ensure that the Company may implement effective risk management plans with respect to various risks in the business related activities of the Company. As of the end of the reporting period, the Risk Management Committee comprises seven Directors, namely Mr. WANG Hao, Mr. LI Geping, Ms. ZHANG Qin, Mr. WANG Bo, Mr. XU Gang, Mr. BAI Jianjun and Mr. LIU Qiao. Mr. WANG Hao is the current Chairman of the Risk Management Committee.

As specified in the Articles of Association, the primary duties of the Risk Management Committee are as follows: (1) to review and advise on the general objectives and basic policies of compliance management and risk management; (2) to determine strategic structures and resources for the risk management of the Company, and to ensure that they are compatible with the internal risk management policies of the Company; (3) to review and advise on the establishment and duties of the institution for compliance management and risk management; (4) to evaluate the risks relating to major decisions to be considered and approved by the Board and the solutions for such major risks, and to provide advice in this regard; (5) to define the limits of major risks; (6) to supervise, examine and make recommendation to the Board on relevant risk management policies; (7) to review and approve the compliance reports and risk evaluation reports required to be considered and approved by the Board, and providing advice in this regard; and (8) other duties to be determined by the Board of Directors and other duties required by the listing rules or regulatory requirements of the places where the Company's shares are listed.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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### 2. *Work Summaries and Meetings of the Committee*

During the Reporting Period, the Risk Management Committee has convened two meetings. Details of the meetings of the Risk Management Committee are set out below:

會議召開日期	會議內容
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March 14, 2019	The Resolution on the 2018 Compliance Report of the Company, the Resolution on the 2018 Internal Control Evaluation Report of the Company, the Resolution on the Risk Report of the Company for 2018, the Resolution on the 2019 Risk Management Policies of the Company, the Resolution on the Cap on Investment Amount for Proprietary Business of the Company in 2019 were considered.
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August 19, 2019	The Resolution on the Risk Report of the Company for the first half of 2019, the Resolution on the Adjustment to the 2019 Risk Management Policies of the Company were considered.
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## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

### 3. Attendance of Meetings of the Risk Management Committee

Name of Committee Member	Position in the Board and the Committee	Actual attendance/Scheduled attendance
WANG Hao	Non-executive Director and Chairman of the Risk Management Committee	2/2
LI Geping	Executive Director and Member of the Risk Management Committee	2/2
ZHANG Qin	Non-executive Director and Member of the Risk Management Committee	2/2
WANG Bo	Non-executive Director and Member of the Risk Management Committee	2/2
XU Gang	Non-executive Director and Member of the Risk Management Committee	2/2
BAI Jianjun	Independent Non-executive Director and Member of the Risk Management Committee	2/2
LIU Qiao	Independent Non-executive Director and Member of the Risk Management Committee	2/2

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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### (III) Audit Committee

#### 1. *Duties of the Committee*

The Audit Committee is responsible for the compliance control of the operating management and investment business of the Company and the review and supervision of the internal auditing works and results of the Company. As at the end of the reporting period, the Audit Committee comprises five Directors, namely Mr. DAI Deming, Ms. ZHANG Qin, Mr. WANG Bo, Mr. FENG Genfu and Ms. ZHU Shengqin. Mr. DAI Deming currently serves as the Chairman of the Audit Committee.

As specified in the Articles of Association, the primary duties of the Audit Committee are as follows: (1) to supervise the annual audit and make judgment on the truthfulness, accuracy and completeness of the audited information contained in the financial reports before submitting the reports to the Board; (2) to propose to engage or dismiss the external auditor of the Company, and to supervise the practice of external auditors; (3) to supervise the internal audit system and its implementation; (4) to be responsible for the communications between the internal audit and the external audit; (5) to review and approve the financial information of the Company and its disclosure; (6) to examine the internal control system of the Company; and (7) other duties determined by the Board of Directors and other duties required by the listing rules or regulatory requirements of the places where the Company's shares are listed.



## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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### 2. *Work Summaries and Meetings of the Committee*

During the Reporting Period, the Audit Committee has convened four meetings. Details of the meetings of the Audit Committee are set out below:

Date of meeting	Subject matters
March 15, 2019	The Resolution on the 2018 Work Report and 2019 Working Plans of Internal Auditing of the Company, the Resolution on the 2018 Internal Control Evaluation Report of the Company, the Resolution on Amendments to Major Accounting Policies and Accounting Estimation of the Company, the 2018 External Auditing Report of the Company, the Resolution on the 2018 Annual Report and Results Announcement of the Company, the Resolution on the Expected Related Party Transactions of the Company in 2019, the Resolution on the Re-appointment of Accounting Firm for 2019 of the Company, the Resolution on the Report on Performance of Duties by the Audit Committee of the Board of the Company for 2018 were considered.
April 24, 2019	The Resolution on the 2019 First Quarterly Report of the Company was considered
August 22, 2019	The Resolution on the 2019 Interim Report (A Shares) of the Company and the Resolution on the 2019 Interim Results Announcement and Interim Report (H Shares) of the Company were considered. The reporting by external audit institutions on the audit and review of the 2019 Interim Report and the annual audit plan was heard.
October 28, 2019	The Resolution on the 2019 Third Quarterly Report of the Company was considered

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

### 3. Attendance of Meetings of the Audit Committee

Name of Committee Member	Position in the Board and the Committee	Actual attendance/Scheduled attendance
DAI Deming	Independent Non-executive Director and Chairman of the Audit Committee	4/4
ZHANG Qin	Non-executive Director and Member of the Audit Committee	4/4
WANG Bo	Non-executive Director and Member of the Audit Committee	4/4
FENG Genfu	Independent Non-executive Director and Member of the Audit Committee	4/4
ZHU Shengqin	Independent Non-executive Director and Member of the Audit Committee	4/4

## (IV) Remuneration and Nomination Committee

### 1. Duties of the Committee

The Remuneration and Nomination Committee is mainly responsible for formulation of the appraisal standards of the Company's Directors and the senior management, as well as conducting appraisal; formulation and examination of remuneration policy and proposal for the Directors and the senior management (including but not limited to performance evaluation standards, procedures and major evaluation systems, major programs and systems of incentives and penalties); researching the selection standard of Directors and the senior management and making suggestions of the candidates. As at the end of the reporting period, the Remuneration and Nomination Committee comprises six Directors, namely Mr. BAI Jianjun, Mr. WANG Changqing, Mr. YU Zhongfu, Ms. ZHU Shengqin, Mr. DAI Deming and Mr. LIU Qiao. Mr. BAI Jianjun currently serves as the Chairman of the Remuneration and Nomination Committee.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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As specified in the Articles of Association, the primary duties of the Remuneration and Nomination Committee are as follows: (1) to formulate and implement a performance evaluation system responsive to the changing market conditions, competitive remuneration package and the incentive measures for awards and punishments related to operating results, in accordance with the features of the financial and securities industry, the respective scope, responsibilities, significance of the Directors and senior management and remuneration levels of similar positions in other relevant enterprises; (2) to assess the fulfillment of duties of the Directors and senior management of the Company and to appraise their annual performance; (3) to review and advise on the appraisal and remuneration system for the Directors and senior management; (4) to monitor the implementation of the remuneration system for the Directors and senior management; (5) to review and advise on the election standards and procedures of the Directors and senior management; to search for eligible candidates for Directors and senior management; to review and provide opinions on the qualification criteria of candidates for Directors and senior management; and (6) other duties determined by the Board of Directors and other duties required by the listing rules or regulatory requirements of the places where the Company's shares are listed.

### **2. Work Summaries and Meetings of the Committee**

During the Reporting Period, the Remuneration and Nomination Committee has convened two meetings. Details of the meetings of the Remuneration and Nomination Committee are set out below:

Date of meeting	Subject matters
March 14, 2019	The Resolution on Additional Appointment of Member of the Executive Committee, and Adjustment to Chief Compliance Officer and Chief Risk Officer of the Company was considered
May 28, 2019	The Resolution on Additional Appointment of Mr. Peng Wende as a Member of Executive Committee of the Company and the Resolution on the Bonus to the Operation and Management Team of the Company for 2018 were considered

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

### 3. Attendance of Meetings of the Remuneration and Nomination Committee

Name of Committee Member	Position in the Board and the Committee	Actual attendance/Scheduled attendance
BAI Jianjun	Independent Non-executive Director and Chairman of the Remuneration and Nomination Committee	2/2
WANG Changqing	Chairman, Executive Director and Member of the Remuneration and Nomination Committee	2/2
YU Zhongfu	Vice Chairman, Non-executive Director and Member of the Remuneration and Nomination Committee	2/2
ZHU Shengqin	Independent Non-executive Director and Member of the Remuneration and Nomination Committee	2/2
DAI Deming	Independent Non-executive Director and Member of the Remuneration and Nomination Committee	2/2
LIU Qiao	Independent Non-executive Director and Member of the Remuneration and Nomination Committee	2/2
DONG Shi(reigned)	Vice Chairman, Non-executive Director and Member of the Remuneration and Nomination Committee	2/2

### VI. SUPERVISORS AND THE SUPERVISORY COMMITTEE

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

In accordance with the provisions of the Articles of Association, the Supervisory Committee shall exercise the following duties and powers: (1) examining the financial affairs of the Company; (2) supervising the Directors and senior management in their performance of duties and proposing the dismissal of Directors and senior management who contravenes laws, administrative regulations, the Articles of Association or Shareholders' resolutions; (3) demanding any Director and senior management who acts in a manner which is detrimental to the interests of the Company to rectify such behavior, and report to the Shareholders' general meeting or relevant competent authorities of the State when necessary; (4) to propose the convening of an extraordinary general meeting, and to convene and preside over the general meeting when the Board fails to perform such duties as specified by the Company Law; (5) to put forward proposals to the Shareholders' general meetings; (6) to attend the Board meetings, and put forward queries or suggestions regarding resolutions at Board Meetings; (7) to arrange exit audit on senior management members; (8) to initiate litigations against Directors and senior management members in accordance with provisions of the Company Law; (9) to review financial information such as financial reports, business reports, and profit distribution plans as proposed by the Board to the general meetings, and to engage certified public accountants and practicing auditors in the name of the Company to assist with further examination if there are any queries; (10) other duties and powers conferred by the laws, administrative regulations, departmental rules, normative documents, listing rules of the place where the Company is listed and Articles of Association.

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

In accordance with the provisions of the Articles of Association, the Supervisory Committee of the Company shall comprise six Supervisors. As of the end of the reporting period, the Supervisory Committee of the Company comprised five current Supervisors, namely Mr. LI Shihua, Ms. AI Bo, Ms. ZHAO Lijun, Ms. LIN Xuan and Mr. ZHAO Ming, of which Mr. LI Shihua is the current Chairman of the Supervisory Committee, and Ms. LIN Xuan and Mr. ZHAO Ming are Employee Representative Supervisors; one vacant Shareholder Representative Supervisor will be appointed separately by performing relevant nomination and election procedures.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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During the Reporting Period, the Supervisory Committee of the Company operated in strict compliance with the provisions of relevant laws, regulations and regulatory documents, the Articles of Association and the Rules of Procedures for Supervisory Committee. Convening and holding procedures as well as voting procedures of Supervisory Committee meetings complied with the provisions of the Company Law and the Articles of Association, and resolutions made were legal and valid.

### **(III) Meetings of the Supervisory Committee**

In 2019, the Supervisory Committee of the Company convened four meetings, the details of which are as follows:

On March 18, 2019, the 4th meeting of the second session of the Supervisory Committee was convened, which considered and approved the Resolution on the 2018 Work Report of the Supervisory Committee of the Company, the Resolution on the 2018 Work Report and 2019 Working Plans of Internal Auditing of the Company, the Resolution on Amendments to Major Accounting Policies and Accounting Estimation of the Company, the Resolution on the Profit Distribution of the Company in 2018, the Resolution on the 2018 Risk Report of the Company, the Resolution on the 2018 Compliance Report of the Company, the Resolution on the 2018 Internal Control Evaluation Report of the Company, the Resolution on the 2018 Social Responsibility cum the Environmental, Social and Governance Report of the Company, the Resolution on the Special Report on the Deposit and Actual Use of Raised Funds of the Company for 2018, the Resolution on the 2018 Annual Report and Results Announcement of the Company, the Resolution on the Expected Related Party Transactions of the Company in 2019.

On April 25, 2019, the 5th meeting of the second session of the Supervisory Committee was convened, which considered and approved the Resolution on the 2019 First Quarterly Report of the Company.

On August 23, 2019, the 6th meeting of the second session of the Supervisory Committee was convened, which considered and approved the Resolution on the 2019 Interim Report (A Shares) of the Company, the Resolution on the 2019 Interim Results Announcement and Interim Report (H Shares) of the Company, the Resolution on the Special Report on the Deposit and Use of Raised Funds of the Company for the First Half of 2019 and the Resolution on the Risk Report of the Company for the First Half of 2019.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

On October 29, 2019, the 7th meeting of the second session of the Supervisory Committee was convened, which considered and approved the Resolution on the 2019 Third Quarterly Report of the Company.

### (IV) Attendance of Meetings of the Supervisory Committee by Supervisors

	Number of meetings	Attendance in person	Attendance by proxy	Absence
LI Shihua	4	4	0	0
AI Bo	4	4	0	0
ZHAO Lijun	4	4	0	0
LIN Xuan	4	4	0	0
ZHAO Ming	3	3	0	0
LU Ya (former Employee Representative)	1	1	0	0

## VII. COMPANY SECRETARIES

Mr. WANG Guangxue, the secretary to the Board and a joint company secretary of the Company, is responsible for making recommendations and proposals to the Board on issues related to corporate governance, and ensuring that Board policies and procedures as well as applicable laws, rules and regulations are strictly followed.

In order to maintain sound corporate governance and to ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also appointed Ms. WONG Wai Ling of SWCS Corporate Services Group (Hong Kong) Limited, as the Company's joint company secretary, to assist Mr. WANG Guangxue in discharging the duties of a company secretary. Mr. WANG Guangxue has attended trainings on, among other things, laws and regulations, Listing Rules, director and Board secretaries' duties, rules on information disclosure, rules on connected transactions, notifiable transactions, equity management of securities companies, directors' and supervisors' securities dealings, disclosure of interests, market misconduct and the implementation of relevant internal policies.

Both Mr. WANG Guangxue and Ms. WONG Wai Ling have confirmed that they received not less than 15 hours of relevant professional training during the year ended December 31, 2019.

### VIII. INVESTOR RELATIONS

The Company emphasizes the importance of protecting the interest of investors and endeavors to provide comprehensive and effective investor relations services. The Company has actively performed the duties of a listed company. The Company established an investor relations service and management system, formed an investor relations service team led by the secretary to the Board, set up a hotline and mail box for investor relations services and created an investor relations sector on the official website of the Company, to ensure the true, effective and timely communication of corporate information to investors, endeavoring to safeguard the interest of Shareholders and ensure their rights to information.

The Company was visited by domestic and overseas institutional investors and analysts, remained in close communication with investors to address their concerns through various channels including teleconferences, video conferences and e-mails, and convened online results debriefing upon the disclosure of every regular report to help investors better understand the latest developments in the market, securities industry as well as the strategies and operations of the Company, subject to the relevant regulatory requirements for information disclosure.

### IX. COMMUNICATION WITH SHAREHOLDERS

The Shareholders' general meeting is the body exercising the authority of the Company and shall exercise the duties and powers in accordance with the law, the Articles of Association and the Rules of Procedures for the Shareholders' General Meeting of the Company.

The rights of the Shareholders are clearly specified in the Articles of Association. The Company convened the Shareholders' general meetings in strict compliance with the relevant rules and procedures such that all Shareholders are treated equally and can fully exercise their rights. Shareholders may propose to convene an extraordinary general meeting or Shareholders' class meeting or put forward proposals pursuant to the Articles of Association. Shareholder(s) that hold, individually or collectively, ten percent (10%) or more of the Shares in the Company shall have the right to request in writing the Board to hold an extraordinary general meeting or Shareholders' class meeting. The Board, the Supervisory Committee and Shareholder(s) that hold, individually or collectively, three percent (3%) or more of the Shares in the Company shall have the right to propose motions to the Company at the general meeting. The Shareholders may attend and vote at general meetings in person or by proxy. The resolutions together with the attendance records signed by the attending Shareholders and proxy statements shall be kept at the Company's principal address. Shareholders may inspect the copy of the resolutions of the meetings during the Company's business hours free of charge. The Articles of Association is set out on the websites of the Company, SSE and the HKEX.



## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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The Shareholders' general meeting provides opportunities for constructive communications between the Company and its Shareholders. Shareholders are encouraged to attend general meetings in person, or if they fail to attend such meetings, appoint proxies to attend and vote at the meetings for and on their behalf. The Company highly values the opinions, suggestions and concerns of the Shareholders and has assigned dedicated persons to proactively and ethically carry out various types of investor relation activities to keep in contact with Shareholders and timely meet their reasonable demands.

The Company's website ([www.csc108.com](http://www.csc108.com)) provides Shareholders with corporate information, such as major business activities and the latest development of the Group, the Group's corporate governance, the structure and functions of the Board and each of the committees of the Company. To serve as a channel promoting effective communication with Shareholders, the Company also publishes announcements, circulars, notices of general meeting, financial data and other information of the Company required to be disclosed under the Listing Rules from time to time through the "Investor Relations" section on the Company's website. Shareholders are encouraged to make enquiries by phone, by email or write directly to the office address of the Company, which will be dealt with appropriately in a timely manner. Please refer to the "Section 2 Company Information" section of this annual report for the contact details.

The Company welcomes all Shareholders to attend the Shareholders' general meetings and makes appropriate arrangement for general meetings to encourage Shareholders' participation. The Company's Directors, Supervisors and senior management will attend the Shareholders' general meetings. In accordance with paragraph E.1.2 of the Corporate Governance Code, the Chairman of the Board and chairmen of the Development Strategy Committee, the Risk Management Committee, the Audit Committee and the Remuneration and Nomination Committee under the Board shall be available to answer questions at the annual general meeting and shall also ensure that the external auditors will attend the annual general meeting to answer the relevant questions raised by Shareholders.

The Company shall arrange the Board to answer questions raised by Shareholders during the 2019 annual general meeting. Detailed procedures of voting and resolutions to be voted by way of poll will be contained in the circular to be dispatched to the Shareholders.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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### **X. PROCEDURES FOR PROCESSING AND RELEASING INSIDE INFORMATION**

With approval from the Board and pursuant to the requirements of domestic and overseas laws and regulations, Listing Rules and Articles of Association, as well as the actual conditions of the Company, the “Policy on Information Disclosure Management of CSC Financial Co., Ltd.” has been formulated by the Company to determine the division of duties and responsibilities on information disclosure, the procedures for processing and releasing inside information and other information required to be disclosed. Pursuant to this policy, the Company must, as soon as reasonably practicable after any inside information has come to its knowledge or a false market may be formed, disclose such information to the public.

During the Reporting Period, the Company has truthfully, accurately, legally and timely disclosed information strictly in compliance with the requirements of domestic and overseas laws and regulations, Listing Rules, Articles of Association and the Policy on Information Disclosure Management of the Company without any false statements, misleading statements or material omissions, to ensure investors will be able to receive the disclosed information in a fair, timely and effective manner.

### **XI. RISK MANAGEMENT, COMPLIANCE MANAGEMENT AND INTERNAL CONTROL**

#### **(I) Risk Management**

For the objectives and policies of risk management of the Company, please refer to the “Section 4 Management Discussion and Analysis – XII. Risk Management” of this annual report.

The Board confirms its responsibility for the risk management and internal control systems and reviews the effectiveness of such systems. 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.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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### (II) Compliance Management

The Company has established a four-level compliance management structural system comprising the Board, Chief Compliance Officer, Legal and Compliance Department and the persons in charge of compliance management across business departments, branches and subsidiaries at all levels. The compliance management system with the Chief Compliance Officer as the core is independent from the operations management system of the Company, and has the right to independently issue compliance reports.

The Board of the Company determines the objectives of compliance management and is responsible for the effectiveness of compliance management of the Company; the operating management is responsible for implementing the targets of compliance management and is responsible for compliance operation of the Company; all departments, all branches and all subsidiaries at all levels are responsible for implementing the targets of compliance management of the entity and are responsible for compliance operation of the entity.

The Chief Compliance Officer, a senior management personnel of the Company, is in charge of the Company's compliance management, directly accountable to the Board, and responsible for reviewing, supervising and examining the compliance of the operations, management and business activities carried out by the Company and its employees.

The Company established the Legal and Compliance Department as a specific department of compliance management under the leadership of the Chief Compliance Officer, and independently carried out the compliance management work of the Company. The main responsibilities of the Legal and Compliance Department are to assist the Chief Compliance Officer in formulating and amending the compliance management system of the Company and facilitate its implementation; to provide compliance suggestions, compliance consultation, compliance training, and to guide the staff of the Company to accurately understand the laws, regulations and rules; to provide compliance advice on review of new products and new businesses of the Company to identify and evaluate compliance risks; to conduct compliance inspection, compliance accountability and compliance report, and rationalize and evaluate the compliance of the system and procedures of the Company; to conduct compliance monitoring in terms of suspicious transactions and employees' behaviors, and to be responsible for specific compliance management such as anti-money laundering, management of compliance personnel, information isolation and conflicts of interests; to initiate and facilitate compliance cultural construction, and cultivate the compliance awareness of all staff.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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The Company has appointed compliance management personnel conforming to regulatory requirements in all business departments and all branches. The compliance management personnel are responsible for daily monitoring, inspection, management and training in relation to compliance in the entities. The full time and part-time compliance management personnel are under the leadership of the Legal and Compliance Department in accordance with regulatory requirements.

The compliance management of subsidiaries at all levels have been integrated into the unified system by the Company. The Company has specified compliance management matters of the subsidiaries subject to reporting to the Company and conducted reviews on the compliance management system of subsidiaries, supervised and inspected the compliance of behaviors of subsidiaries' management to ensure that the compliance management of the subsidiaries was in compliance with the requirements of the Company.

### **(III) Internal Control**

#### **1. Self-evaluation of Internal Control**

The internal control evaluation of the Company was carried out in accordance with the Basic Norms of Internal Control for Enterprises and its 18 auxiliary implementation guidelines and other internal control regulatory requirements (collectively refer to as the "Internal Control Standard System of Enterprises") jointly issued by the Ministry of Finance, the CSRC, the Audit Commission, the CBRC and the CIRC. The internal control evaluation also made reference to the requirements of relevant laws, regulations and regulatory rules, such as the Guidance for the Internal Control of Securities Firms published by the CSRC, and the Guidelines for the Internal Control of Listed Companies published by Shanghai Stock Exchange. For details, please refer to the 2019 Evaluation Report of Internal Control of CSC Financial Co., Ltd.

#### **2. Internal Auditing**

During the Reporting Period, the Audit Department, as required by the Supervisory Committee of the Company and based on the completion of auditing items required in regulatory documents, has focused on business risks, prevented violations and corrupt conducts, and has improved the level of internal control and independently performed the responsibility of auditing and supervision.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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During the Reporting Period, the Audit Department implemented a total of 146 audit projects. Among these projects, 18 were audit projects for headquarters, 5 were audit projects for subsidiaries and 123 were audit projects for branches, the details of which are as follows: Departments involved in the 18 audit projects for headquarters included: Business Committee of Investment Banks, Brokerage Business Management Committee, Fixed Income Department, Asset Management Department, Securities Financial Department, Custodian Department and IT Department. The scale of internal control evaluation includes each department and subsidiary of the Company. The subsidiaries audited were CSCI International, CSC Futures and CSCI Capital. 123 audits for branches, including six mandatory audits on resignation for person-in-charge of branch offices, 56 audits on resignation for person-in-charge of business departments, and 61 audits on mandatory leave of person-in-charge of business departments.

Through the abovementioned audits, the Audit Department of the Company examined and evaluated the integrity and effectiveness of the compliance management, risk management and internal control of audited units, and revealed the existing major risks, which played a proactive role in promoting the improvement of awareness of risk prevention and risk management level and other aspects in all departments, subsidiaries and branches of the Company.

## XII. APPOINTMENT OF AUDITORS

Please refer to the “Section 6 Other Significant Events – II Appointment or Termination of Auditors” of this annual report for information about the appointment of auditors.

The Directors are responsible for the preparation of the accounts, and the auditors are responsible for the issuance of audit opinions on the financial statements based on their audit work.

### (I) Non-audit Work

During the Reporting Period, the Company engaged PricewaterhouseCoopers network members to conduct non-audit work, please refer to Note 10 to the consolidated financial statements of this annual report for the charge.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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### (II) Basis for Establishment of Internal Control System of Financial Report

During the Reporting Period, the Company continued to comply with the requirements under the Basic Norms of Internal Control for Enterprises and its ancillary guidelines, Guidance for the Internal Control of Securities Firms and other laws, regulations and rules, as well as the actual situation of the Company, further establishing a sound internal control system of financial report.

During the Reporting Period, the Company strictly complied with the requirements under the Company Law, Accounting Law, Accounting Standards for Business Enterprises, Standardization of Basic Work of Accounting, Basic Norms of Internal Control for Enterprises and other relevant laws and regulations, as well as the characteristics of the industry and the actual condition of the Company, so as to formulate, revise or improve the financial and accounting management systems and other internal control systems, such as the Administrative Measures of Procurement for the Headquarters of CSC Financial Co., Ltd. (Provisional) (《中信建投證券股份有限公司總部採購管理辦法暫行》), the Regulations on Appointment and Management of Chief Financial Officer of Subsidiaries of CSC Financial Co., Ltd. (《中信建投證券股份有限公司子公司財務負責人委派管理規定》), the Regulations on the Management of Operating Expenses of the Headquarters of CSC Financial Co., Ltd. (《中信建投證券股份有限公司總部營業費用管理規定》), the Regulations on the Management of Operating Expenses of Branches of CSC Financial Co., Ltd. (《中信建投證券股份有限公司分支機構營業費用管理規定》), the Administrative Measures for Capital Expenditure Projects of CSC Financial Co., Ltd. (《中信建投證券股份有限公司資本性支出項目管理辦法》), the Working Procedures of the Audit Committee for Capital Expenditure Projects of CSC Financial Co., Ltd. (《中信建投證券股份有限公司資本性支出項目審核委員會工作規程》). The Company sets up a scientific financial and accounting organization structure, engages qualified financial and accounting professionals, uses stricter standardized financial and accounting management system, implements proper accounting policies and reasonable accounting estimates, in order to ensure the financial reports prepared by the Company comply with the requirements of accounting standards, and can reflect the financial position, operating results, cash flow and other information of the Company truthfully, accurately and completely. The Supervisory Committee of the Company and external auditors conduct effective examination and supervision over the finance of the Company, and provide professional audit opinions on the financial reports of the Company pursuant to the Articles of Association and the relevant regulations.

## SECTION 9 CORPORATE GOVERNANCE REPORT (Continued)

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During the Reporting Period, since the internal control system relating to the Company's financial report was integrated and operated smoothly, the quality of the financial report can be safeguarded and the reliability of the financial information can be assured. During the Reporting Period, there is no material defect in the internal control system relating to the financial report, and the information set out in the Company's annual financial report are true, accurate and complete.

# SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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## ABOUT THIS REPORT

Devoted to its mission of “bringing together talents, serving customers, creating value and contributing to the society,” CSC Financial Co., Ltd. (hereinafter referred to as “CSC” or “the Company” or “we”) values quality and quantity equally, ensures healthy development and incorporates the concept of benefiting the society, caring for life and protecting the environment into its business management.

This report is to present CSC’s environment, social and governance (hereinafter referred to as “ESG”) performance for the financial year of 2019, and is in compliance with ESG Reporting Guidelines of Appendix 27 to the Hong Kong Listing Rules. Unless otherwise stated, the scope of this report includes CSC and its related branches, China Securities Funds Management Limited, China Futures Co., Ltd., China Capital Management Limited, China Securities (International) Finance Holding Company Limited and China Securities Investment Limited. This report should be read in conjunction with the section of Corporate Governance Report in 2019 annual report of CSC, so that readers will have a more comprehensive understanding of the Company.

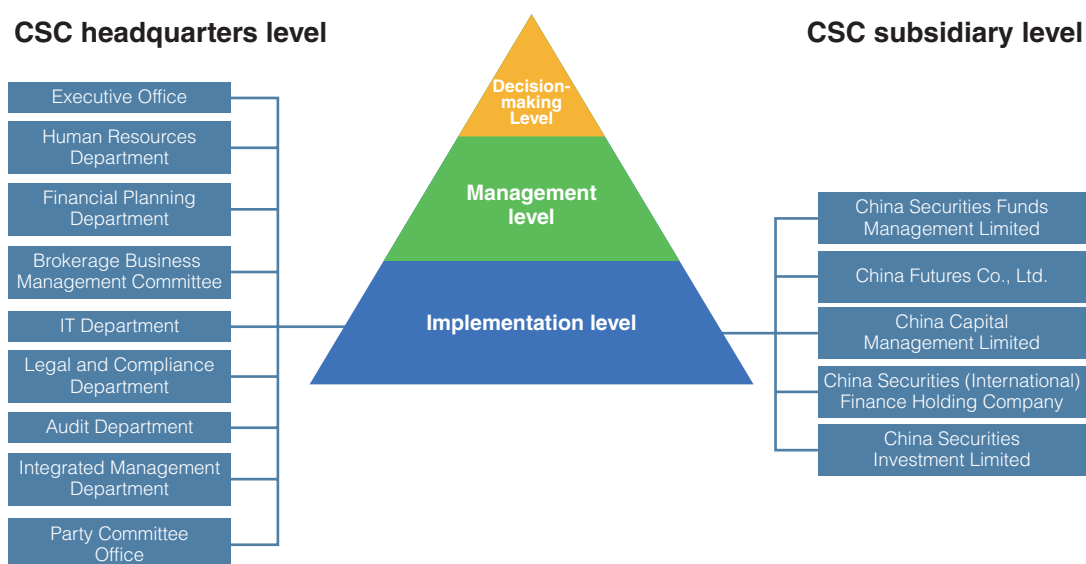
## 1. ESG MANAGEMENT

CSC has been devoted to its mission of “bringing together talents, serving customers, creating value and contributing to the society.” We stick to the operation model that highlights coordinated development of light capital and heavy capital businesses, and continuously realize synergies among business lines. Meanwhile, we optimize the market-oriented incentive mechanism, support the real economy and improve the efficiency of wealth accumulation and management. While creating economic benefits for shareholders and the society, we actively fulfil social responsibilities and incorporate social responsibilities concepts into corporate system and routine works via continuously improving social responsibilities management and strictly implementing related work. The Board of Directors of CSC oversees ESG matters and regularly reviews the progress of ESG-related matters.

In 2019, the Company established a three-level (decision-making, management and implementation) social responsibility management structure to manage and promote related work of social responsibility. CSC’s senior leadership constitutes the decision-making level of its social responsibility management structure. It is responsible for setting overall social responsibility strategies and goals. The team responsible for CSC’s social responsibility work constitutes the management level, whose duties include coordinating the implementation of social responsibility strategy and goals, managing social responsibility performance of the implementation level, and reporting and making recommendations to the decision-making level. Relevant divisions, branches and subsidiaries constitute the implementation level, which is responsible for the execution of social responsibility strategies and goals and cooperates with the management level to accomplish social responsibility related work.



## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)



**Figure 1: social responsibility Management Organization Structure of CSC**

Based on CSC's normal course of business and work, we proactively maintain communication with stakeholders including investors, government and regulatory authorities, employees, suppliers, customers, partners, communities and the public. By establishing a communication mechanism which configures real-time communication with regular communication and special purpose communication with opinion exchange, we ensure the normalization of communication among all stakeholders. In the meantime, we make effective use of new media platforms and encourage stakeholders' participation and interaction.

Summary of Communication Channels and Issues Concerned of Stakeholders of CSC		
Stakeholders	Communication Channels	Issues concerned
Investors	Shareholders meeting, periodic report, exchange meeting, investigation, telephone/email enquiries and feedback	Profitability Operation strategy Transparency of information disclosure
Government and regulatory authorities	Major conference, policy inquiry, event reporting, regulator inspection, official correspondence and information disclosure	Compliance operation Corporate governance Environmental protection management
Customers	Customers' visit, satisfaction survey, cus-tomer service hotline and investor education activity	Service quality Privacy protection

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Summary of Communication Channels and Issues Concerned of Stakeholders of CSC		
Stakeholders	Communication Channels	Issues concerned
Employees	Employee satisfaction survey, employee activity, employee training and internal training of the Company	Salary and welfare of employees Opportunities of development and training Healthy working environment
Suppliers	Suppliers' inspection and communication meeting	Fair cooperation Good-faith contract performance
Partners	Strategic cooperation and negotiation, exchange and interaction	Fair cooperation Good-faith contract performance Joint development
Community and the public	Charitable activities, community interaction, recruitment seminar and internship opportunity	Corporate social responsibility Community relation Promoting employment Community investment and charitable activities

*Chart 1:* Summary of Communication Channels and Programs Concerned of Stakeholders of CSC

When promoting social responsibility work in 2019, the Company summarizes and establishes a social responsibility program materiality matrix after conducting benchmark study on both domestic and overseas peers, considering industry policy focuses and communicating with stakeholders for expert opinions and taking account of business development strategies. The matrix further clarifies key fields in the Company's social responsibility, and the identified important programs of social responsibility and analysis are listed in the matrix below.

# SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

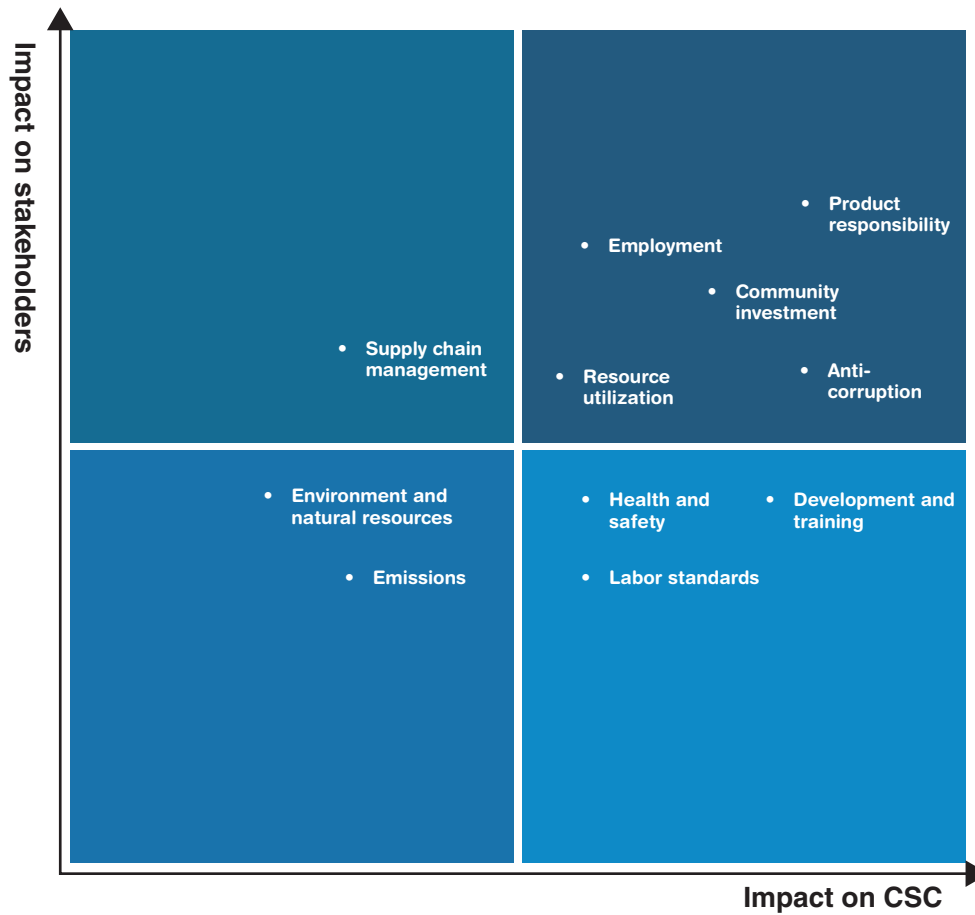


Figure 2: Materiality Matrix for CSC Social Responsibility Material Progress

### 2. PRODUCT RESPONSIBILITY

CSC has always been dedicated to improving customer service quality and continued to optimize customers' experiences, so as to provide customers with considerate and high-quality services. The Company consistently follows laws and regulations related to the securities industry, including Securities Law of the People's Republic of China (《中華人民共和國證券法》), Guidelines for the Internal Control of Securities Companies (《證券公司內部控制指引》), Regulation on the Supervision and Administration of Securities Companies (《證券公司監督管理條例》), and Measures for the Administration of the Suitability of Securities and Futures Investors (《證券期貨投資者適當性管理辦法》). In 2019, in order to further improve compliance management of the Company and product and service quality, the Company amended a series of compliance systems including Management Measures of the Company about Conflict of Interest (《公司利益衝突管理辦法》), Management Measures of Information Segregation Wall of the Company (《公司信息隔離牆管理辦法》), Measures for the Administration of the Suitability of Investors of the Company (《公司投資者適當性管理辦法》) and Implementation Rules of Investor Education of Science and Technological Innovation Board of the Company (《公司科創板投資者教育工作實施細則》). The Company also issued Management Measures of Compliance Inspection of the Company (《公司合規檢查管理辦法》), Guidelines on Compliance Inspection of Investment Banking Business the Company (《公司投資銀行業務合規檢查指引》), the Management Measures for Anti-money Laundering and Anti-terrorism Financing in Internet Finance Business of the Company (《公司互聯網金融業務反洗錢和反恐怖融資管理辦法》), the Monitoring Measures for the Administration for Anti-money Laundering and Anti-terrorism Financing in Financing List of the Company (《公司反洗錢和反恐怖融資名單監控管理辦法》) and a series of rules and regulations related to the science and technological innovation board.

The Company has been doing its utmost to provide customers with high-quality, efficient and professional financial services and more specialized, diverse and considerate products to cater for customers' diversified investment demands. The Company realizes overall improvement in service quality and better fulfils the product responsibility by improving product and service quality, protecting customers' information security, reinforcing protection of intellectual property rights and enhancing investor education.

During the Reporting Period, no material illegalities occurred in the business service unit of CSC.

#### 2.1 Improvement of Product and Service Quality

While devoting itself to offering high-quality services, CSC aims to fulfil its social responsibility based on better business service.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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In 2019, with respect to customers of the Company, the investment banking business of the Company focused on customers' demand, dedicating to providing customers with services in all respects of all products and with best quality. The Company has established an integrated quality control and management system to continue to carry out "quality control of all staff and the whole process" work as required by the internal control guidelines, and formulated and updated the internal control system for various businesses by strengthening business training and project implementation management, strictly implementing the internal control requirements such as cross-review and multi-level review on projects, actively preventing and addressing the bond credit risks, with diligence and due sense of responsibility, to act as an extraordinary "gatekeeper" of the capital market.

With respect to institutional customers, by fully practising the "customer-oriented" concept, the Company has built a service system for institutional customers by level. In 2019, the Company drew a service panorama for its institutional customers by promoting the overall coordination of its various departments to realize one-stop service for institutional customers, comprehensively improve the service experience of customers and fulfill corporate social responsibility.

To further improve the transaction service efficiency for institutional customers, in 2019, the Company set special counters for institutions to provide independent and special channels for institutional customers and ensure safe, stable and efficient transaction and clearing channels; satisfied client transaction demands under block trade and quantitative trade with algorithmic trading service; launched the fund manager's evaluation service for the portfolio investment needs of institutional customers to improve institutional customers' efficiency in pre-investment decision-making. In addition, the Company constantly explore new cross-border business models focusing on the coverage of foreign institutional customers to provide various foreign institutional customers with high-level, comprehensive, diversified and differentiated integrated financial services.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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With respect to individual customers, the Company continued to deepen centralized operation and management for the brokerage business and realized the acceptance of the counter-through business through breaking regional barriers and the acceptance of institutional door-to-door business, thus greatly improving the business experience of customers via optimizing system functions and streamlining business procedures. Furthermore, for the purpose of providing consistent service quality and standard, the Company kept updating a series of standards and procedures for centralized business, including One counter-through Business Conducting and Operation of the Company (Trial) (《公司一櫃通業務辦理操作試行》) and One-counter-through System Operation Manual of the Company (Trial) (《公司一櫃通系統操作手冊試行》). The Company also spared no effort to build a trinity of centralized operation and handling center, call center and witness center, focusing on assessing and conducting business, responding to questions, compliance return visits and others. All of the 321 branches across the country have put the one-counter-through system into operation stably, laying a foundation for centralized operation of the brokerage business.

In 2019, the Company offered diverse channels for customers to express opinions and complaints (including the headquarters investors hotline, headquarters customer service hotline and customer service mailbox as well as the consultation hotline of each branch), and established a thorough interactive mechanism, which were coupled with the continuous promotion of implementation of Standardization Rules on the Administration of Customers' Complaint Letters or Visits and Disputes of Business Division of the Company (《公司營業部客戶信訪、投訴與糾紛管理標準化條例》) to collect opinions and suggestions in an all-round way.

In respect of handling complaints directly received through the CSRC hotline, we check the CSRC hotline system at a set time each day to ensure that customer complaints will be handled in a timely manner and issues will be addressed promptly, so as to improve customer satisfaction. In addition, issues based on customer feedback collected will be analyzed, and reasonable advice will be proposed in the form of monthly report. In order to ensure quick response and efficient processing of customer issues, and prevent undue delay of the processing department, we have strict control on the time limit for handling customer complaints. We require that the time limit for handling customer complaints shall be no longer than three working days. If it is necessary to extend the handling time under certain circumstances, an application for extension shall be submitted to the relevant divisions, the reason for extension shall be provided and we shall strive to solve the problems in a timely manner. In 2019, the total number of complaints of the Company was 390, all of which were settled.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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### 2.2 Protection of Customer Information Security

CSC attaches great importance to network security and customers' privacy information protection and strictly complies with rules and regulations requirements, which include the Administrative Measures on the Information Technology of Securities and Funds Operation Institution of the Company (《公司證券基金經營機構信息技術管理辦法》) and the Measures on the Administration of Client Identity Identification and Client ID Information and Transaction Recording of Financial Institutions (《公司金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》). We continuously optimized and improved the network security system of the Company from the aspects of system compliance and technology control, and strengthened the security protection of customers' information.

In 2019, in terms of system compliance, in order to strengthen the management of customers' information and clarify the overall policy of customers' information protection. According to the national standard GB/T 35273-2017 "Information Security Technology Personal Information Security Specification", the Company has formulated the Protection Management System of Personal Information of the Company (《公司個人信息保護管理制度》), regulated the staff responsibilities, information collection, information storage, information use, information sharing, information rights protection, and accountability mechanism and so on, to ensure that customers' information processing behavior fully comply with national laws and regulations, industry standards and the requirements of rules and regulations of the Company, making management work of customer information protection normalized and institutionalized. Customers' information collected by the Company may be effectively protected to ensure the confidentiality, integrity and availability of customers' information. The Company further revised regulations including Policy on Management of Information System Security of the Company (《公司信息系統安全管理制度》), the Regulations on Computer Room Management of the Company (《公司機房管理條例》), the Regulations on Management of Information System Data of the Company (《公司信息系統數據管理條例》), Implementation Code for Emergency Management of Information Security of the Company (《公司信息安全應急管理實施規範》) and further clarified the related management requirements. According to the requirements of the Network Security Law of the People's Republic of China (《中華人民共和國網絡安全法》), the exchange companies in the place of listing shall, in accordance with the national level of network security protection 2.0 standard for related 10 core transactions system, including centralized trading system, unified account management system, margin financing and securities lending system, speed trading system, online trading system, PB system, gold trading system, OTC counter system, individual stock options system and middle platform system, the Company has carried out the classification filing and evaluation of network security level protection. All systems have scored more than 90 points, fully reflecting the current level of system security protection.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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In 2019, in terms of technical management and control, the Company continued to optimize and upgrade the security protection system, newly deployed and implemented the following measures to improve the security protection of customer information:

1. System security management: The security penetration test is required before the system goes online, and the security monitoring platform for Internet application information system is deployed at the same time, which can timely and effectively sort out the security vulnerabilities and other risks in the system and prevent hackers from taking advantage of system vulnerabilities to obtain customer information and data.
2. Data security: The network data leak prevention system is deployed to check whether any sensitive customer information has been exported at the network exit. At the same time, the security domain system is deployed to strictly manage employees' access rights and behaviors to important information systems involving customers' information, so as to avoid data leakage caused by copying customer information.
3. Terminal operation audit: The terminal operation audit software was deployed to conduct a screen recording audit of the operation of the staff's office computers. When the operation behavior involving sensitive customer information was discovered, an alarm was generated for the security personnel to investigate and deal with.
4. Customer information query: If it is not necessary for the application information system to display the customer's sensitive information, all sensitive information such as mobile phone number of customers will be displayed or the middle four digits will be coded. Each application system cancels the function of querying customer information in batches, and all operations of querying customer information are logged for audit. At the same time, the system administrator is required to check the user rights of the system on a regular basis, and clean up the accounts of employees who have resigned or transferred.



## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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### 2.3 Reinforcement of Intellectual Property Protection

CSC is an advocate of technology innovation and respects intellectual property rights and innovation achievements. The Company realize how valuable intellectual property is to a company and how important protection of intellectual property is to maintaining competitiveness. Therefore, we develop a range of rules, including Rules on Software Management of the Company (《公司軟件管理條例》), Measures on New Media Management of the Company (《公司新媒體管理辦法》) and Management Rules on Use of Pictures of the Company (《公司圖片使用管理規範》).

In addition, the Company has standardized the use of intellectual property and business information of customers and third parties in daily management and work, and has made clear the requirements of protecting intellectual property of the Company in the letter of compliance commitment for new employees. In the process of business cooperation and customer service, customers and third parties are also required to use the Company's assets (including physical assets and intellectual property) in an appropriate way.

In 2019, the Company has obtained 9 registration certificates of computer software copyrights, details of which are as follows:

1. The Management Platform of Investment and Research
2. The Service and Management System of Central Institutional Structure
3. Customer Relations Management System of Investment Banks
4. The Historical Market System software of CSC
5. The Real-time Market System software of CSC
6. The Real-time Analysis and Processing System of RMOT
7. The Compliance Management System of CSC Securities Co., Ltd.
8. The Anti-money Laundering Management System of CSC
9. Zhisheng Integrated and Sharing Platform

### 2.4 Enhancement of Investor Education

Attaching great importance to investor education, CSC establishes an investor education working group consisting of management members of the Company, who are responsible for overall management of investor education, including development of investor education scheme, system and implementation plan, organization of investor education activities and inspection and assessment of investor education. In addition, an investor education leading group at the business division level is established to take on a wider range of basic investor education work.

#### **Investor Education Base Activity 1: “Jingxin School” Activity**

In 2019, the Company continued to carry on continuous investor education based on the state-level investor education base owned by the Company (hereinafter referred to as “Jingxin School”). In 2019, the public welfare index of Jingxin School reached a new high level, receiving a total of 15,476 persons to visit; A total of 396 original investor education products were launched, covering 974,739 people. A total of 262,876 people participated in 2,520 public welfare educational projects. In 2019, Jingxin School was rated as “outstanding” in an assessment organized by CSRC.

#### **Investor Education Base Activity 2: “Belt and Road” Activity**

In 2019, the Company signed a strategic co-construction agreement with Shaanxi Securities and Futures Association to jointly promote the “Belt and Road” investor education. In September 2019, the Company’s Investor Education Base received approximately 25 people from Myanmar financial institutions from countries along the “Belt and Road” to visit and introduced the development history and experience of China’s securities market.

In 2019, the Company was awarded the “Outstanding Investment and Education Member” by the Shenzhen Stock Exchange and the “Best Organization Award” by the investor education and protection activity from the Shanghai Stock Exchange. As the sole representative of the industry, the Company attended investor education and investor protection conferences and activities for the fifth time. The conferences and activities were organized by Investor Protection Bureau of CSRC, Securities Association of China, Investor Protection Fund of China and other regulatory authorities, and had the opportunity to demonstrate the Company’s concept of investor education and investor protection.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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### 3. DEVELOPMENT OF EMPLOYEE

CSC always believes that first-class talents make the first-class enterprises and consistently attaches great importance to the recruitment and development of talents. As a national integrated securities company, the Company advocates the diversity of talents. Based on the sound recruitment and training system of the Company, all the employees are closely united, which is of vital importance to improving our work efficiency as well as strengthening innovation and implementation.

Employee management is always the focus of human resource work. The Company have strictly complied with relevant laws and regulations, including Labor Law of the People's Republic of China (《中華人民共和國勞動法》), Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), Law of the People's Republic of China on the Protection of Minors (《中華人民共和國未成年人保護法》) and Law of the People's Republic of China on the Protection of Rights and Interests of Women and Children (《中華人民共和國婦女兒童權益保護法》). In 2019, for the purpose of further improving human resources management system, enhancing human resources management, standardizing management operations and increasing work efficiency and hence realizing the institutionalization, standardization and conventionalization of human resources management work and guaranteeing successful implementation of various work, the Company actively promoted the revision of many internal rules and regulations, including Personnel Management Measures of the Company (《公司人事管理辦法》), Post Management Measures of the Company (《公司崗位職級管理辦法》), Performance Management Measures of the Company (《公司績效管理辦法》), Employee Handbook of the Company (《公司員工手冊》), Salary Management Measures of the Company (《公司薪酬管理辦法》) and Employee Training Management Measures of the Company (《公司員工培訓管理法》), which optimized recruitment, employment, salaries, welfare, promotion, dismissal, working hour management, equal opportunities, diversity, anti-discrimination, benefits of employees and other aspects.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

### 3.1. Employee Recruitment and Labor Standards

Based on the principle that “talent is the primary productive force”, the Company has strictly complied with recruitment procedures and regulations of the Company. In the process of recruitment, following the principle of mutual respect, justice and equity, we treat all candidates equally without gender discrimination, racial discrimination, religious discrimination or discrimination in any form. Recruitment of the Company is mainly carried out through internal competition, on-line recruitment, employee referrals and other channels, so as to find excellent talents who agree with the Company’s philosophy and satisfy future development needs. In the process of recruitment, the Company strictly reviewed the information of new employees, and deal with procedures in relation to employment and resignation of employees as required by laws and regulations. We strictly prohibit child labor. Meanwhile, the Company implemented flexible working hour system or standard working hour system in accordance with the working characteristics of different positions and business needs. Labor phenomenon was avoided through strengthening working hour management.

During the Reporting Period, the Company had no material violations of laws and regulations on human resources management.

Employees of the Company categorized by age and gender:

Age	Number of employees	Proportion (%)
34 or under	6,330	67
35 to 50	2,710	29
51 or above	369	4
Total	<u>9,409</u>	<u>100</u>

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Gender	Number of employees	Proportion (%)
Male	5346	57
Female	4063	43
Total	9409	100

Chart 2: Employees of CSC

### 3.2 Promotion and Development of Employee

CSC attaches great importance to career development of our employees, and has provided our employees with promising career paths. The Company kept improving grade management and performance assessment mechanism, and revised the Employee Handbook of the Company, in addition to actively implementing Post Management Measures of the Company, Performance Management Measures of the Company and Salary Management Measures of the Company, for the purpose of providing the employees with equal opportunities. We have provided competitive salaries in the industry to the employees. Moreover, yearly performance assessment, promotion and selection provide outstanding employees with the opportunities for grade promotion. In addition, we encourage the employees to make actively innovations, effectively utilize their individual talent and realize individual development in addition to making greater contributions to the Company.

### 3.3 Employee Training and Caring

Talents are the core resources of the Company. The Company created a positive corporate culture that is people-orientated, established a scientific and efficient training system, developed a powerful career development platform, allowing the employees to grow together with the Company.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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### **3.3.1 Employee Training**

In 2019, The Company continued to improve the multi-level talent cultivation system centering on “training ladder for the growth of employees” against different career development paths of employees of its headquarters and branches, and kept promoting and organizing the implementation of the training program with both comprehensive arrangements, overall planning, layered implementation and key focuses, and aligned the training program with the Company’s strategies, cultural construction, business strategies and process systems to continuously strengthened the building of talent pool. By creating learning maps for employees, organizing a series of internal training programs, on-line learning and on-line tests, we may improve employees’ professional skills and professional quality and facilitate individual growth in a multi-dimensional way. Detailed information is set out as follow:

1. “Induction Training for New Employees through Campus Recruitment/Social Recruitment” and more than 70 hours of online lectures were offered for the purpose of vocational training and common skills training for new employees, to strengthen the understanding of our corporate culture, compliance risk control, professional standards and rules and procedures, etc.;
2. “Business Workshop” was offered for the purpose of provision of daily training for employees, to help them to learn business knowledge, master office skills, and improve their communication and presentation capability, report writing capability, customer development and service capability;
3. “Training Project for Team Leaders at the Headquarters” aimed to cultivate and improve the management awareness and management quality of mid-level employees at the headquarters and focused on improving their project execution ability, creative thinking ability and team management ability;

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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4. “Special Study and Training Project for Senior and Middle-level Employees” aimed to strengthen training for senior and middle-level employee on leadership and professional skills, expand their international vision, and improve their creative thinking ability, strategic planning ability, operation management ability, business collaboration ability, risk prevention ability and comprehensive humanistic quality, and cultivate high quality business managers;
5. “Sailing Program” for Managers of Brokerage Business Line provided targeted on-the-job competence training, divided as “Trainings for New Business Department Manager”, “Continued Development Program for Business Department Manager”, “Continued Development Program for Senior Business Department Manager” and “Study Pilot Program for General Manager of Branch”, etc.;
6. “Torch Program for Outstanding Young Managers of Brokerage Business Line” featured multi-step, continuous and systematic selection and cultivation of reserve managers of branches, aiming to build a continuous and sustainable talent training mechanism for young managers of branches;
7. “Follow-up Vocational Training on Qualification” aimed to promote follow-up education to system-wide practitioners on their qualifications, allowing them to follow the latest regulatory provisions, keep up with new market policies and know about business development trends;
8. In order to further promote the implementation of the training system, the Company actively built up the E-learning system and teaching management system with E-HR system. It can provided an important reference for talent training, employment and o employees’ individual career development of the Company.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

During the Reporting Period, the details of the Company's trainings are as follows:

Information of training of employees as classified by gender		
Gender	Average Face-to-face Teaching Hours <i>Per Person</i>	Proportion <i>(%)</i>
Male	32.3	57%
Female	30.9	43%
Total	63.2	100%

Chart 3: Training of employees of CSC as classified by gender



## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Information of training of employees as classified by training targets			
Target	Average Face-to-face Teaching Hours	Number of Trainees for Face-to-face Teaching	Proportion (%)
Senior management	29.5	110	1.53%
Middle management	26.1	877	12.13%
Entry-level employees	32.4	6,236	86.34%
<b>Total</b>	<b>88</b>	<b>7,223</b>	<b>100%</b>

Chart 4: Training of employees of CSC as classified by training targets

*Note:* **Senior management:** including members of the Party committee, members of Executive Committee, department administrators, employees of MD Grade of headquarters and general managers of branches/central business departments, etc.; **Middle management:** including employees of SVP of headquarters to ED Grade and business department managers, etc.; **Entry-level employees:** including other employees in headquarters and branches other than the above mentioned persons.

### Training 1: Training Program for Middle Manager of Subsidiaries of CSC (two sessions)

In order to further promote corporate culture and operation concept, promote communication and business synergy between the parent company and the subsidiaries, and help subsidiaries strengthen compliance management and risk control system construction, the Company held two training programs for the middle managers of the subsidiaries in August and October 2019. Seventy-four department heads/deputy heads and key staff from five subsidiaries participated in the training, achieving remarkable results in the training.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)



Figure 3: Training Program for Middle Manager of Subsidiaries of CSC

### Training 2: “Torch Class” of Outstanding Young Managers of Brokerage Business Line

In order to coordinate the strategic layout of brokerage business line of the Company and help the branches to strengthen the construction of the reserve talent team, the Company has carried out the “Torch Program” for the training of outstanding young managers, and has organized the “Torch Class” to realize the continuous and systematic selection and cultivation and reserve use of the backup management talents of brokerage business line. Students of “Torch Class” in nine months, through the four units of special credentials, case study, temporary posts and communication, sand table simulation, gradually changed points of view, to broaden the thinking and perspective, further strengthened the management consciousness, strengthened the team management skills and improved the comprehensive quality, to accelerate the growth of cadres from the business to the management.



Figure 4: 2019 “Torch Class” of Outstanding Young Managers of Brokerage Business Line”

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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### **Training 3: 2019 “Sailing Program” for New Business Department Managers**

To strengthen the system of management talent training of brokerage business line, help the new business managers understanding brokerage systems and policies related to brokerage business line and the operation concept, strengthen the compliance awareness and improve management skills, in April 2019, the Company held the 2019 “Sailing Program” for new business Department managers. 20 new or proposed business department managers from all over the country attended a four-day intensive study.



Figure 5: 2019 “Sailing Program” for New Business Department Managers

### **3.3.2 Employees Caring**

Insisting on people-oriented corporate culture, CSC encouraged and organized a variety of employee activities accordingly. Such activities provided employees with a favorable working atmosphere.

#### **Employee Activity 1: “Sailing Cup” Business Quiz Bowl**

“Sailing Cup” Business Quiz Bowl is a brand activity of CSC and as of 2019, it has been successfully held for nine years. On September 22, 2019, the team selected by the Company’s 23 branches and the central business departments participated in the ninth “Sailing Cup” competition with the theme of “good products, good investment and true growth”.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)



Figure 6: 2019 “Sailing Cup” Quiz of CSC

### Employee Activity 2: “Never Forget the Original Intention, Keep the Mission in Mind” Theme Walking Activity

To celebrate the 70th anniversary of the founding of the People’s Republic of China and the 14th anniversary of the founding of CSC, the Company carried out the “never forget the original intention, keep the mission in mind” theme walking activity from October to November 2019. Nearly ten thousand employees of the Company walked in step around the country with one heart and overwhelming response. The walking activities enhance employees’ awareness of physical fitness, highlight the high spirit, the courage to fight for the first, and further improve the cohesion and centripetal force of all employees.



Figure 7: 2019 “Never Forget the Original Intention, Keep the Mission in Mind” Theme Walking Activity

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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### 3.4 Health and Safety of Employees

Physical and mental health of employees guarantee the sustainable development of the Company. As required by Labor Law of the People's Republic of China (《中華人民共和國勞動法》), Regulation on Work-related Injury Insurances (《工傷保險條例》), Fire Law of the People's Republic of China (《中華人民共和國消防法》) and Internal Public Security Regulations of Enterprises and Institutions (《企業事業單位內部治安保護條例》), and the guidelines of "Safety First, Prevention-oriented and Comprehensive Treatment", CSC has established multi-level security systems to ensure the safety in work environment. For the purpose of better implementing safety management work, the Company strengthened safety trainings to new employees, to ensure full coverage of accountable safety work. The Company attaches great importance to safety work, and has promoted the development of physical protection, technical protection and fire protection, organized various contingency plan and fire drills, enhanced accountability system, normalized safety inspection work, conducted safety inspections on fire and electric power in office areas and business areas monthly, removed sundries on firefighting access to keep the access unobstructed, and organized the property management company, security guards and fire station personnel to carry out fire emergency drills.

The Company optimized employee benefits in accordance with the relevant regulations and actual conditions. In addition to the statutory holidays greetings, we also express our greeting of the staff birthday, marriage, childbirth, and condolence of serious illness and being hospitalized, death, retirement. The Company has always put the health of nearly 10,000 employees in the first place, and organized annual physical examination for all employees every year, and organized a special semi-annual physical examination for female employees over the age of 35.

### 4. ANTI-CORRUPTION

#### 4.1 Anti-money Laundering

CSC has actively performed its responsibilities for anti-money laundering as a financial institution, and has strictly complied with relevant laws and regulations, including Law of the People's Republic of China on Anti-money Laundering (《中華人民共和國反洗錢法》), Rules for Anti-money Laundering by Financial Institutions (《金融機構反洗錢規定》) and Administration Measures for Financial Institutions' Reporting of High-Value Transactions and Suspicious Transactions (《金融機構大額交易和可疑交易報告管理辦法》). In 2019, the Company further improved internal control over anti-money laundering by implementing six additional internal control rules, including the Measures for Administration of WeChat Public Account for Promoting Anti-money Laundering (《公司反洗錢宣傳微信公眾號管理辦法》), the Measures for Administration of Anti-money Laundering and Anti-terrorist Financing in Internet Finance Business of the Company (《公司互聯網金融業務反洗錢和反恐怖融資管理辦法》), the Measures for Administration of Monitoring of List for Anti-money Laundering and Anti-terrorist Financing of the Company (《公司反洗錢和反恐怖融資名單監控管理辦法》), the Contingency Plan for Money Laundering Incident of the Company (《公司洗錢風險突發事件應急預案》), the Measures for Administration of Rating of Money Laundering and Terrorist Financing Risk in Business Operations of the Company (《公司業務洗錢和恐怖融資風險等級評估管理辦法》) and the Guidelines on Money Laundering Risk Control of the Company (Trial) (《公司洗錢風險管控指引(試行)》), and making amendments to three internal control rules, including the Provisions on Duties of Anti-money Laundering Post (《公司反洗錢工作崗位職責規定》), the Rules on Rewards and Penalties for Anti-money Laundering Work of the Company (《公司反洗錢工作考核獎懲辦法》) and the Guidelines on Self-assessment on Money Laundering and Terrorist Financing Risk of the Company (《公司洗錢和恐怖融資風險自評估工作指引》).

In 2019, the Company continued to optimize work mechanism on anti-money laundering, organized employees to study key regulatory documents on anti-money laundering, and adjusted the composition of anti-money laundering commission according to adjustment made to the organization of the Company in due time. The Company continued to consolidate the foundation of client identification work and promote governance of client identity information and data. The Company also published the Announcement on Restrictions on Accounts of Clients with Incomplete Identity Information and the Announcement on Further Restrictions on Accounts of Investors Providing First Generation ID Card on its official website, mobile APP and other channels. The Company enhanced management of client money laundering risk, by implementing management plans specific to high-risk clients and clients involved in suspicious transactions based on characteristics of securities business and actual conditions of the Company.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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In 2019, the Company inspected the anti-money laundering work carried out by all branches. Anti-money laundering compliance inspections against branches included a total of 38 inspection points in ten aspects, covering all aspects of anti-money laundering work in business divisions. Moreover, the Company also enhanced anti-money laundering business training to different audiences and offered a total of 15 anti-money laundering training programs. Trainees included personnel in anti-money laundering positions of the Company, compliance managers in branches, heads of compliance management in relevant departments of the headquarters, all the employees in branches and personnel in account management positions. Such training covered basics of anti-money laundering, corporate equity (control) information retrieval operation method in anti-money laundering system, monitoring of list for anti-money laundering and anti-terrorist financing, classification of client money laundering risk, anti-money laundering work in business divisions, anti-money laundering work at the headquarters, anti-money laundering compliance inspections and other relevant content. The Company also increased promotion of anti-money laundering, by registering and operating a WeChat Public Account for promoting anti-money laundering and publishing 51 posts in total.

### 4.2 Integrity Construction

CSC attaches great importance to the integrity construction of employees. By strictly complying with relevant laws and regulations, including the Several Provisions on Honest Business Conduct for Leaders of State-owned Enterprises (《國有企業領導人員廉潔從業若干規定》), CSC implemented relevant internal control rules, including the Provisions on Honest Business of the Company and Employees (《公司及工作人員廉潔從業規定》), the Management Regulations on Anti-malpractice of CSC (《公司反舞弊管理制度》) and Implementation Rules on Discipline Inspection & Supervision and Letters & Visits of CSC (《公司紀檢監察信訪舉報工作實施條例》). Such rules established a multi-channel and multi-form supervision and management mechanism for circumstances before, during and after relevant events. The Company kept strengthening discipline execution and accountability, as well as supervision and inspection on violation of regulations and disciplines by employees, and required employees to sign undertaking of compliance, thereby effectively preventing employees from corruption, bribery, blackmail, fraud, malpractice and other unlawful acts. The Company established clear acceptance and treatment procedures in relation to reports on violation of regulation and discipline, and maintained smooth reporting channels. Based on violation cases of regulation and discipline and clues, the Company promptly implemented inspection according to rules and imposed stern punishment.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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In 2019, the Company formulated provisions on honest business in view of actual condition, and kept enhancing staff education on integrity and discipline. The Company also created an honest business atmosphere in many ways, including increasing promotion and education through its corporate WeChat account “Discipline Inspection Section”, organizing visits to anti-corruption warning education bases, implementing questionnaire survey on honest business and holding warning and education conference.

During the Reporting Period, the Company found no material violation and corruption.

### 5. SUPPLY CHAIN MANAGEMENT

Procurement work of CSC mainly consists of office supplies and IT procurement. In the process of procurement, the Company incorporated green concept into procurement management system. Green access requirement and evaluation criteria for relevant products and services were adopted in the process of procurement bidding. At the stage of access, all product suppliers are required to pass ISO14001 Environmental Management System certification, in order to ensure suppliers to satisfy relevant requirements in relation to pollutant control in production. As for major goods, such as office furniture and IT products, all suppliers are required to hold the highest-grade China Environmental Labelling Product Certificate. The Company held suppliers exchange meetings on a regular basis and invited representatives of major suppliers to attend these meetings for in-depth exchange and discussion on effective fulfilment of environmental and social responsibilities in procurement project cooperation.

For refining procurement management of the Company, the Company formed Procurement Commission of the Company and made amendments to the Measures for Administration of Procurement of the Headquarters of the Company, effective September 1, 2019. The Company also established a procurement organization featuring “Procurement Commission – work group on procurement – specific management department and department on demand, hence achieving unified procurement management.

The Company formulated a number of operation procedures and guidelines including the Measures for Administration of Suppliers of the Company (《公司供應商管理辦法》), the Operation Guidelines on Negotiation on Single Source Procurement of the Company (《公司單一來源談判工作指引》), the Operation Guidelines on Tendering of the Company (《公司招標工作指引》), the Operation Guidelines on Price Comparison of the Company (《公司比價工作指引》) and the Operation Guidelines on Competitive Negotiation of the Company (《公司競爭性談判工作指引》), and regulated supplier access control and management rules and procurement procedure specific to each department and category.



## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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The Company established expert bank mechanism for procurement, and established two specialized expert banks, namely, information technology and legal expert banks. Technical experts in relevant fields were invited to participate in negotiation or bid evaluation, in order to ensure that each procurement is executed in compliance with regulations, procurement scheme is reasonable and optimal, and procurement pricing is professional and transparent, so as to implement procurement at fair price and high price performance.

### 6. ENVIRONMENTAL PROTECTION

CSC has been following the operation motto of “green office and environment friendliness”, and complying with important laws and regulations and policies such as the Environmental Protection Law of the People’s Republic of China (《中華人民共和國環境保護法》), the Energy Conservation Law of the People’s Republic of China (《中華人民共和國節約能源法》), and Energy Conservation and Emission Reduction Plan for the 13th Five-Year Plan Period (《“十三五”節能減排綜合工作方案》) issued by the State Council, while being supervised by environmental authorities and the society. Environmental impacts produced by the Company mainly come from electricity consumption and usage of water and paper in the offices; emissions are mainly from greenhouse gases directly generated by auto-fuels and indirectly produced in the course of electricity consumption. The Company fully acknowledged the environmental responsibility it is supposed to assume, and implemented a series of measures to reduce emissions and resource consumption in daily operation.

#### 6.1 Green Office

CSC advocates low-carbon operation and work style, promotes green and energy-saving management and encourages its employees to incorporate green concept into their work and life.

To cut the paper waste, the Company optimized paper management and introduced cloud printing devices in 2019, realizing systematic paper management. When printing, copying and scanning, our employees can only complete the process with their staff identification cards. Unless there is a special requirement, the printer adopts two-sided black-and-white printing automatically.

In respect of business mode, the Company has realized paperless review via one-counter-through system, utilized e-signature in counter business and off-site verification business and significantly reduced paper consumption. As at the end of 2019, over 296 business outlets across the country put the one-counter-through system into operation, with its functions covering 80% of account service, and therefore realized centralized paperless review.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

To reduce electricity consumption, all computer rooms in Beijing data center of the Company have been equipped with water-cooled air-conditioning systems. To improve the coefficient of performance of the air-conditioning system, increase the cooling per unit, we close part of the cold aisles of high-power cabinets. In daily operation, we appoint dedicated personnel to manage the use of electricity in offices, conduct regular inspections and maintenance and power off electrical devices in idle areas in a timely manner, so as to prevent any potential waste.

When purchasing drinking water, we limit the purchase quantity of each order to prevent waste due to expiration of bottled drinking water. At the same time, automatic sensor taps are installed in public areas to control the tap water consumption.

In respect of electronic waste disposal, the Company requires qualified suppliers to recycle Class 1 hazardous waste such as toner cartridges and ink cartridges.

### **Environmental Performance**

The scope of 2019 environmental information in this report includes the headquarters of CSC and its 16 branches (Shanghai, Shandong, Shenyang, Sichuan, Tianjin, Jiangsu, Jiangxi, Henan, Hubei, Hunan, Fujian, the Northwest, Chongqing, Zhejiang, Guangdong and Shenzhen, excluding business divisions), China Securities Funds Management Limited, China Futures Co., Ltd., China Capital Management Limited, China Securities (International) Finance Holding Company Limited and China Securities Investment Limited.

#### 1. Emissions

Indicators	2019 Data
<b>Total GHG emissions (Scope I and II) (tons)</b>	<b>6,265.16</b>
Total GHG emissions per floor area (tons/sq.m.)	0.105
Direct emissions (Scope I) (tons)	266.52
Gasoline (tons)	266.52
Indirect emissions (Scope II) (tons)	5,998.64
Electricity (tons)	5,998.64
<b>Hazardous waste (tons)</b>	<b>1.20</b>
<b>Non-hazardous waste (tons)</b>	<b>44.54</b>

Chart 5: Emissions

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

### Notes:

1. Due to the business nature of CSC, major gas emission is GHG emission, which is mainly due to the consumption of electricity and fuels converted from fossil fuels.
2. The GHG inventory of CSC includes CO<sub>2</sub>, methane and nitrous oxide, which are mainly due to the consumption of electricity and fuels. Greenhouse gas emission data is presented in carbon dioxide equivalent and is calculated based on the 2015 Baseline Emission Factors for Regional Power Grids in China (《2015中國區域電網基準線排放因子》) issued by the National Development and Reform Commission of the PRC and the 2006 IPCC Guidelines for National Greenhouse Gas Inventories (《2006年IPCC 國家溫室氣體清單指南》) issued by the Intergovernmental Panel on Climate Change (IPCC).
3. Hazardous waste produced in the course of CSC's business operation mainly includes toner cartridges, ink cartridges and lead-acid batteries. Hazardous waste such as toner cartridges, ink cartridges and lead-acid batteries are reclaimed by suppliers for further disposal.
4. Non-hazardous waste produced in the course of CSC's business operation mainly includes office waste and waste electronic equipment. Office waste is dealt with by the property management company, and waste electronic equipment is dealt with by the supplier for reclaiming upon the approval for its retirement.

### 2. Consumption of Energy and Resources

Indicators	2019 Data
<b>Total energy consumption (MWh)</b>	<b>89,491.39</b>
Consumption of energy per floor area (MWh/sq.m.)	1.51
Direct energy consumption (MWh)	1,264.37
Gasoline (MWh)	1,264.37
Indirect energy consumption (MWh)	88,226.37
Electricity (MWh)	88,226.37
<b>Total consumption of water (tons)</b>	<b>29,997.19</b>
Total consumption of water per floor area (m <sup>3</sup> /sq.m.)	0.50
<b>Consumption of packaging (tons)</b>	<b>1.06</b>

Chart 6: Consumption of energy and resources

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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*Notes:*

1. Total energy consumption is calculated by the data of electricity and fuel with reference to factors in the national standard "General Principles for Calculation of the Comprehensive Energy Consumption (GB/T 2589-2008)".
2. Energy consumption per floor area refers to electricity consumption per floor area.
3. Consumption of packaging refers to the amount of envelopes and paper bags used by the customers.

### 6.2 Management of Official Business Vehicles

In 2019, in terms of the management of official business vehicles, the Company continues with deepening and implementing internal management provisions including the Temporary Provisions on the Management of Official Business Vehicles the Company, Temporary Provisions on the Setup and Management of Business Vehicles of the Company, and complied with relevant regulations in the eight-point frugality code of the State and the Guiding Opinions on Comprehensively Promoting the Reform of Official Business Vehicles (《關於全面推進公務用車制度改革的指導意見》).

The Company has established management archives for vehicles and made only one archive for each vehicle. The vehicle management archives record mileage, fuel statistics, inspection date and other information. The environment impact has been less after checking the maintenance and repair of vehicles and scrapping vehicles in time, and annual inspection of vehicles are recorded each year to ensure that vehicle exhaust emission standards meet the requirements of national regulations. In addition, to prevent continuing resource waste, the relevant management department of the Company records the fuel consumption of vehicles and promptly analyzes reasons when the fuel consumption is higher than the standard.

### 7 COMMUNITY INVOLVEMENT

CSC has always taken the fulfilment of social responsibility as its important duty since its establishment and kept its mission of “bringing together talents, serving customers, creating value and contributing to society” firmly in mind. While answering the call of the country and following industry guidelines, the Company consistently carries out policies of the Central Party Committee, the State Council and the CSRC about poverty alleviation. Apart from executing all deployments of the CSRC and Securities Association of China, the Company plays its role in poverty alleviation with its advantages in the financial sector and the concept of “comprehensiveness, multi-form, multi-level”, and helps pair-up assistance counties to accomplish poverty alleviation tasks as soon as possible by utilizing all resources available in the Company and deploying integrated policies.

In 2019, we promote financial poverty alleviation through financial aid, governance improvement and advisory services to facilitate better development of enterprises in poverty-stricken counties. While relying on professional and resource advantages in the financial sector to help characteristic industries of poverty-stricken counties develop, we actively meet the needs of recorded poor households in poverty-stricken counties, made more donations and provide greater industrial assistance to help the locals overcome difficulties and poverty as soon as possible. We mobilize the support of Party Committee, Labor Union and Youth League and appoint young cadres to take temporary posts in poverty-stricken counties.

#### 7.1 Donation

Committed to the cause of public welfare, CSC sets October 17 (the National Poverty Day) as its “Public Welfare Day (社會公益日)”. In 2019, the Company organized a series of donation activities to principally support local unique industries, elderly care and education in poverty-stricken areas, and the total charitable expenses amounted to RMB6.826 million.

#### 7.2 Financial Assistance

CSC visits poverty-stricken counties for enterprise investigation gave full play to its financial expertise to help local enterprises standardize governance practice and realizing targeted poverty alleviation.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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In January and March 2019, the Company, as a joint lead underwriter, helped Shangrao City Construction Investment Development Group Co., Ltd., Jiangxi Province, with issue of two tranches of medium-term notes, from which RMB2 billion was raised in total. The proceeds was used for repaying preliminary borrowings for “National Highway 320 Reconstruction Project”, a poverty-alleviation project through road transportation, and debts of the company. “National Highway 320 Reconstruction Project” spanned across four districts and counties in Shangrao City, Jiangxi Province, namely, Xinzhou District, Guangfeng County, Shangrao County and Hengfeng County. In particular, Shangrao County and Hengfeng County were two national poverty-stricken counties. The Company effectively lifted the recorded impoverished people in such two counties out of poverty by employing them for the construction of the project and providing them with post-completion employment. Completion of the project improved the production condition, living standard and transportation condition for residents along the highway, expanded coverage of quality public resources from urban areas, such as medical, education, cultural and social security resources, to rural areas, so as to achieve overall and coordinated development of urban and rural areas. The project delivered significant poverty-alleviation results.

In February 2019, the Company recommended issue of shares on NEEQ by Hubei Gabrielle-Optech Co., Ltd., a company incorporated in Zigui County, Hubei Province, a national poverty-stricken county. A total of 20,000,000 shares were issued, from which RMB100 million was raised. Hubei Gabrielle-Optech Co., Ltd. is principally engaged in research and development, manufacture and sale of optical glass and crystal glass and related services. Through this issue, Hubei Gabrielle-Optech Co., Ltd. improved its financial strength and expanded its business scope.

In March 2019, the Company issued the first tranche of “CSC-CD Finance No. 1-4 Special Scheme Backed by Public Small Loans” (中信建投—中和農信1-4號公益小額貸款資產支持專項計劃), at an aggregate amount of RMB500 million. The Company issued the second tranche in May 2019, at an aggregate amount of RMB500 million. CD Finance Company Limited (中和農信項目管理有限公司), as a financial service provider to small and micro businesses established in rural areas, through this asset-back securitization project, improved fund utilisation efficiency and benefited more rural families from microcredit service, without reliance on subject credit.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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In November 2019, Zhubo Design Co., Ltd. (hereinafter referred to as “Zhubo Design”), a company incorporated in Lhasa City, Tibet Autonomous Region, was successfully listed on the Shenzhen Stock Exchange, to which the Company was appointed as the sponsor. RMB570 million was raised from offering of 25,000,000 shares. In response to the policy and strategy highlighting “Enriching People and Prospering Tibet, Developing Tibet in a Long Run” of the CPC Central Committee, Zhubo Design was relocated to Tibet in May 2017, was actively engaged in local architectural planning and design programs, played a vital role in a number of projects critical to livelihood and cultural education, and also developed local talents.

In December 2019, the Company, as the lead underwriter, helped Anyuan County City Development Investment Group Co., Ltd., Ganzhou City, Jiangxi Province, with issue of poverty-alleviation specific corporate bonds, from which RMB500 million was raised. This tranche of bonds represented the first poverty-alleviation specific corporate bonds in Jiangxi Province, and was of great significance to improving local employment, promoting introduction of investors, enriching local residents and lifting them out of poverty.

### 7.3 Industrial Assistance

CSC has fully recognized the positive role of industrial development and poverty alleviation to local economic development, therefore making full use of its own advantage to coordinate resources of all parties and open up industrial supply channels for pair-up enterprises.

In January 2019, China Futures Co-insurance Co., Ltd. launched an “insurance + futures” pilot program for 6,000-ton sugar price at a national poverty-stricken county, Longling County, Baoshan City, Yunnan Province. The participants of the pilot program included sugarcane growers in Longling County and a large local sugar factory, involving three townships and 19 villages. 2,175 sugarcane growers were covered, of whom 446 were from recorded poor households, and the sugarcane planting area covered 13,000 Mu. Compensation amounted to RMB0.786 million.

In June 2019, China Futures implemented a pilot “insurance + futures” program involving 3,000 tonnes of natural rubber in Mengla County, Xishuangbanna Prefecture, Yunnan Province, a national poverty-stricken county, benefiting 846 rubber farmers, including 430 recorded poverty-stricken households. Insured amount was RMB76.05 million.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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In July 2019, China Futures implemented a pilot “insurance + futures” program involving 10,397 tonnes of corn, benefiting 14,963 farmers. The insured amount was RMB19.92 million.

In December 2019, the Company donated RMB0.32 million to Dai County, Shanxi Province, for repairing Chairman Mao Zedong Memorial Hall. Repaired Memorial Hall will drive the development of local red tourism and economic growth.

In December 2019, China Futures Co-insurance Co., Ltd. implemented feed cost “insurance + futures” programs involving 150 tonnes of corn and 60 tonnes of soybean meal, respectively, in Wuxi, Chongqing. The total insured amount was RMB49,600.

### 7.4 Educational Assistance

There is a saying that it takes ten years to grow a tree, but it takes a hundred years to rear a man. Education is the root of social progress. The educational resources and facilities in poverty-stricken areas are rare. CSC is concerned about the development of education in these poverty-stricken areas and doing its utmost to provide a better learning environment for students in such poverty-stricken areas.

In February 2019, CSC Financial Northwest Branch and its securities outlets organized education support activities, and donated RMB126,000 in total, including RMB100,000 donated by the company and RMB26,000 donated by employees. Donations will be used for supporting university education of “recorded” students ranking among top ten in arts and sciences in 2019 college entrance examination in Ningqiang County, Hanzhong City, Xunyang County, Ankang City and Changwu County, Xianyang City, Shaanxi Province.

In March 2019, China Futures Co., Ltd. visited Songtao National Middle School in Songtao Miao Autonomous County, Tongren City, Guizhou Province, and donated RMB30,000 to 30 poor students.

In August 2019, China Futures organized “Education Support in Autumn” & Grant of Student Subsidy of Spring Sunshine Action in Songtao County, Tongren City, Guizhou Province, and donated RMB2,000 to each of the 25 poverty-stricken students admitted to universities, amounting to RMB50,000 in total.



## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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In December 2019, the Company visited Anyuan County, Ganzhou City, Jiangxi Province, and donated stationeries of RMB30,000 in total to Gaoyunshan Village School in Anyuan County.

In December 2019, the Company donated 2,000 books to Kangjia Yingzi Primary School of Aohan Banner, Inner Mongolia through Beijing Weilan Charitable Foundation.

In December 2019, the Company donated RMB1 million to Jinggangshan City, Jiangxi Province, for establishing a kindergarten education fund for the purpose of acquisition of devices and facilities for new kindergarten and rewards to excellent primary school teachers.

### 7.5 Poverty-alleviation by Improving Livelihood

In August 2019, the Company donated RMB300,000 to Xinghe County, Inner Mongolia, for implementation of water purification poverty-alleviation project in Xinghe County, Inner Mongolia. The project will enable villagers to access safe and healthy tap water.

In October 2019, the Company organized more than 40 persons to participate in Beijing Juyong Pass “Shanxingzhe” 50-kilometer hiking poverty-alleviation activity, and donated RMB125,000 to people in straitened circumstances in Xi County, Linfen City, Shanxi Province, including RMB103,000 donated by the Company and RMB22,000 donated by employees.

In December 2019, the Company donated two intensive care ambulances at a total cost of RMB1 million to Anyuan County, Ganzhou City, Jiangxi Province, which filled in the gap of zero intensive care ambulance in Anyuan County.

In December 2019, the Company donated 200 benevolence supermarkets at a total cost of RMB1 million to Li County, Longnan City, Gansu Province.

In December 2019, the Company donated RMB1 million for building a water-saving irrigation project in Ji County, Linfen City, Shanxi Province.

## SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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In December 2019, the Company donated RMB1 million to Huayuan County, Xiangxi Tujia & Miao Autonomous Prefecture, Hunan Province, for forming re-poverty prevention fund.

In December 2019, the Company donated RMB200,000 to Lantian County, Xi'an City, Shaanxi Province, for supporting construction of "drinking water improvement for villagers" project in Xuejiacun Village.

In December 2019, the Company donated 70 computers to the Office of Party Committee of Aohan Banner in Aohan Banner Government Building, Chifeng City, Inner Mongolia, and donated 10 electric wheelchairs to the Association of People with Disabilities of Aohan Banner, at a total cost of approximately RMB67,400.

### 7.6 Consumption-driven Poverty Alleviation

CSC also actively assisted farmers and enterprises of these five pair-up assistance counties to sell characteristic products through "consumption-driven poverty alleviation." In 2019, the Company and China Futures Co., Ltd., a subsidiary of the Company, carried out poverty alleviation by making a consumption of RMB1.4334 million in a national poverty-stricken county to support the development of local enterprises and increase farmers' income. At the same time, the Company also actively contacted local production and sales enterprises of characteristic products, and recommended that high-quality products be put on the "CSI Connect" consumption-driven poverty alleviation module, promoting sales of characteristic products both online and offline.

### 7.7 Training about Capital Market

In 2019, the Company and China Futures Co., Ltd. organized over 10 training sessions on capital market in nearly ten poverty-stricken counties, covering macro-economy, capital market, corporate financing, corporate governance and management, and accounting. Through these lectures on the capital market, the financial awareness of local cadres and entrepreneurs was further improved, and the development of local enterprises and industries was promoted.

# Independent Auditor's Report

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To the Shareholders of CSC Financial Co., Ltd.

*(Incorporated in the People's Republic of China with limited liability)*

## OPINION

### What we have audited

The consolidated financial statements of CSC Financial Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 259 to 416, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 International Standards on Auditing (“ISAs”). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

### **KEY AUDIT MATTERS**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. 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.

Key audit matters identified in our audit are summarized as follows:

- Consolidation of structured entities
- Expected credit impairment allowance of Margin accounts, Financial assets held under resale agreements and Financial assets at fair value through other comprehensive income (debt instruments)

## Independent Auditor's Report (Continued)

### Key Audit Matter

### How our audit addressed the Key Audit Matter

#### Consolidation of structured entities

Refer to Note 2.3,3.3(5) and 48 to the consolidated financial statements.

The Group acted as asset manager for, or invested in, a number of investment funds and asset management plans which were structured entities.

Management made significant judgements when concluding on whether the Group controlled, and therefore should consolidate, these structured entities.

Management has determined that the Group had control of certain structured entities based on their assessment of: i) the Group's power over the entities; ii) its exposure to variable returns from its involvement with those entities; and iii) its ability to use its power to affect the amount of its returns from these structured entities. Those structured entities over which Management has concluded the Group had control have been consolidated and their aggregated total assets were RMB9,051.14 million as at 31 December 2019.

The significant judgements exercised by Management in assessing whether the Group had control over the structured entities and the amount of such structured entities on the consolidated statement of financial position of the Group resulted in this matter being identified as a key audit matter.

We read a sample of the contracts from the Group's asset management and investment portfolio to assess: i) the extent of power the Group had over its structured entities; ii) the Group's exposure or rights to variable returns from its involvement with those structured entities; and iii) the relationship between the Group's power and returns with respect to the structured entities.

We selected a sample of Management's calculations of the Group's exposure or rights to variable returns from its involvement with the structured entities. We then traced the data used in these calculations back to the related contracts and re-performed the calculations to test their accuracy.

Based on the audit procedures performed above, the judgements made by Management when concluding whether to consolidate or not the structured entities were considered acceptable.

### Key Audit Matter

### How our audit addressed the Key Audit Matter

**Expected credit impairment allowance of Margin accounts, Financial assets held under resale agreements and Financial assets at fair value through other comprehensive income (debt instruments)**

Refer to Notes 3.1(5), 3.3(1), 13, 23, 24, 28 and 53.1 to the consolidated financial statements

As at 31 December 2019, the Group recognized the following financial assets in its consolidated statement of financial position:

- Margin accounts amounted to RMB28,954.49 million with a credit loss allowance of RMB1,148.35 million;
- Financial assets held under resale agreements amounted to RMB21,215.64 million with a credit loss allowance of RMB96.88 million;
- Financial assets at fair value through other comprehensive income (debt instruments) amounted to RMB32,430.04 million with a credit loss allowance of RMB27.44 million.

The credit impairment losses for the aforesaid financial assets recognized in the Group's consolidated income statement for the year ended 31 December 2019 was a reversal of RMB58.68 million.

We evaluated and tested the Group's internal controls relating to the measurement of ECL which comprised:

- (1) Governance over ECL models, including the selection and approval of methodologies and models; and the ongoing monitoring and optimization of such models;
- (2) Review and approval of significant management judgements and assumptions, including: i) the criteria for SICR with reference to management credit practices such as the monitoring of collateral value for Margin accounts/Financial assets held under resale agreements; and, ongoing monitoring of external credit ratings and negative information related to debt instruments; ii) the definition of default and credit-impairment; and iii) the use of economic variables and relative weightings for forward-looking scenarios;
- (3) Internal controls over the accuracy and completeness of key inputs used by the models.

## Independent Auditor's Report (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>The credit loss allowances as at 31 December 2019 for the aforesaid financial assets represented Management's best estimates of the expected credit losses ("ECL") in accordance with International Financial Reporting Standard 9: "Financial Instruments".</p>	<p>We reviewed the ECL modelling methodologies and assessed their reasonableness. We also examined the underlying coding for the models on a sample basis to ascertain that the models reflected the methodologies established by Management.</p>
<p>Management applied a three – stage impairment model to calculate the ECL. For such financial assets classified under Stages 1 and 2, Management assessed credit loss allowances using the risk parameter modelling approach that incorporated key parameters, including probability of default, loss given default and exposure at default. For credit-impaired financial assets classified under Stage 3, Management assessed the credit loss allowances by estimating the cash flows expected to arise from the financial assets after taking into consideration forward looking factors.</p>	<p>We examined the application of the SICR criteria, defaults and credit impairment definition by testing the fair value of the collateral of Margin accounts and Financial assets held under resale agreements; and we examined the external credit ratings and negative information related to debt instruments, on a sample basis.</p>
<p>The measurement model for ECL involves significant management judgements and assumptions for each type of product and investment, primarily including the following:</p>	<p>For forward-looking scenarios, we examined the basis of determining the economic indicators, number of scenarios and relative weightings; assessed the reasonableness of the economic indicators forecasted under the different scenarios; and performed sensitivity analysis on economic indicators and relative weightings.</p>
<ol style="list-style-type: none"><li>(1) Selection of the appropriate models and assumptions;</li><li>(2) Determination of the criteria for significant increase in credit risk ("SICR"), definitions of defaults and credit impairment;</li><li>(3) Establishment of the number and relative weightings of forward-looking scenarios;</li></ol>	<p>We examined major data inputs to the ECL models for selected samples, including historical data and data at the measurement date for accuracy and completeness.</p>

## Independent Auditor's Report (Continued)

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### Key Audit Matter

### How our audit addressed the Key Audit Matter

The Group has established governance processes and controls over the measurement of ECL.

The Group developed a number of complex models, adopted numerous parameters and data inputs, and applied significant management judgements and assumptions in measuring the ECL. The amounts involved were significant to the Group's financial statements. This led to this matter being identified as a key audit matter.

For credit-impaired assets under Stage 3, we tested on a sample basis the credit loss allowance computed by Management with reference to financial information of borrowers and guarantors, and the latest collateral valuations, as appropriate.

Based on the audit procedures performed, in the context of the inherent uncertainties associated with the measurement of ECL, we considered the models, key parameters, significant judgments and assumptions adopted by Management and the measurement results to be acceptable.



## Independent Auditor's Report (Continued)

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### OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of 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 AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, we exercise professional judgement 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.
- 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.

## Independent Auditor's Report (Continued)

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- 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period 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 Yip Siu Foon, Linda.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 26 March 2020

# Consolidated Income Statement

For the year ended 31 December 2019  
(In RMB thousands, unless otherwise stated)

	Note	Year ended 31 December	
		2019	2018
<b>Revenue</b>			
Fee and commission income	6	8,632,665	7,231,682
Interest income	7	6,243,047	6,764,194
Net investment gains	8	4,406,510	2,416,898
Other income	9	19,282,222 125,172	16,412,774 79,068
<b>Total revenue and other income</b>		<b>19,407,394</b>	<b>16,491,842</b>
Fee and commission expenses	10	(1,007,621)	(802,747)
Interest expenses	10	(4,683,906)	(4,770,850)
Staff costs	10	(4,709,554)	(3,954,082)
Tax and surcharges		(98,597)	(79,928)
Other operating expenses and costs	10	(1,805,800)	(1,686,761)
Credit impairment reverses/(losses)	13	59,430	(1,153,905)
<b>Total expenses</b>		<b>(12,246,048)</b>	<b>(12,448,273)</b>
<b>Operating profit</b>		<b>7,161,346</b>	<b>4,043,569</b>
Share of profits and losses of associates		(7,606)	7,874
<b>Profit before income tax</b>		<b>7,153,740</b>	<b>4,051,443</b>
Income tax expense	14	(1,624,092)	(948,015)
<b>Profit for the year</b>		<b>5,529,648</b>	<b>3,103,428</b>
Attributable to:			
Equity holders of the Company		5,501,688	3,087,460
Non-controlling interests		27,960	15,968
		<b>5,529,648</b>	<b>3,103,428</b>
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB yuan per share)			
– Basic and diluted	16	0.67	0.37

The accompanying notes form an integral part of these consolidated financial statements. 1

# Consolidated Statement Of Comprehensive Income

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2019	2018
<b>Profit for the year</b>	5,529,648	3,103,428
<b>Other comprehensive income</b>		
<b>Items that may be reclassified to profit or loss in subsequent years</b>		
Net gains on investments in debt instruments measured at fair value through other comprehensive income	257,719	641,318
Net (gains)/losses on investments in debt instruments measured at fair value through other comprehensive income reclassified to profit or loss on disposal	(98,651)	87,021
Income tax relating to these items	(38,744)	(181,847)
	120,324	546,492
Share of other comprehensive income of associates	(1,352)	1,131
Foreign currency translation differences	33,836	114,820
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Net gains/(losses) on investments in equity instruments designated as at fair value through other comprehensive income	154,688	(435,672)
Income tax relating to these items	(37,442)	102,089
	117,246	(333,583)

## Consolidated Statement Of Comprehensive Income (Continued)

For the year ended 31 December 2019  
(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2019	2018
<b>Other comprehensive income for the year, net of tax</b>	<u>270,054</u>	<u>328,860</u>
<b>Total comprehensive income for the year</b>	<u><u>5,799,702</u></u>	<u><u>3,432,288</u></u>
Attributable to:		
Equity holders of the Company	5,771,742	3,416,320
Non-controlling interests	<u>27,960</u>	<u>15,968</u>
	<u><u>5,799,702</u></u>	<u><u>3,432,288</u></u>

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement Of Financial Position

As at 31 December 2019

(In RMB thousands, unless otherwise stated)

	Note	31 December 2019	31 December 2018
<b>Non-current assets</b>			
Property, plant and equipment	17	503,438	451,376
Right-of-use assets	18	1,102,008	
Investment properties		49,438	47,742
Intangible assets	19	235,918	186,915
Investment in associates	21	269,512	162,713
Financial assets at fair value through profit or loss	22	3,296,031	2,978,326
Financial assets at fair value through other comprehensive income	23	3,153,312	3,003,549
Financial assets at amortized costs		–	67,276
Financial assets held under resale agreements	24	2,507,276	3,449,017
Refundable deposits	25	2,793,611	1,880,554
Deferred tax assets	26	963,865	974,506
Other non-current assets	27	126,428	175,859
		<u>15,000,837</u>	<u>13,377,833</u>
<b>Total non-current assets</b>			
<b>Current assets</b>			
Margin accounts	28	27,806,140	25,148,083
Accounts receivable	29	2,136,866	1,440,038
Financial assets at fair value through profit or loss	22	88,459,902	54,347,744
Financial assets at fair value through other comprehensive income	23	32,490,523	27,965,580
Financial assets at amortized cost		–	119,787
Derivative financial assets	30	955,450	1,239,584
Financial assets held under resale agreements	24	18,611,480	20,348,220
Cash held on behalf of clients	31	52,695,657	33,698,335
Cash and bank balances	32	47,221,055	17,055,809
Other current assets	33	291,715	341,300
		<u>270,668,788</u>	<u>181,704,480</u>
<b>Total current assets</b>			
		<u>285,669,625</u>	<u>195,082,313</u>
<b>Total assets</b>			

## Consolidated Statement Of Financial Position (Continued)

As at 31 December 2019

(In RMB thousands, unless otherwise stated)

	<i>Note</i>	31 December 2019	31 December 2018
<b>Current liabilities</b>			
Accounts payable to brokerage clients	34	54,625,736	35,038,585
Lease liabilities	35	340,140	
Derivative financial liabilities	30	761,572	177,461
Financial liabilities at fair value through profit or loss	36	1,126,344	1,252,581
Financial assets sold under repurchase agreements	37	55,532,975	32,531,875
Placements from banks and other financial institutions	38	9,263,545	4,048,839
Taxes payable	39	600,594	302,981
Short-term borrowings	40	889,012	1,118,475
Short-term financing instruments payable	41	17,495,953	13,753,706
Other current liabilities	42	52,599,717	20,997,043
<b>Total current liabilities</b>		<u>193,235,588</u>	<u>109,221,546</u>
<b>Net current assets</b>		<u>77,433,200</u>	<u>72,482,934</u>
<b>Total assets less current liabilities</b>		<u>92,434,037</u>	<u>85,860,767</u>
<b>Non-current liabilities</b>			
Bonds in issue	43	34,133,021	37,650,008
Lease liabilities	35	735,122	
Deferred tax liabilities	26	660,874	342,642
Other non-current liabilities		10,286	4,720
<b>Total non-current liabilities</b>		<u>35,539,303</u>	<u>37,997,370</u>
<b>Net assets</b>		<u><u>56,894,734</u></u>	<u><u>47,863,397</u></u>



## Consolidated Statement Of Financial Position (Continued)

As at 31 December 2019

(In RMB thousands, unless otherwise stated)

	<i>Note</i>	31 December 2019	31 December 2018
<b>Equity</b>			
Share capital	44	7,646,385	7,646,385
Other equity instruments	45	9,980,698	5,000,000
Reserves	46	21,412,062	19,425,664
Retained earnings		17,542,774	15,505,197
		<hr/>	<hr/>
Equity attributable to equity holders of the Company		56,581,919	47,577,246
Non-controlling interests		312,815	286,151
		<hr/>	<hr/>
<b>Total equity</b>		<b>56,894,734</b>	<b>47,863,397</b>

The accompanying notes form an integral part of these consolidated financial statements.

Approved and authorized for issue by the Board of Directors on 26 March 2020.

**Wang Changqing**

*Chairman*

**Li Geping**

*Executive Director and President*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2019  
(In RMB thousands, unless otherwise stated)

	Attributable to equity holders of the Company												
	Note	Share capital	Other equity instruments	Reserves						Retained earnings	Subtotal	Non-controlling interests	Total
				Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Foreign currency translation reserve					
At 1 January 2019		7,646,385	5,000,000	8,753,213	3,013,066	7,535,426	(32,746)	156,705	15,505,197	47,577,246	286,151	47,863,397	
Profit for the year		-	-	-	-	-	-	-	5,501,688	5,501,688	27,960	5,529,648	
Other comprehensive income for the year		-	-	-	-	-	236,218	33,836	-	270,054	-	270,054	
Total comprehensive income for the year		-	-	-	-	-	236,218	33,836	5,501,688	5,771,742	27,960	5,799,702	
Capital injected by equity holders													
- Capital injected by subsidiaries' non-controlling equity holders		-	-	-	-	-	-	-	-	-	8,350	8,350	
- Capital injected by other equity instrument holders	45	-	4,980,698	-	-	-	-	-	-	4,980,698	-	4,980,698	
Appropriation to surplus reserves	46	-	-	-	560,262	-	-	-	(560,262)	-	-	-	
Appropriation to general reserves	46	-	-	-	-	1,156,082	-	-	(1,156,082)	-	-	-	
Dividends - 2018	15	-	-	-	-	-	-	-	(1,376,349)	(1,376,349)	-	(1,376,349)	
Distribution to other equity instrument holders	15	-	-	-	-	-	-	-	(371,418)	(371,418)	-	(371,418)	
Dividends to non-controlling interests		-	-	-	-	-	-	-	-	-	(9,646)	(9,646)	
At 31 December 2019		7,646,385	9,980,698	8,753,213	3,573,328	8,691,508	203,472	190,541	17,542,774	56,581,919	312,815	56,894,734	

## Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

	Attributable to equity holders of the Company											
	Note	Reserves								Subtotal	Non-controlling interests	Total
		Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Foreign currency translation reserve	Retained earnings			
At 1 January 2018		7,246,385	5,000,000	7,084,516	2,698,328	6,915,734	(246,786)	41,885	15,022,518	43,762,580	245,111	44,007,691
Profit for the year		-	-	-	-	-	-	-	3,087,460	3,087,460	15,968	3,103,428
Other comprehensive income for the year		-	-	-	-	-	214,040	114,820	-	328,860	-	328,860
Total comprehensive income for the year		-	-	-	-	-	214,040	114,820	3,087,460	3,416,320	15,968	3,432,288
Capital injected by equity holders												
- Issuance of A shares	44	400,000	-	1,668,697	-	-	-	-	-	2,068,697	-	2,068,697
- Capital injected by subsidiaries' non-controlling equity holders		-	-	-	-	-	-	-	-	-	36,031	36,031
Appropriation to surplus reserves	46	-	-	-	314,738	-	-	-	(314,738)	-	-	-
Appropriation to general reserves	46	-	-	-	-	619,692	-	-	(619,692)	-	-	-
Dividends - 2017	15	-	-	-	-	-	-	-	(1,376,351)	(1,376,351)	-	(1,376,351)
Distribution to other equity instrument holders	15	-	-	-	-	-	-	-	(294,000)	(294,000)	-	(294,000)
Dividends to non-controlling interests		-	-	-	-	-	-	-	-	-	(10,959)	(10,959)
At 31 December 2018		7,646,385	5,000,000	8,753,213	3,013,066	7,535,426	(32,746)	156,705	15,505,197	47,577,246	286,151	47,863,397

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2019  
(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2019	2018
<b>Cash flows from operating activities</b>		
Profit before income tax	7,153,740	4,051,443
Adjustments for:		
Interest expenses on bonds in issue, short-term financing instruments payable, borrowings and lease liabilities	2,954,034	2,883,326
Dividend income and interest income from financial assets at fair value through other comprehensive income	(1,361,251)	(1,478,139)
Net gains from disposal of financial assets at fair value through other comprehensive income	(157,198)	(89,402)
Interest income and net gains from disposal of financial assets at amortized costs	(6,618)	(27,320)
Net gains/losses attributable to other interest holders of consolidated structured entities	507,086	360,833
Net gains from disposal of investments in associates and joint ventures	–	(25,294)
Share of profits and losses from associates and joint ventures	7,606	(7,874)
Net gains on disposal of property, plant, equipment and other assets	(334)	(231)
Revaluation gains/losses on financial instruments at fair value through profit or loss	(1,644,325)	(988,850)
Net foreign exchange gains/losses	(287)	22,371
Depreciation and amortization	572,534	249,609
Credit impairment losses	(59,430)	1,153,905
	<u>7,965,557</u>	<u>6,104,377</u>
<b>Net changes in operating assets</b>		
Margin accounts	(2,672,642)	21,986,984
Financial assets at fair value through profit or loss	(31,712,884)	(12,943,383)
Cash held on behalf of clients	(18,999,203)	6,056,892
Financial assets held under resale agreements	2,684,240	2,248,633
Other operating assets	(2,624,988)	(215,397)
	<u>(53,325,477)</u>	<u>17,133,729</u>

## Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2019	2018
<b>Net changes in operating liabilities</b>		
Accounts payable to brokerage clients	19,587,151	(6,377,918)
Financial liabilities at fair value through profit or loss	(108,089)	1,081,968
Financial assets sold under repurchase agreements	22,938,207	3,345,658
Placements from banks and other financial institutions	5,240,000	(10,000,000)
Other operating liabilities	16,549,619	155,252
	<u>64,206,888</u>	<u>(11,795,040)</u>
<b>Net cash inflow from operating activities before tax</b>	18,846,968	11,443,066
Income tax paid	<u>(1,155,350)</u>	<u>(882,951)</u>
<b>Net cash inflow from operating activities</b>	<u>17,691,618</u>	<u>10,560,115</u>
<b>Cash flows from investing activities</b>		
Net cash flow from purchase or disposal of financial assets at fair value through other comprehensive income	(4,124,180)	(1,301,669)
Dividend income and interest income received from financial assets at fair value through other comprehensive income	1,268,489	1,450,514
Cash paid for purchase of property, plant and equipment, intangible assets and other assets	(290,266)	(172,865)
Net cash flow from purchase or disposal of financial assets at amortized costs	186,305	75,062
Net cash flow from investments in associates	29,307	7,823
Other cash flows from investing activities	<u>(13,105)</u>	<u>(210,539)</u>
<b>Net cash outflow from investing activities</b>	<u>(2,943,450)</u>	<u>(151,674)</u>

## Consolidated Statement of Cash Flows (Continued)

*For the year ended 31 December 2019  
(In RMB thousands, unless otherwise stated)*

	Year ended 31 December	
	2019	2018
<b>Cash flows from financing activities</b>		
Cash inflows from perpetual bonds	5,000,000	–
Cash inflows from public offering	–	2,168,000
Cash inflows from capital injected by non-controlling interests	8,350	36,031
Cash inflows from borrowing activities	30,711,104	22,979,398
Cash inflows from issuing bonds	71,444,940	77,624,216
Cash outflows from dividend distribution	(1,376,349)	(1,376,349)
Cash outflows from other equity instrument holders	(294,000)	(294,000)
Cash outflows from distribution to subsidiaries' non-controlling equity holders	(9,646)	(10,960)
Repayments of interest on debts	(2,711,272)	(2,772,337)
Payments of debts	(86,841,667)	(102,808,086)
Other cash outflows from financing activities	(649,484)	(388,951)
<b>Net cash inflow/(outflow) from financing activities</b>	<u>15,281,976</u>	<u>(4,843,038)</u>
<b>Net change in cash and cash equivalents</b>	30,030,144	5,565,403
Cash and cash equivalents at the beginning of the year	16,841,813	11,183,962
Effect of exchange rate changes on cash and cash equivalents	63,611	92,448
<b>Cash and cash equivalents at the end of the year (Note 47)</b>	<u><u>46,935,568</u></u>	<u><u>16,841,813</u></u>

The accompanying notes form an integral part of these consolidated financial statements.

# Notes to the Consolidated Statements

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*For the year ended 31 December 2019*

*(In RMB thousands, unless otherwise stated)*

## **1 GENERAL INFORMATION**

CSC Financial Co., Ltd. (the “Company”) (formerly known as China Securities Finance Co., Ltd.) is the successor entity of China Securities Finance Limited Liability Company which was approved for establishment by the China Securities Regulatory Commission (the “CSRC”) on 2 November 2005. The original registered capital of the Company was RMB2,700.00 million. The registered address of the Company is Unit 4, No.66 Anli Road, Chaoyang District, Beijing, the People's Republic of China (the “PRC”).

The Company received the approval of CRSC on 30 June 2011 to convert into a joint stock company, with registered capital increased to RMB6,100.00 million.

The Company completed its initial public offering of overseas listed foreign shares (“H shares”) on The Stock Exchange of Hong Kong Limited on 9 December 2016. Under this offering, the Company issued a total of 1,076.47 million new shares with a nominal value of RMB1 per share. On 5 January 2017, the Company issued an additional 69,915,238 H shares through partial exercise of the over-allotment option with a nominal value of RMB1 per share. The registered capital of the Company increased to RMB7,246.39 million after such issuance. The Company completed the industrial and commercial registration for these changes on 5 June 2017, and obtained its new business license with the Unified Social Credit Code of 91110000781703453H on 9 June 2017.

The Company completed its initial public offering of domestic listed shares (“A shares”) on the Shanghai Stock Exchange on 20 June 2018. The Company issued a total of 400,000,000 shares with a nominal value of RMB1 per share. After this issuance, the registered capital of the Company increased to RMB7,646,385,238.00. The Company completed the industrial and commercial registration for these changes on 18 February 2019.

The principal activities of the Company and its subsidiaries (collectively, the “Group”) include securities brokerage, financial advisory relating to securities trading and securities investment activities, securities underwriting and sponsoring, proprietary trading and investment of securities, securities asset management, agency sale of securities investment funds, introducing brokerage for futures companies, margin financing and securities lending services, agency sale of financial products, market-making of stock options, custodian services for securities investment funds, and sale of precious metal products, commodity futures brokerage, financial futures brokerage and asset management, equity investment and corporate management services, investment management, raising and management of investment funds, investment management of equity investment, investment consulting, project consulting.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019  
(In RMB thousands, unless otherwise stated)

### 2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), as issued by the International Accounting Standards Board (“IASB”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap.622).

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, financial assets/liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, which have been measured at fair value, as further explained in the respective accounting policies below. The consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

#### 2.1 Amendments to the accounting standards effective in 2019 and adopted by the Group

(1)	IFRIC 23	Uncertainty over Income Tax Treatments
(2)	IFRS 16	Leases
(3)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015 – 2017 Cycle
(4)	Amendments to IFRS 9	Prepayment Features with Negative Compensation
(5)	Amendments to IAS 19	Employee Benefits Regarding Plan Amendment, Curtailment or Settlement
(6)	Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures

##### (1) **IFRIC 23: Uncertainty over Income Tax Treatments**

In June 2017 the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.



## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 2 BASIS OF PREPARATION (Continued)

#### 2.1 Amendments to the accounting standards effective in 2019 and adopted by the Group (Continued)

**(2) IFRS 16: Leases**

IFRS 16 – Leases addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value or of short lease term, in the statement of financial position. Specific accounting policies which have been significantly impacted by IFRS 16 are described in Note 3.1(6).

**(3) Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23: The Annual Improvements to IFRSs 2015 – 2017 Cycle**

The Annual Improvements to IFRSs 2015 – 2017 Cycle include a number of amendments to various IFRSs and IASs, including the amendments IFRS 3 – Business combinations, the amendments to IFRS 11 – Joint arrangements, the amendments to IAS 12 – Income taxes and the amendments to IAS 23 – Borrowing costs.

**(4) Amendments to IFRS 9: Prepayment Features with Negative Compensation**

The IASB issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. To qualify for amortized cost measurement, the amendments require the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect'. However, the standard does not define 'reasonable compensation' and significant judgement may be required to assess if this test is met.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 2 BASIS OF PREPARATION (Continued)

#### 2.1 Amendments to the accounting standards effective in 2019 and adopted by the Group (Continued)

**(5) Amendments to IAS 19: Employee Benefits Regarding Plan Amendment, Curtailment or Settlement**

The IASB issued amendments to IAS 19: Employee benefits regarding plan amendment, curtailment or settlement. These amendments require that entities must calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change. Any reduction in a surplus should be recognised immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement. In other word, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling.

**(6) Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures**

The IASB issued amendments to IAS 28: Investments in Associates and Joint Ventures to clarify that companies account for long-term interests in an associate or joint venture to which the equity method is not applied should be using IFRS 9.

The impacts of IFRS 16 to the Group's financial statement is set out in Note 3.2. There were no significant impacts from the other amendments above on the Group's consolidated financial statements.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 2 BASIS OF PREPARATION (Continued)

#### 2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group

The Group has not adopted the following new and amended standards that have been issued but are not yet effective.

		Effective for annual periods beginning on or after
(1)	IFRS 17 Insurance Contracts	1 January 2022
(2)	Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred. Early application of the amendments continues to be permitted.
(3)	Amendments to IAS 1 and IAS 8 The Definition of Material	1 January 2020
(4)	Amendments to IFRS 3 The Definition of A Business	1 January 2020

##### (1) IFRS 17: Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: discounted probability-weighted cash flows, an explicit risk adjustment, and a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognized as revenue over the coverage period. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. The Group anticipates that the adoption of these amendments will not have any impact on the Group’s consolidated financial statements.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 2 BASIS OF PREPARATION (Continued)

#### 2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

**(2) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture**

These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

**(3) Amendments to IAS 1 and IAS 8: The Definition of Material**

The IASB issued amendments to the definition of material in IAS 1 and IAS 8. The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole.

The amendment also clarifies the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 2 BASIS OF PREPARATION (Continued)

#### 2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

##### (4) Amendments to IFRS 3: The Definition of A Business

The IASB issued amendments to the definition of a business in IFRS 3. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

#### 2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The accounting policies and accounting period of the Company and its subsidiaries are consistent.

Subsidiaries are all entities (including structured entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group assesses whether it has power over an investee, the Group's voting rights or potential voting rights and other contractual arrangements are considered.

Income or expenses resulted from acquisition or disposal of subsidiaries, from the date on which the Company obtains control to the date on which the Company ceases its control over subsidiaries, are in the scope of consolidation. Intra-group assets and liabilities, equity, income, expenses, and cash flow which are relevant to all intra-group transactions occurred should be offset in consolidation.

A portion of equity over subsidiaries and profit or loss which does not belong to the Company should be treated as non-controlling interests. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Company and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position separately from the equity attributable to equity holders of the Company.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

#### 3.1 Significant accounting policies

**(1) Accounting period**

The accounting year starts on 1 January and ends on 31 December.

**(2) Functional and presentation currency**

The Company's functional and presentation currency is RMB.

Each entity in the Group determines its own functional currency according to its economic situation. The functional currency is denominated in RMB in consolidated financial statements.

**(3) Cash and cash equivalents**

Cash comprises cash on hand and demand deposits which are not restricted as to use.

Cash equivalents comprise short term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

**(4) Foreign currency transactions and foreign currency translation**

The Group adopts the sub-account system to record foreign currency transactions. Foreign currency transactions are initially recorded on the original currency respectively at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the prevailing functional currency exchange rates at the end of the reporting period. The exchange rate is the central parity rate quoted by the People's Bank of China or authorized bodies. All differences are taken to the consolidated income statement. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (4) *Foreign currency transactions and foreign currency translation* (Continued)

The assets and liabilities of foreign operation subsidiaries denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of reporting period for consolidated financial statements. The equity items, excluding “retained earnings”, are translated to RMB at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated to RMB at the rates that approximate the spot exchange rates. The exchange differences resulting from foreign currency financial statement translation of subsidiaries are recognized in other comprehensive income (“OCI”) and accumulated in the foreign exchange translation reserve. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

##### (5) *Financial instruments*

###### (a) *Initial recognition, classification and measurement of financial instruments*

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (5) *Financial instruments* (Continued)

###### (a) *Initial recognition, classification and measurement of financial instruments* (Continued)

###### Financial assets

Financial assets are classified on the basis of the Group's business model for managing the assets and the cash flow characteristics of the assets in the following measurement categories: (i) Amortized cost; (ii) Fair value through other comprehensive income ("FVOCI"); (iii) Fair value through profit or loss ("FVPL").

Business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic leading risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.



## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (5) *Financial instruments* (Continued)

###### (a) *Initial recognition, classification and measurement of financial instruments* (Continued)

Financial assets (Continued)

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The classification requirements for debt instruments assets and equity instruments assets are described as below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as government bonds, corporate bonds and subordinated bonds. Classification and subsequent measurement of debt instruments depend on: (i) the Group's business model for managing the asset; and (ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- (i) Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI and that are not designated as at FVPL, are measured at amortized cost.
- (ii) Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI and that are not designated as at FVPL, are measured at FVOCI.
- (iii) Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (5) *Financial instruments* (Continued)

###### (a) *Initial recognition, classification and measurement of financial instruments* (Continued)

Financial assets (Continued)

Debt Instruments (Continued)

The Group may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns.

Financial liabilities

Financial liabilities are classified as subsequently measured at amortized cost, except for financial liabilities at FVPL, which is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition.

Contingent liabilities recognized by buyers should be measured as FVTPL under business combination for entities owned by different ultimate shareholders.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (5) *Financial instruments* (Continued)

###### (a) *Initial recognition, classification and measurement of financial instruments* (Continued)

###### Financial liabilities (Continued)

An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss: (i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’); (ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity’s key management personnel.

###### (b) *Reclassification of financial assets*

When the Group changes its business model for managing financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (5) *Financial instruments* (Continued)

###### (c) *Subsequent measurement of financial instruments*

Subsequent measurement of financial instruments depends on the categories:

###### Amortized cost

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and; (iii) for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses ("ECL") and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired ("POCI") financial assets, the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (5) *Financial instruments* (Continued)

###### (c) *Subsequent measurement of financial instruments* (Continued)

###### Amortized cost (Continued)

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for: (i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortized cost; and (ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss allowance). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

###### Fair value through other comprehensive income

###### Debt instruments

Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss.

###### Equity instruments

The equity instrument investments that are held for purposes other than to generate investment returns are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss when the Group's right to receive payments is established, and it is probable that future economic benefits associated with the item will flow to the Group, and the amounts of the dividends can be measured reliably.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (5) *Financial instruments* (Continued)

###### (c) *Subsequent measurement of financial instruments* (Continued)

Financial assets at fair value through profit or loss

Debt instruments

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within “Net investment gains” in the period in which it arises.

Equity instruments

Gains and losses on equity investments at FVPL are included in the “Net investment gains” line in the consolidated income statement.

Financial liabilities at fair value through profit or loss

Gains or losses on financial liabilities designated as at FVPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss. The gains and losses from financial liabilities including the effects of credit risk variance should be recognized in current profit and loss by the Group.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (5) *Financial instruments* (Continued)

###### (d) *Fair value of financial instruments*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of market approach, income approach and cost approach. When using valuation techniques, unobservable market inputs would not be used unless relevant observable inputs are not available or not practicable to access.

Default Valuation Adjustments (DVA) are applied to the Group's financial liabilities at fair value through profit or loss, and assumes that DVA stay the same before and after the transfer of the liability. DVA refer to risk that enterprises fail to perform the obligation, including but not limited to their own credit risk.

The Group uses the following hierarchy for determining and disclosing the fair values of financial assets and financial liabilities based on the inputs used when determining the fair value:

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (5) *Financial instruments* (Continued)

##### (d) *Fair value of financial instruments* (Continued)

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The level of fair value measurement depends on the lowest level of input that is significant to the entire fair value measurement.

##### (e) *Impairment of financial assets*

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI.

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is 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 (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

The Group measures the ECL of a financial instrument reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.



## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (5) *Financial instruments* (Continued)

###### (e) *Impairment of financial assets* (Continued)

For financial instruments whose impairment losses are measured using the ECL model, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

Stage 1: The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL if the credit risk of that financial instrument has not increased significantly since initial recognition.

Stage 2: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk of that financial instrument has increased significantly since initial recognition, but is not yet deemed to be credit-impaired.

Stage 3: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the financial instrument is credit-impaired.

The Group applies the impairment requirements for the recognition and measurement of credit loss allowance for debt instruments that are measured at FVOCI. The loss allowance is recognized in OCI and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial asset in the statement of financial position.

The Group has measured the loss allowance for a financial instrument at an amount equal to the lifetime ECL in the previous reporting period, but determines to measure it at an amount equal to the next 12 months ECL at the current reporting date since the credit risk of that financial instrument has increased significantly since initial recognition is no longer met, and the amount of ECL reversal is recognized in profit or loss.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (5) *Financial instruments* (Continued)

###### (f) *Derivative financial instruments*

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

The changes on fair value of derivative financial instruments are directly recognized in the consolidated income statement. The difference between fair value and carrying amount is recognized as investment income when disposing.

###### (g) *Derecognition of Financial Instruments*

A financial asset is derecognized, when one of the following criteria is satisfied: (i) the contractual rights to receive cash flows from the assets have expired; (ii) the Group has transferred substantially all the risks and rewards of ownership of the financial asset; (iii) the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has not retained control.

When equity financial assets designated as at FVOCI are derecognized, the cumulative gain or loss previously recognized in OCI is reclassified to retained earnings. When other financial assets are derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in "Net investment gains".

A financial liability is derecognized when it is wholly or partly extinguished, that is when the obligation is wholly or partly discharged. Fair value gains and losses are charged to profit or loss. When financial liabilities designated as at FVPL are derecognized, cumulative gains and losses are subsequently reclassified from other comprehensive income to retained earnings.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (5) *Financial instruments* (Continued)

###### (h) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a current legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Otherwise, financial assets and financial liabilities are reported separately.

##### (6) *Leases*

###### (a) *Initial measurement of the right-of-use asset and lease liability*

Initial measurement of the right-of-use asset

The right-of-use asset is defined as the right of underlying assets in the lease term for the Group as a lessee. The lease term is defined as the non-cancellable period of the lease for the Group as a lessee.

At the commencement date, a lessee shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the lessee; and
- (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (6) Leases (Continued)

##### (a) Initial measurement of the right-of-use asset and lease liability (Continued)

Initial direct costs are defined as incremental costs. Incremental costs would not have been incurred if a lease had not been obtained.

Initial measurement of the lease liability

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

The lessee uses as the discount rate the interest rate implicit in the lease – this is the rate of interest that causes the present value of lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.

The incremental borrowing rate is defined as the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (6) Leases (Continued)

###### (b) Subsequent measurement of the right-of-use asset and lease liability

Subsequent measurement of the right-of-use asset

At the commencement date, the Group as a lessee shall measure the right-of-use asset at cost and apply the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Subsequent measurement of the lease liability

After the commencement date, the Group shall recognise interest on the lease liability in profit or loss. Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

###### (c) Recognition of short-term leases and leases for which the underlying asset is of low value

Short-term leases are defined as leases with a lease term of less than 12 months from the commencement date. Leases for which the underlying asset is of low value are defined as underlying assets of low value when new. The right-of-use asset and lease liability are not recognized by the Group for short-term leases and leases for which the underlying asset is of low value.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

**(7) Reverse repurchase agreements and financial assets sold under repurchase agreements**

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as original financial assets before transferred. The corresponding liability is included in financial assets sold under repurchase agreements.

Consideration paid for financial assets held under agreements to resell are recorded as reverse repurchase agreements, the related collateral accepted is not recognized in the consolidated financial statements.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortized over the period of the respective transaction using the effective interest method and is recognized through profit or loss.

**(8) Margin financing and securities lending services**

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

The Group recognizes margin accounts at initial recognition, and recognizes interest income accordingly. Securities lent are not derecognized, but still accounted for as the original financial assets, and interest income is recognized accordingly.

Securities trading on behalf of margin financing and securities lending clients are accounted for as securities brokerage services.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### **3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)**

#### **3.1 Significant accounting policies (Continued)**

##### **(9) Fiduciary wealth management**

The Group's fiduciary wealth management business includes targeted asset management, collective asset management and specified asset management. The Group keeps separate accounting records for each of these investment schemes, and periodically reconciles the accounting and valuation results of each scheme with the custodians.

##### **(10) Associates**

Associates are all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates.

##### **(11) Investment properties**

Investment properties comprise real estate properties for the purpose of earning rental income and/or for capital appreciation, including buildings that have been leased out.

The Group's investment properties are accounted for using the cost model. The initial recognition and subsequent measurement of buildings and properties that are leased out are accounted for using the same measurement and depreciation methods as those for property, plant and equipment.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (12) Property, plant and equipment

###### (a) Recognition criteria for property, plant and equipment

Property, plant and equipment refer to tangible assets held and controlled by the Group that the Group expects to use for more than one year for using in the supply of services or for administrative purpose. An asset is recognized as property, plant and equipment only if the following criteria are both satisfied:

- (i) It is highly probable that future economic benefits associated with the property, plant and equipment will flow to the Group;
- (ii) The cost of the asset can be measured reliably.

###### (b) Property, plant and equipment initially measured at cost

Cost of an item of purchased property, plant and equipment comprises purchase price, tax and any costs directly attributable to bringing the asset to the condition necessary for its intended use and it includes transportation costs, installation and assembly costs, and professional service fees.

Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance expenditure are recognized in the profit or loss as incurred. Depreciation of property, plant and equipment is calculated on the straight-line basis monthly.



## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (12) Property, plant and equipment (Continued)

##### (b) Property, plant and equipment initially measured at cost (Continued)

Estimated useful life, depreciation rate and estimated residual value of each item of property, plant and equipment which are required by the operation of the Group are as follows:

Types of property plant and equipment	Estimated useful life	Monthly depreciation rate	Estimated residual value
Properties and buildings	35 years	2.262%	5%
Electronic devices	2 to 5 years	1.667%–4.167%	0%
Transportation vehicles	5 years	1.617%	3%
Communication equipment	5 years	1.617%	3%
Office equipment	3 years	2.778%	0%
Security equipment	5 years	1.617%	3%
Others	5 years	1.617%	3%

The years that the property, plant and equipment were already in use were excluded when determining the estimated useful lives of these types of the property, plant and equipment. The estimated useful life, the estimated residual value and the depreciation method of each type of the property, plant and equipment are reviewed, and adjusted if appropriate, at each financial year end. Gains and losses on disposal of property, plant and equipment, the costs of disposal and taxes in connection with such disposal are considered in the determination of the estimated residual value.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (12) *Property, plant and equipment* (Continued)

###### (c) *Construction in progress*

Costs of construction in progress are determined based on the actual expenditure incurred which include all necessary expenditure incurred during the construction period, borrowing costs eligible for capitalization and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property, plant and equipment when such assets are ready for their intended use.

##### (13) *Intangible assets*

Intangible assets are recognized only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably, and measured initially at cost. Intangible assets acquired from business combination and their fair value can be measured reliably are recognized as intangible assets individually and measured at their fair value as at date of combination.

Useful lives of intangible assets are determined as the period that the assets are expected to generate economic benefits for the Group, and when there is no foreseeable limit on the period of time over which the asset is expected to generate economic benefits for the Group, the intangible assets are regarded as having indefinite useful life.

Intangible assets with finite useful lives shall be amortized on a straight-line basis over the useful period. The useful lives and amortization method of the intangible assets with finite useful lives shall be reviewed by the Group at least at each financial year end, and adjusted as appropriate. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life, or there is an active market for the asset, where residual value can be determined by reference to that market; and it is probable that such a market will exist at the end of the asset's useful life.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### **3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)**

#### **3.1 Significant accounting policies (Continued)**

##### **(13) Intangible assets (Continued)**

Trading seat rights at Shanghai and Shenzhen Stock Exchanges are amortized over 10 years (subject to any changes in industry rules subsequently issued) and charged to the consolidated income statement. Outsourcing software is amortized over 5 years. Self-developed software, patents, non-patents, trade mark right, client relationship and other intangible assets are amortized over their useful lives.

Intangible assets with indefinite useful lives need to be assessed for impairment no matter if there is any impairment evidence. These assets need not to be amortized, and their useful lives shall be reviewed during every accounting period. If there is any evidence to support that the useful lives are definite, these intangible assets shall apply the policies of intangible assets with definite useful lives.

##### **(14) Long-term pre-paid expense**

Improvement expenses on property, plant and equipment under operating leases are amortized on a straight-line basis over the shorter of the contractual lease terms and 5 years, while long-term pre-paid expenses are amortized on a straight-line basis over their respective benefit periods but no longer than 10 years.

##### **(15) Revenue**

An entity should determine at contract inception whether control of a good or service is transferred over time or at a point in time. The determination should depict the transfer of benefits to the customer and should be evaluated from the customer's perspective.

An entity should first assess whether the performance obligation is satisfied with the following criteria over time. If not, the good or service transfers at a point in time.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (15) Revenue (Continued)

- (i) The customer concurrently receives and consumes the benefits provided by the entity's performance as the entity performs.
- (ii) The entity's performance creates or enhances a customer-controlled assets.
- (iii) The entity's performance does not create an asset with an alternative use and the entity has a right to payment for performance completed to date.

Where performance of a single service contract takes place over time, revenue should be recognized as performance takes place, excluding the stage of performance cannot be determined.

An entity that cannot reasonably measure the outcome of a performance obligation, but expects to recover the costs incurred, should recognize revenue only to the extent of the cost until a reliable measure of progress can be made.

An entity will recognize revenue at a point in time (when control transfers) for performance obligation that meet the criteria for recognition of revenue at a point in time.

Revenue from underwriting services is recognized when the control of the underwriting services is provided to the client. The revenue is usually recognized upon completion of the offering.

Revenue from the securities brokerage services is recognized on the date of the securities transaction.

Revenue from asset management services is recognized when management services are provided in accordance with the asset management contract.

Revenues from other businesses, including investment banking advisory and sponsoring services are recognized when the contractual obligations are fulfilled.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (15) Revenue (Continued)

Interest income of debt investments at amortized costs and FVOCI, is measured by carrying amount and effective interest rate. Interest income of credit impaired financial assets are measured by amortized cost and effective interest rate. Net gains of holding period from financial investments at FVTPL is measured as “Net investment gains”.

##### (16) Income tax

Income tax comprises current tax and deferred income tax. Current tax is the amount of current income tax payable calculated based on current taxable income. Taxable income is calculated based on the adjustment to the current year pre-tax accounting profit according to the applicable tax laws.

For current income tax liabilities or current income tax assets generated from the current and prior periods, the expected income tax payable or the income tax deduction is calculated according to the applicable tax laws.

The Group measures deferred income tax using the liability method on temporary differences arising between the carrying amount of an asset or liability at the end of the reporting period and its tax base.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (16) *Income tax* (Continued)

All taxable temporary differences are recognized as deferred income tax liabilities, except:

- (i) The deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- (i) The deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (16) *Income tax* (Continued)

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. When it is virtually probable that sufficient taxable income will be available, the reduced amount will be reversed accordingly.

Deferred tax assets and liabilities are offset:

- (i) when there is a legally enforceable right to set off deferred tax assets against deferred tax liabilities; and
- (ii) when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

##### (17) *Employee compensation*

Employee compensation refers to all forms of consideration and other related expenditure given or incurred by the Group in exchange for services rendered by employees or compensate for the termination of labour contract. The compensation payable is recognized as liability in the accounting period of services provided by employee. The employee compensation comprises of short-term compensation, post-employment welfare, termination benefits, and other long-term employee welfares.

Short-term compensation comprises of staff salaries, bonus, allowances, and subsidies, as well as social insurance expenses including employee welfare, medical insurance charge, work-related injury insurance charge, and maternity insurance and also covers housing funds, labour union expenses, personnel education expenses, short-term paid leave, short-term profit-sharing plan, non-monetary welfare and other short-term compensations.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (17) *Employee compensation* (Continued)

Post-employment welfare plans refer to agreements reached with employees or policies and measures established by the Group in relation to post-employment welfare. The defined contribution plans refer to post-employment welfare plans in which the Group pays contribution to an independent fund and the Group has no further payment obligation.

##### (18) *Government grants*

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the Group receives grants of monetary assets, the grants are recorded at the amount received or receivable. Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets. When fair value cannot be reliably measured, they are recognized at nominal amount.

Government grants for purchasing, building or forming long-term assets in other methods stipulated in government documents are recognized as government grants related to assets. Judgements should be made based on the necessary basic conditions for obtaining the government grants when government documents are unclearly stated. Government grants with purchasing, building or forming long-term assets in other methods as basic condition are recognized as government grants related to assets, whereas the other grants are related to income.

Government grants related to income which are to compensate relevant expenditures or losses in future periods are recognized as deferred income and released into the consolidated income statement during the period when the expense incurs. Government grants that are to compensate the incurred expenses or losses are recognized into profit or loss directly. Government grants related to assets are recognized as deferred income, and released to profit or loss over the expected useful life of the relevant assets by equal annual instalments. Government grants measured at nominal amount are recorded in the consolidated income statement directly.



## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (19) Impairment

The Group assesses impairment of assets other than deferred tax assets and financial assets as follows:

The Group assesses at each financial reporting date whether there is any indication that assets are impaired. When any such indication exists, the Group estimates the recoverable amount and assesses impairment allowance. For goodwill acquired from business combination and intangible assets with indefinite useful life, no matter there is objective evidence of impairment or not, impairment should be assessed at each annual financial reporting date. Impairment for intangible assets not readily for use is also assessed annually.

The recoverable amount is the higher of an asset's fair value less costs of disposal and the present value of the estimated future cash flow expected to be derived from the asset. The Group estimates the recoverable amount on the basis of individual asset. When it is difficult to estimate the recoverable amount individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The recognition of a group of assets shall base on whether the main cash flow generated by the group of assets is independent from those generated by other assets or groups of assets.

When recoverable amounts of assets or groups of assets are lower than their carrying amounts, the Group reduces the carrying amount to recoverable amount. The reduced amounts are recognized in the consolidated income statement and corresponding allowances are made.

For impairment test of goodwill, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units when being unable to be allocated to each of the cash-generating units. Cash-generating units or groups of cash-generating units refer to those that can benefit from the synergies of the combination and are not larger than the reportable segment determined by the Group.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (19) *Impairment* (Continued)

When performing impairment test for the (groups of) cash-generating unit to which goodwill is allocated, if there is indication of impairment, the Group firstly tests the (groups of) cash-generating unit excluding goodwill, calculates the recoverable amount and recognizes relevant impairment losses. The Group then tests the (groups of) cash-generating units including goodwill, and compares the carrying amount and recoverable amount. If the carrying amount exceeds the recoverable amount, the amount of impairment loss is firstly deducted from the carrying amount of goodwill allocated to the (groups of) cash-generating unit, and then from the carrying amount of each of other assets (other than goodwill) within the (groups of) cash-generating unit, on pro rata basis.

Once the loss of impairment of the above-mentioned assets has been recognized, it will not be reversed in the future accounting period.

##### (20) *Related parties*

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties.

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (20) *Related parties* (Continued)

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (21) Contingencies

The obligation pertinent to contingencies shall be recognized as provisions when the following conditions are satisfied concurrently:

- the obligation is a present obligation of the Group;
- the obligation is probable to cause a future outflow of resources from the Group as a result of performance of the obligation; and
- the amount of the obligation can be reliably measured.

The amount of a provision is initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, the Group takes into full consideration of risks, uncertainty, time value of money and other factors pertinent to the contingencies. The Group reviews the book value of the provisions at the end of the reporting period. If there is substantial evidence that the amount of provisions cannot reflect the current best estimate, the Group will adjust the amount in accordance with the current best estimate.

A contingent liability is a possible obligation that a rise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or, a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### **(22) Perpetual bonds**

Perpetual bonds issued by the Group, which satisfied with the following criteria are classified as equity instruments:

- (i) Financial instruments exclude those are settled on a net basis in cash (or other financial assets);
- (ii) Financial instruments must or can be settled on own equity: (a) For non-derivative contracts, they exclude those are settled gross by delivery of a variable number of own shares; (b) Derivative contracts that result in the delivery of a fixed amount of cash or other financial assets for a fixed number of an entity's own equity instruments.

Dividends for the perpetual bonds, which are classified as equity instruments, are accounted for as profit distribution.

##### **(23) Profit distribution**

After-tax profit for the year is firstly applied to make up for the losses of previous years. Secondly, the Company sets aside 10% of after-tax profit for a statutory surplus reserve, 10% of after-tax profit for a general risk reserve, and according to the requirements of the CSRC, sets aside 10% of after-tax profit for a transaction risk reserve. In addition, with the approval from the Annual General Meeting, the Company may appropriate certain proportions of net profit for a discretionary surplus reserve after setting aside the statutory surplus reserve. The remaining after-tax profit is distributed according to the resolution approved at the Annual General Meeting. If the aggregate balance of the statutory reserve has reached 50% of the Company's registered capital, appropriation for the statutory reserve is no longer mandatory.

General risk reserve and transaction risk reserve sets aside by the Company are used to make up for any losses arising from securities transactions. The Company's reserve funds are used to make up for any losses of the Company, expand the Company's business or as additional capital of the Company. However, capital reserve cannot be used to make up for the Company's losses. When the statutory reserve funds are converted to capital, the balance of the statutory reserve funds cannot be less than 25% of the Company's registered capital.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.1 Significant accounting policies (Continued)

##### (23) Profit distribution (Continued)

Dividends proposed by the directors are not deducted from equity, until they have been approved by the ordinary equity holders in the Annual General Meeting. When these dividends have been approved by the ordinary equity holders, they are recognized as a liability.

#### 3.2 The impact of changes in principal accounting policies

The Group has adopted IFRS 16 from 1 January 2019, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

In applying IFRS 16, the Group adopted the practical expedients permitted by the standard, which uses a single discount rate to a portfolio of leases with reasonably similar characteristics. The weighted average lessee's incremental borrowing rates applied to the lease liabilities on 1 January 2019 ranged from 3.89% to 4.75%. The adoption of the expedients has no significant impact on the Group's consolidated financial statements.

As permitted by the standard, operating leases with a remaining lease term of less than 12 months as at 1 January 2019 were recognized as short-term leases. No right-of-use assets and lease liabilities were recognized for short-term leases and low-value leases. The adoption of the expedients has no significant impact on the Group's consolidated financial statements.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.2 The impact of changes in principal accounting policies (Continued)

Operating lease commitments disclosed as at 31 December 2018	1,281,024
(Less): short-term leases recognized on a straight-line basis as expense	58,130
(Less): low-value leases recognized on a straight-line basis as expense	241
(Less): others	58,883
Subtotal	1,163,770
(Less): taxes	56,758
Adjusted operating lease commitments	1,107,012
<b>As at 1 January 2019, the date of initial application, lease liabilities discounted using the Group's incremental borrowing rates</b>	<b>1,015,112</b>
Of which are:	
Current lease liabilities	288,900
Non-current lease liabilities	726,212
	1,015,112

Right-of use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.2 The impact of changes in principal accounting policies (Continued)

The recognized right-of-use assets relate to the following types of assets:

	31 December 2019	1 January 2019
Properties and buildings	881,240	791,437
Others	220,768	257,053
Total right-of-use assets	1,102,008	1,048,490

#### 3.3 Significant accounting judgements and estimates

During the preparation of the Group's financial statements, management will make judgements, estimates and assumptions about the impact of future uncertainties on revenue, expenses, assets and liabilities, and disclosure of contingent liabilities. At the end of the reporting period, management made the following judgements and main assumptions on major future uncertainties, which might lead to adjustments in the book value of assets and liabilities.

##### (1) Measurement of the expected credit loss allowance

The measurement of the expected credit loss ("ECL") allowance for debt instruments including investments in financial assets measured at amortized cost and FVOCI is an area that requires the use of models and assumptions about future economic conditions and credit behavior of the client (such as the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Choosing appropriate models and assumptions for the measurement of ECL;
- Determination of the criteria for significant increase in credit risk ("SICR");
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.



## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.3 Significant accounting judgements and estimates (Continued)

##### (1) *Measurement of the expected credit loss allowance* (Continued)

Inputs, assumptions and estimation techniques

ECL are the discounted product of probability of default having considered the forward-looking impact, exposure at default, and loss given default.

Forward – looking information incorporated in the ECL model

A pervasive concept in measuring ECL in accordance with IFRS9 is that it should consider forward-looking information. The assessment of SICR and the calculation of ECL both incorporated forward-looking information. The Group has performed historical data and identified the key economic variables impacting credit risk and ECL for each financial instrument portfolio. These economic variables and their associated impact on the probability of default (“PD”) vary by product type. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

Details of the significant accounting judgements and estimates above please refer to Note 53.1.

##### (2) *Classification of financial assets*

When the Group determines the classification of financial assets, a number of significant judgements in the business model and the contractual cash flow characteristics of the financial assets are required.

Factors considered by the Group in determining the business model for a group of financial assets include past experience on how the cash flows for these assets were collected, how the asset’s performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

#### 3.3 Significant accounting judgements and estimates (Continued)

##### (2) *Classification of financial assets* (Continued)

When the Group assesses whether the contractual cash flows of the financial assets are consistent with basic lending arrangements, the main judgements are described as below: whether the principal amount may change over the life of the financial asset (for example, if there are prepayment of principal); whether the interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin and cost, associated with holding the financial asset for a particular period of time.

##### (3) *Fair Value of Financial Instruments*

For financial instruments where there is a lack of active market, the Group uses valuation methods to determine its fair value. Valuation methods include referring to the transaction price determined when fair transactions are conducted between economic entities with complete information and willingness to buy and sell in the market, referring to the fair value of another similar financial instrument in the market, or using discount cash flow analysis and option pricing model to estimate. Valuation methods maximize the use of observable market information. However, when observable market information is unavailable, management will estimate the significant non-observable information included in the valuation methods.

##### (4) *Income tax*

The Group needs to make a judgement on future tax treatment of certain transactions to confirm income tax. In accordance with relevant tax regulations, the Group carefully judges the impact of income tax on transactions and accordingly calculates income tax. The deferred income tax assets can only be recognized when there is a possibility of future taxable profits and can be used to offset the temporary differences. This requires a major judgement on the tax treatment of certain transactions and a significant estimate of the possibility of having sufficient future taxable profits to offset deferred income tax assets.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### **3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES** (Continued)

#### **3.3 Significant accounting judgements and estimates** (Continued)

##### **(5) Consolidation of Structured Entities**

Management needs to make important judgements on whether to control and consolidate structured entities, confirming whether it will affect accounting treatment and the financial situation and operating results of the Group.

In assessing control, the Group needs to consider: 1) the power of the investor to the investee; 2) the variable return enjoyed by the investee in the relevant activities; and 3) the ability to use the power of the investee to influence the amount of its return. If one or more of the three control elements mentioned above change, the Group will reassess whether control still exists.

In judging whether the Group controls the structured entities, it also needs to consider whether the Group's decision-making behavior is carried out as a principal or as an agent. Considerations usually include the scope of decision-making power of the Group to the structured entities, the substantive rights enjoyed by other parties, the level of remuneration of the Group, and the risk that the Group bears variable returns for holding other interests of the structured entities.

## Notes to the Consolidated Statements (Continued)

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*For the year ended 31 December 2019*

*(In RMB thousands, unless otherwise stated)*

### 4 TAXATION

According to relevant PRC tax policies, the most significant categories of taxes to which the Group is currently subjected are as follows:

#### (1) Income tax

From 1 January 2008, the “Enterprise Income Tax Law of the PRC” and the “Regulations on the Implementation of Enterprise Income Tax Law of the PRC” became effective for the Company and its subsidiaries excluding China Futures Co., Ltd. and China Securities (International) Finance Holding Co., Ltd. Income tax computation and payment are governed by the “Announcement of the State Administration of Taxation on Printing and Distributing Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by Enterprises with Multi-Location Operations” (Public Notice of the State Administration of Taxation [2012] No. 57). The PRC Enterprise income tax rate applicable to the Company is 25%.

In accordance with Explanation on Implementation of Tax Preferential Treatments concerning Western China Development Strategy issued by local taxation bureau in Yuzhong District, Chongqing City, the applicable income tax rates for China Futures Co., Ltd. is 15%.

The income tax rate for China Securities (International) Finance Holding Co., Ltd. (a Hong Kong Company) is 16.5%.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 4 TAXATION (Continued)

#### (2) Value added tax

Pursuant to the “Circular regarding the Comprehensive Implementation of the Pilot Programs for Transformation from Business Taxes to Value-added Taxes (the “VAT Pilot Programs”)” (Cai Shui [2016] No. 36), the “Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs (Cai Shui [2016] No. 46), the “Supplementary Circular regarding VAT Policies Applicable to Transactions between Financial Institutions” (Cai Shui [2016] No.70) issued by the Ministry of Finance (the “MOF”) and the State Administration of Taxation (the “SAT”) of the PRC, effective from 1 May 2016, the Group is subject to value-added taxes on its income from principal businesses at 6%.

In accordance with the “Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services” (Cai Shui [2016] No.140), the “Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products” (Cai Shui [2017] No.2) and the “Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products” (Cai Shui [2017] No.56), the Group shall pay VAT at rate of 3% for related asset management taxable activities undertaken after 1 January 2018.

After the implementation of the VAT Pilot Programs, the Group’s related income is presented at value net of its respective VAT in the consolidated income statement.

- (3) Urban maintenance and construction taxes and educational surcharges are charged at 7% and 3% of turnover taxes payable, respectively. In addition, according to the provisions of “Administrative Measures for Collection and Usage of Local Educational Surcharges in Beijing” (Jin Zheng Fa [2011] No. 72), since 1 January 2012, the local educational surcharges of the Company’s head office and securities trading department located in Beijing are levied at 2% of the total amount of value-added tax.
- (4) Vehicle and vessel taxes, property taxes and stamp duties are levied in accordance with the provisions of the relevant tax laws and regulations.

# Notes to the Consolidated Statements

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*For the year ended 31 December 2019*

*(In RMB thousands, unless otherwise stated)*

## 5 OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's operating segments represents a strategic business engaged in the following activities.

Investment banking segment: provides investment banking services, including financial advisory, sponsoring, underwriting of equity and debt securities.

Wealth management segment: serves as a brokerage agent for corporate and personal clients in the trading of equity stocks, funds, bonds and futures; and provides margin financing and securities lending services to these clients.

Trading and institutional client services segment: engages in trading of financial products; serves as a brokerage agent for institutional clients (financial institutions) in the trading of equity stocks, funds and bonds, and provides them with margin financing and securities lending; provides services in relation to sales of financial products to institutional clients, and provides specialized research and advisory services to assist their investment decision-making.

Investment management segment: develops asset management products, fund management products services, and private placement offerings, and provides related services through subsidiaries and consolidated structured entities.

Other segment: primarily the treasury function from the head office.

Management monitors the performance and results of these operating segments for considerations of resource allocation and operating decision-making.

Income taxes are managed as a whole and are not allocated to operating segments.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 5 OPERATING SEGMENT INFORMATION (Continued)

	Year ended 31 December 2019					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	3,869,173	2,805,793	875,551	1,082,148	–	8,632,665
Interest income	–	3,654,054	1,860,886	28,477	699,630	6,243,047
Net investment gains	–	–	3,807,339	599,171	–	4,406,510
Other income	3,858	52,578	331	22,167	46,238	125,172
<b>Total revenue and other income</b>	<b>3,873,031</b>	<b>6,512,425</b>	<b>6,544,107</b>	<b>1,731,963</b>	<b>745,868</b>	<b>19,407,394</b>
Segment expenses	(1,741,542)	(5,087,210)	(4,507,611)	(606,111)	(303,574)	(12,246,048)
Including: Interest expenses	(13,275)	(1,777,158)	(2,774,316)	(85,489)	(33,668)	(4,683,906)
Credit impairment (losses)/reversal	(5,041)	68,231	(4,469)	–	709	59,430
<b>Operating profit</b>	<b>2,131,489</b>	<b>1,425,215</b>	<b>2,036,496</b>	<b>1,125,852</b>	<b>442,294</b>	<b>7,161,346</b>
Share of profits and losses of associates	–	–	–	(8,378)	772	(7,606)
<b>Profit before income tax</b>	<b>2,131,489</b>	<b>1,425,215</b>	<b>2,036,496</b>	<b>1,117,474</b>	<b>443,066</b>	<b>7,153,740</b>
Income tax expense						(1,624,092)
<b>Net profit for the year</b>						<b>5,529,648</b>
Total assets	15,488,935	87,014,335	139,656,556	12,514,812	30,994,987	285,669,625
Total liabilities	16,183,468	85,453,116	110,649,632	9,039,119	7,449,556	228,774,891
Other segment information:						
Depreciation and amortization	149,436	165,847	160,601	62,815	33,835	572,534
Capital expenditure	75,797	87,787	84,729	25,809	16,144	290,266

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 5 OPERATING SEGMENT INFORMATION (Continued)

	Year ended 31 December 2018					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	3,315,909	2,138,373	814,164	963,236	–	7,231,682
Interest income	–	4,199,034	1,954,304	38,181	572,675	6,764,194
Net investment gains	–	–	1,903,580	513,318	–	2,416,898
Other income	2,445	43,926	(6,524)	10,323	28,898	79,068
<b>Total revenue and other income</b>	<b>3,318,354</b>	<b>6,381,333</b>	<b>4,665,524</b>	<b>1,525,058</b>	<b>601,573</b>	<b>16,491,842</b>
Segment expenses	(1,509,888)	(6,282,873)	(3,805,570)	(601,349)	(248,593)	(12,448,273)
Including: Interest expenses	(88,586)	(2,232,980)	(2,328,462)	(120,822)	–	(4,770,850)
Credit impairment losses	(4,096)	(1,094,400)	(51,767)	(2,970)	(672)	(1,153,905)
<b>Operating profit</b>	<b>1,808,466</b>	<b>98,460</b>	<b>859,954</b>	<b>923,709</b>	<b>352,980</b>	<b>4,043,569</b>
Share of profits and losses of associates	–	–	–	9,865	(1,991)	7,874
<b>Profit before income tax</b>	<b>1,808,466</b>	<b>98,460</b>	<b>859,954</b>	<b>933,574</b>	<b>350,989</b>	<b>4,051,443</b>
Income tax expense						(948,015)
<b>Net profit for the year</b>						<b>3,103,428</b>
Total assets	162,883	63,400,418	101,417,703	14,750,587	15,350,722	195,082,313
Total liabilities	2,275,166	64,834,560	63,544,538	10,846,805	5,717,847	147,218,916
Other segment information:						
Depreciation and amortization	64,851	78,799	63,149	24,443	18,367	249,609
Capital expenditure	43,034	53,225	42,052	21,781	12,773	172,865



## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 6 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2019	2018
Brokerage services income	3,557,079	2,849,065
Investment banking income	3,869,173	3,315,909
Asset and fund management income	1,082,148	963,236
Others	124,265	103,472
Total	<u>8,632,665</u>	<u>7,231,682</u>

### 7 INTEREST INCOME

	Year ended 31 December	
	2019	2018
Margin financing and securities lending	1,955,265	2,743,325
Bank deposits	1,801,032	1,555,543
Financial assets at fair value through other comprehensive income	1,259,229	1,215,444
Financial assets held under resale agreements	1,221,991	1,222,325
Financial assets at amortized costs	5,530	27,320
Others	—	237
Total	<u>6,243,047</u>	<u>6,764,194</u>

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019  
(In RMB thousands, unless otherwise stated)

### 8 NET INVESTMENT GAINS

	Year ended 31 December	
	2019	2018
Net gains from disposal of financial assets at fair value through other comprehensive income	157,198	89,402
Net gains from disposal of financial assets at amortized costs	1,088	–
Net gains from financial assets at fair value through profit or loss	5,140,331	889,718
Dividend income from financial assets at fair value through other comprehensive income	102,022	262,695
Net losses from financial liabilities at fair value through profit or loss	(14,313)	(74,667)
Net (losses)/gains from derivatives	(472,730)	1,585,289
Net gains attributable to other interest holders of consolidated structured entities	(507,086)	(360,833)
Gains on disposal of an associated company	–	25,294
<b>Total</b>	<b>4,406,510</b>	<b>2,416,898</b>

### 9 OTHER INCOME

	Year ended 31 December	
	2019	2018
Government grants	50,137	28,143
Commodity trading income	27,721	–
Rental income	13,790	16,160
Gains on disposal of property, plant and equipment	334	231
Net gains/(losses) on foreign exchange	287	(22,371)
Others	32,903	56,905
<b>Total</b>	<b>125,172</b>	<b>79,068</b>

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 10 EXPENSES

	Year ended 31 December	
	2019	2018
<b>Fee and commission expenses:</b>		
Brokerage expenses	710,396	557,809
Investment banking expenses	184,525	181,250
Others	112,700	63,688
	<u>1,007,621</u>	<u>802,747</u>
<b>Interest expenses:</b>		
Bonds in issue and short-term financing instruments payable	2,888,236	2,818,937
Financial assets sold under repurchase agreements	1,175,727	1,106,105
Placements from banks and other financial institutions	310,131	555,027
Accounts payable to brokerage clients	178,936	155,269
Lease liabilities	39,356	
Borrowings	26,442	64,389
Others	65,078	71,123
	<u>4,683,906</u>	<u>4,770,850</u>
<b>Staff costs (including directors' and supervisors' remuneration):</b>		
Salaries, bonuses and allowances	3,982,057	3,212,391
Staff benefits	427,119	431,745
Contributions to defined contribution schemes (i)	300,378	309,946
	<u>4,709,554</u>	<u>3,954,082</u>

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 10 EXPENSES (Continued)

**(i) Retirement benefits are included, and their nature is described below:**

Full-time employees of the Group in Mainland China are covered by various government-sponsored retirement plans including social pension schemes and corporate pension schemes, under which the employees are entitled to a monthly pension. Relevant government agencies determine the amount of pension benefits and are responsible for the related pension liabilities to eligible retired employees. The Group is required to make monthly contributions to these government-sponsored retirement plans for active employees, which are expensed as incurred. The Group has no obligation for post-retirement benefits beyond these contributions.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries or regions outside of Mainland China.

Other operating expenses and costs:

	Year ended 31 December	
	2019	2018
Depreciation and amortization expenses	572,534	249,609
Business travel expenses	173,848	167,330
Electronic equipment operating expenses	159,209	179,196
Office operating expenses	128,333	119,414
Business entertainment expenses	105,287	93,970
Postal and communication expenses	100,647	97,243
Membership fees of exchanges	89,602	68,837
Securities investor protection fund	60,520	47,318
Vehicle operating expenses	59,503	61,812
Leasing expenses	55,525	367,058
Auditors' remuneration	6,450	4,389
Including: Audit service	6,226	3,927
Non-audit service	224	462
Others	294,342	230,585
Total	1,805,800	1,686,761

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 11 DIRECTORS' AND SUPERVISORS' REMUNERATION

(1) Details of the directors' and supervisors' remuneration before tax are as follows:

Name	Year ended 31 December 2019					Total remuneration before tax
	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	
<b>Executive Directors</b>						
Wang Changqing (Chairman)						
Current year	1,996	1,400	–	–	117	3,513
31 December 2015	–	–	2,530	–	–	2,530
31 December 2014	–	–	4,000	–	–	4,000
Li Geping (President) (ii)						
Current year	1,870	1,400	–	–	112	3,382
<b>Non-executive Directors</b>						
Yu Zhongfu	–	–	–	–	–	–
Zhang Qin (iii)	–	–	–	–	–	–
Zhu Jia (iii)	–	–	–	–	–	–
Wang Hao	–	–	–	–	–	–
Wang Bo (iii)	–	–	–	–	–	–
Xu Gang	–	–	–	–	–	–
Dong Shi (iv)	–	–	–	–	–	–
<b>Independent Non-executive Directors</b>						
Feng Genfu	–	–	–	210	–	210
Zhu Shengqin	–	–	–	210	–	210
Dai Deming	–	–	–	210	–	210
Bai Jianjun	–	–	–	210	–	210
Liu Qiao	–	–	–	210	–	210
<b>Supervisors</b>						
Li Shihua						
Current year	1,442	1,700	–	–	95	3,237
31 December 2015	–	–	2,530	–	–	2,530
31 December 2014	–	–	3,100	–	–	3,100
Lin Xuan (v)						
Current year	1,594	1,500	–	–	91	3,185
31 December 2015	–	–	4,000	–	–	4,000
Zhao Ming (vi)						
Current year	794	2,000	–	–	61	2,855
Lu Ya (x)						
Current year	285	–	–	–	24	309
31 December 2015	–	–	2,600	–	–	2,600
Ai Bo	–	–	–	–	–	–
Zhao Lijun (v)	–	–	–	–	–	–
Total	7,981	8,000	18,760	1,050	500	36,291

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 11 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration before tax are as follows (Continued):

Name	Year ended 31 December 2018					Total remuneration before tax
	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	
<b>Executive Directors</b>						
Wang Changqing (Chairman)						
Current year	2,067	1,750	–	–	122	3,939
31 December 2013	–	–	4,000	–	–	4,000
Qi Liang (President) (vii)						
Current year	840	1,800	–	–	48	2,688
31 December 2013	–	–	4,000	–	–	4,000
Li Geping (President)						
Current year (ii)	1,602	–	–	–	93	1,695
<b>Non-executive Directors</b>						
Yu Zhongfu	–	–	–	–	–	–
Dong Shi (iv)	–	–	–	–	–	–
Zhang Qin (iii)	–	–	–	–	–	–
Zhu Jia (iii)	–	–	–	–	–	–
Wang Hao	–	–	–	–	–	–
Wang Bo (iii)	–	–	–	–	–	–
Xu Gang	–	–	–	–	–	–
Wang Chenyang (viii)	–	–	–	–	–	–
Wang Shouye (viii)	–	–	–	–	–	–
Hu Donghui (viii)	–	–	–	–	–	–
<b>Independent Non-executive Directors</b>						
Feng Genfu	–	–	–	230	–	230
Zhu Shengqin	–	–	–	230	–	230
Dai Deming	–	–	–	230	–	230
Bai Jianjun	–	–	–	230	–	230
Liu Qiao	–	–	–	230	–	230
<b>Supervisors</b>						
Li Shihua						
Current year	1,482	1,800	–	–	100	3,382
31 December 2013	–	–	2,000	–	–	2,000
Ai Bo	–	–	–	–	–	–
Zhao Lijun (v)	–	–	–	–	–	–
Lu Ya (x)						
Current year	1,171	1,860	–	–	93	3,124
31 December 2014	–	–	1,100	–	–	1,100
Lin Xuan (v)						
Current year	1,533	2,400	–	–	96	4,029
31 December 2014	–	–	1,900	–	–	1,900
Wu Lili (ix)	465	220	–	–	69	754
Wang Jing (ix)	–	–	–	–	–	–
Liu Hui (ix)	–	–	–	–	–	–
<b>Total</b>	<b>9,160</b>	<b>9,830</b>	<b>13,000</b>	<b>1,150</b>	<b>621</b>	<b>33,761</b>

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 11 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

#### (1) Details of the directors' and supervisors' remuneration before tax are as follow (Continued):

- (i) For the year ended 31 December 2019, Executive Director Wang Changqing received deferred bonuses for the year ended 31 December 2015 of RMB2.53 million and for the year ended 31 December 2014 of RMB4.00 million, Supervisor Li Shihua received deferred bonuses for the year ended 31 December 2015 of RMB2.53 million and for the year ended 31 December 2014 of RMB3.10 million, Supervisor Lin Xuan received deferred bonuses for the year ended 31 December 2015 of RMB4.00 million, Supervisor Lu Ya received deferred bonuses for the year ended 31 December 2015 of RMB2.60 million.

For each of the years ended 31 December 2019 and 31 December 2018, no directors and supervisors waived their remuneration. For non-executive directors and supervisors whose remuneration were not paid by the Group was shown as zero in tables.

- (ii) Li Geping was appointed as executive director in April 2018.
- (iii) Zhang Qin, Zhu Jia and Wang Bo were appointed as non-executive director in April 2018.
- (iv) Dong Shi resigned as non-executive director in November 2019.
- (v) Lin Xuan and Zhao Lijun were appointed as supervisor in April 2018.
- (vi) Zhao Ming was appointed as supervisor in April 2019.
- (vii) Qi Liang resigned as Executive Director in April 2018.
- (viii) Wang Chenyang, Wang Shouye and Hu Donghui resigned as non-executive director in April 2018.
- (ix) Wu Lili, Wang Jing and Liu Hui resigned as supervisor in April 2018.
- (x) Lu ya resigned as supervisor in April 2019.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 11 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

#### (2) Other benefits and rights of directors and supervisors

For each of the years ended 31 December 2019 and 31 December 2018, no emoluments were paid by the Group to any of the persons who were directors, or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office. Except for the contributions to social pension schemes and corporate pension schemes, there were no other retirement benefits for directors or supervisors; meanwhile, there were no consideration provided to third parties for making available directors' and supervisor' services.

For each of the years ended 31 December 2019 and 31 December 2018, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly. In addition, the Group did not provide any guarantees or securities to certain controlled body corporates and connected entities of the directors or supervisors in respect of their loans, quasi-loans or credit transactions.

### 12 FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2019 and 31 December 2018, the five highest paid employees excluded directors and supervisors are as follows:

	Year ended 31 December	
	2019	2018
Salaries, allowances and other benefits	6,397	10,053
Discretionary bonuses	24,390	18,747
Discretionary deferred bonuses	34,704	6,500
Retirement benefits	440	403
Total	<u>65,931</u>	<u>35,703</u>



## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 12 FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of these individuals whose remuneration fell within the following bands is set out below:

	Year ended 31 December	
	2019	2018
RMB6,000,001 to RMB7,000,000 yuan	–	1
RMB7,000,001 to RMB8,000,000 yuan	–	4
RMB11,000,001 to RMB12,000,000 yuan	1	–
RMB13,000,001 to RMB14,000,000 yuan	3	–
RMB14,000,001 to RMB15,000,000 yuan	1	–
Total	<u>5</u>	<u>5</u>

For each of the years ended 31 December 2019 and 31 December 2018, no remunerations were paid by the Group to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

### 13 CREDIT IMPAIRMENT (REVERSES)/LOSSES

	Year ended 31 December	
	2019	2018
Financial assets at fair value through other comprehensive income	17,254	5,819
Margin financing	(53,203)	1,075,771
Financial assets held under resale agreements	(22,729)	75,071
Financial assets at amortized costs	(5,079)	(7,552)
Others	4,327	4,796
Total	<u>(59,430)</u>	<u>1,153,905</u>

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 14 INCOME TAX EXPENSE

#### (1) Income tax

	Year ended 31 December	
	2019	2018
Current income tax		
– Mainland China	1,383,477	882,244
– Hong Kong	(14,139)	24,651
Subtotal	1,369,338	906,895
Deferred income tax	254,754	41,120
Total	1,624,092	948,015

#### (2) Reconciliation between income tax and accounting profit

A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate of 25% to income tax expense at the Group's effective income tax rate is as follows:

	Year ended 31 December	
	2019	2018
Profit before income tax	7,153,740	4,051,443
Income tax at the PRC statutory income tax rate	1,788,435	1,012,861
Effects of different applicable rates of tax prevailing in various jurisdictions	(3,579)	(13,407)
Non-deductible expenses	26,721	20,501
Non-taxable income	(103,942)	(75,291)
Others	(83,543)	3,351
Income tax expenses at the Group's effective income tax rate	1,624,092	948,015

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 15 DIVIDENDS

	Year ended 31 December	
	2019	2018
Dividends on ordinary shares proposed but not paid	1,376,349	1,376,351
Distribution to other equity instrument holders (Note 16(i))	371,418	294,000

A final dividend of RMB2.35 (tax inclusive) per 10 ordinary shares related to the year of 2019, amounting to RMB1,797 million (tax inclusive) in total has been proposed by the directors and is subject to approval by the ordinary equity holders in the annual general meeting.

A cash dividend of RMB1.80 (tax inclusive) per 10 ordinary shares related to the year of 2018, amounting to RMB1,376 million (tax inclusive) in total and based on 7,646,385,238 shares was approved at the annual general meeting held on 25 June 2019.

A cash dividend of RMB1.80 (tax inclusive) per 10 ordinary shares related to the year of 2017, amounting to RMB1,376 million (tax inclusive) in total and based on 7,646,385,238 shares was approved at the 2018 second extraordinary general meeting held on 30 October 2018.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 16 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic earnings per share was calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding. The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December	
	2019	2018
<b>Earnings:</b>		
Profit attributable to equity holders of the Company	5,501,688	3,087,460
Less: Profit attributable to other equity instrument holders of the Company <sup>(i)</sup>	(371,418)	(294,000)
Profit attributable to ordinary equity holders of the Company	5,130,270	2,793,460
<b>Shares:</b>		
Weighted average number of ordinary shares in issue (thousand) (Note 44)	7,646,385	7,458,988
Basic and diluted earnings per share (in RMB yuan)	0.67	0.37

There were no dilutive shares during the years ended 31 December 2019 (years ended 31 December 2018: None).

- (i) The Company issued a tranche of perpetual subordinated bonds during the year ended 31 December 2019 and issued two tranches of perpetual subordinated bonds during the year ended 31 December 2015, under the terms and conditions as detailed in Note 45 Other Equity Instruments.

For the purpose of calculating basic earnings per ordinary share, profit attributable to other equity holders was deducted from the profit attributable to ordinary equity holders of the Company.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 17 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
<b>Cost</b>								
1 January 2019	431,472	609,670	37,173	7,670	80,046	9,199	38,548	1,213,778
Increases	3,552	154,919	282	574	1,490	450	961	162,228
Decreases	(6,961)	(67,461)	(759)	(769)	(3,727)	(799)	(1,223)	(81,699)
31 December 2019	428,063	697,128	36,696	7,475	77,809	8,850	38,286	1,294,307
<b>Accumulated depreciation</b>								
1 January 2019	(122,179)	(491,714)	(33,116)	(6,218)	(70,140)	(7,194)	(31,841)	(762,402)
Increases	(12,593)	(80,745)	(1,517)	(500)	(5,950)	(596)	(1,983)	(103,884)
Decreases	690	67,611	736	746	3,676	754	1,204	75,417
31 December 2019	(134,082)	(504,848)	(33,897)	(5,972)	(72,414)	(7,036)	(32,620)	(790,869)
<b>Net carrying amount</b>								
31 December 2019	293,981	192,280	2,799	1,503	5,395	1,814	5,666	503,438
<b>Cost</b>								
1 January 2018	431,472	573,243	37,551	7,326	78,539	9,216	36,647	1,173,994
Increases	-	50,746	563	432	3,072	347	1,913	57,073
Decreases	-	(14,319)	(941)	(88)	(1,565)	(364)	(12)	(17,289)
31 December 2018	431,472	609,670	37,173	7,670	80,046	9,199	38,548	1,213,778
<b>Accumulated depreciation</b>								
1 January 2018	(110,467)	(411,852)	(31,960)	(5,642)	(62,181)	(6,922)	(29,767)	(658,791)
Increases	(11,712)	(93,388)	(2,069)	(662)	(9,493)	(625)	(2,086)	(120,035)
Decreases	-	13,526	913	86	1,534	353	12	16,424
31 December 2018	(122,179)	(491,714)	(33,116)	(6,218)	(70,140)	(7,194)	(31,841)	(762,402)
<b>Net carrying amount</b>								
31 December 2018	309,293	117,956	4,057	1,452	9,906	2,005	6,707	451,376

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 18 RIGHT-OF-USE ASSETS

	Properties and buildings	Others	Total
<b>Cost</b>			
31 December 2018			
Change in accounting policy	791,437	257,053	1,048,490
1 January 2019	791,437	257,053	1,048,490
Increases	386,516	1,268	387,784
Decreases	(1,348)	–	(1,348)
Foreign currency translation differences	4,226	–	4,226
31 December 2019	1,180,831	258,321	1,439,152
<b>Accumulated depreciation</b>			
31 December 2018			
Change in accounting policy	–	–	–
1 January 2019	–	–	–
Increases	(299,964)	(37,553)	(337,517)
Decreases	667	–	667
Foreign currency translation differences	(294)	–	(294)
31 December 2019	(299,591)	(37,553)	(337,144)
<b>Net carrying amount</b>			
31 December 2019	881,240	220,768	1,102,008
31 December 2018			

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 19 INTANGIBLE ASSETS

	Trading seat		
	Software	rights and others	Total
<b>Cost</b>			
1 January 2019	429,994	75,938	505,932
Increases	115,829	–	115,829
Decreases	(3,308)	–	(3,308)
Foreign currency translation differences	81	10	91
31 December 2019	<u>542,596</u>	<u>75,948</u>	<u>618,544</u>
<b>Accumulated amortization</b>			
1 January 2019	(249,417)	(69,600)	(319,017)
Increases	(66,737)	–	(66,737)
Decreases	3,078	–	3,078
Foreign currency translation differences	50	–	50
31 December 2019	<u>(313,026)</u>	<u>(69,600)</u>	<u>(382,626)</u>
<b>Net carrying amount</b>			
31 December 2019	<u>229,570</u>	<u>6,348</u>	<u>235,918</u>
<b>Cost</b>			
1 January 2018	354,791	75,918	430,709
Increases	74,770	–	74,770
Decreases	(39)	–	(39)
Foreign currency translation differences	472	20	492
31 December 2018	<u>429,994</u>	<u>75,938</u>	<u>505,932</u>
<b>Accumulated amortization</b>			
1 January 2018	(191,217)	(69,600)	(260,817)
Increases	(57,910)	–	(57,910)
Decreases	39	–	39
Foreign currency translation differences	(329)	–	(329)
31 December 2018	<u>(249,417)</u>	<u>(69,600)</u>	<u>(319,017)</u>
<b>Net carrying amount</b>			
31 December 2018	<u>180,577</u>	<u>6,338</u>	<u>186,915</u>

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019  
(In RMB thousands, unless otherwise stated)

### 20 INVESTMENTS IN SUBSIDIARIES

	31 December 2019	31 December 2018
Investments in subsidiaries	5,333,123	4,093,123

General information of the Company's principal subsidiaries are as follows:

Name of subsidiaries	Principal operating place	Place of registration	Registered share capital	Proportion of voting rights		Directly/ Indirectly hold	Principal activities
				As at 31 December 2019	2018		
China Futures Co., Ltd.	Chongqing	Chongqing	RMB700 million	100%	100%	Directly	Futures brokerage
China Capital Management Co., Ltd. (i)	Beijing	Beijing	RMB1,650 million	100%	100%	Directly	Project investment
China Securities (International) Finance Holding Co., Ltd.	Hong Kong	Hong Kong	Not applicable	100%	100%	Directly	Shareholding and investment
China Fund Management Co., Ltd.	Beijing	Beijing	RMB300 million	55%	55%	Directly	Funds business, asset management
China Securities Investment Co., Ltd. (i)	Beijing	Beijing	RMB3,700 million	100%	100%	Directly	Investment management, equity investment management, investment consultancy and project management

- (i) During the year 2019, the Company increased capital investment of RMB100 million and RMB1,140 million in China Capital Management Co., Ltd. and China Securities Investment Co., Ltd., respectively.
- (ii) China Securities (International) Finance Holding Co., Ltd. is registered as a limited company according to the laws of Hong Kong, China. Others are registered as limited liability companies according to the laws of the People's Republic of China.



## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 21 INVESTMENTS IN ASSOCIATES

	31 December 2019	31 December 2018
Investments in associates	269,512	162,713

The following table illustrates details of investments in associates:

Name	1 January 2019	Increase	Decrease	Movement using the equity method	31 December 2019
Zhongguancun Equity Trading Service Group Co., Ltd.	47,565	-	-	(1,741)	45,824
Jiangsu DDBS Environment Remediation Co., LTD	44,075	-	-	1,137	45,212
Beijing Tinavi Medical Technology Co., Ltd.	23,723	-	-	(3,706)	20,017
Guangdong South Lead TV & Film Co., Ltd.	30,000	-	-	(2,237)	27,763
CITIC City Development Equity Investment Fund Management (Shenzhen) Co., Ltd.	-	116,857	-	1,161	118,018
Shenzhen MALONG TECHNOLOGIES Co., Ltd.	15,000	-	-	(3,574)	11,426
Beijing Haifu Capital Management Co., Ltd.	1,250	-	-	2	1,252
Xinjin Global Industrial Fund LP	1,100	-	(1,100)	-	-
<b>Total</b>	<b>162,713</b>	<b>116,857</b>	<b>(1,100)</b>	<b>(8,958)</b>	<b>269,512</b>

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 21 INVESTMENT IN ASSOCIATES (Continued)

Name	1 January 2018	Increase	Decrease	Movement using the equity method	31 December 2018
Zhongguancun Equity Trading Service Group Co., Ltd.	48,424	-	-	(859)	47,565
Jiangsu DDBS Environment Remediation Co., LTD	42,066	-	-	2,009	44,075
Beijing Tinavi Medical Technology Co., Ltd.	25,000	-	(1,277)	-	23,723
Guangdong South Lead TV & Film Co., Ltd.	30,000	-	-	-	30,000
CITIC Agri Fund Management Co., Ltd	2,070	-	(2,070)	-	-
CITIC City Development Equity Investment Fund Management (Shenzhen) Co., Ltd.	38,482	-	(46,337)	7,855	-
CITIC Engineering Equity Investment Fund Management (Wuhan) Co., Ltd.	5,250	-	(5,250)	-	-
Shenzhen MALONG TECHNOLOGIES Co., Ltd.	15,000	-	-	-	15,000
Beijing Haifu Capital Management Co., Ltd.	-	1,250	-	-	1,250
Xinjin Global Industrial Fund LP	-	1,100	-	-	1,100
<b>Total</b>	<b>206,292</b>	<b>2,350</b>	<b>(54,934)</b>	<b>9,005</b>	<b>162,713</b>

As at 31 December 2019 and 31 December 2018, given there was no sign of impairment on the Group's investments in associates, no impairment allowance was made.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	31 December 2018
<b>Current</b>		
Financial assets at fair value through profit or loss		
Debt instruments	50,723,715	30,800,069
Equity investments	8,073,044	2,381,992
Fund investments	8,081,851	5,016,279
Others	21,581,292	16,149,404
Subtotal	88,459,902	54,347,744
Analyzed into:		
Listed in Hong Kong	1,768,887	1,183,452
Listed outside Hong Kong	69,129,269	37,985,448
Unlisted	17,561,746	15,178,844
Subtotal	88,459,902	54,347,744
<b>Non-current</b>		
Financial assets at fair value through profit or loss		
Equity investments	3,103,611	1,954,384
Others	192,420	1,023,942
Subtotal	3,296,031	2,978,326
Analyzed into:		
Listed outside Hong Kong	1,141,393	190,240
Unlisted	2,154,638	2,788,086
Subtotal	3,296,031	2,978,326
Total	91,755,933	57,326,070

## Notes to the Consolidated Statements (Continued)

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*For the year ended 31 December 2019*

*(In RMB thousands, unless otherwise stated)*

### **22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)**

As at 31 December 2019, the fair value of financial assets pledged as collateral for repurchase agreements (Note 37), placements from China Securities Finance Corporation Limited (“CSF”), short-term borrowings (Note 40), futures business and securities borrowing business by the Group totaled RMB39,212.31 million (31 December 2018: RMB22,019.04 million).

As at 31 December 2019, financial assets held by the Group included securities lent amounted to RMB624.53 million (31 December 2018: RMB45.02 million).

As at 31 December 2019, the fair value of financial assets at fair value through profit or loss (mandatory) in restricted period held by the Group was RMB1,154.27 million. (31 December 2018: RMB18.09 million).

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019	31 December 2018
<b>Non-current</b>		
Equity instruments (i)	3,153,312	3,003,549
Analyzed into:		
Unlisted	3,153,312	3,003,549
<b>Current</b>		
Debt instruments	32,430,035	27,911,317
Equity instruments	60,488	54,263
Subtotal	32,490,523	27,965,580
Analyzed into:		
Listed in Hong Kong	890,954	54,263
Listed outside Hong Kong	31,599,569	27,861,137
Unlisted	–	50,180
Subtotal	32,490,523	27,965,580
Total	35,643,835	30,969,129

- (i) Equity instruments assets at fair value through other comprehensive income are the specific accounts invested by the Company together with several other securities companies and managed by CSF. According to the relevant contracts, risks and returns of the specific accounts are shared by the Company and other investing securities companies based on investment proportion and the accounts are operated and managed by CSF. The Company manages these financial assets for purposes other than to generate investment returns.

As at 31 December 2019, based on investment account report provided by CSF, the balance of cost and fair value of the Company's specific investment were RMB3,075.00 million and RMB3,153.31 million, respectively (31 December 2018: cost and fair value were RMB3,075.00 million and RMB3,003.55 million, respectively).

- (ii) As at 31 December 2019, the fair value of securities classified as financial assets at fair value through other comprehensive income of the Group which have been pledged as collateral for repurchase agreements (Note 37), placements from CSF, short-term borrowings (Note 40) and securities borrowing business were RMB24,019.91 million (31 December 2018: RMB20,429.96 million).

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 24 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	31 December 2019	31 December 2018
<b>Non-current</b>		
Analyzed by collateral:		
Stock	2,512,486	3,473,093
Allowance for impairment losses	(5,210)	(24,076)
Subtotal	2,507,276	3,449,017
<b>Current</b>		
Analyzed by collateral:		
Stock	12,561,744	10,462,732
Debts	6,036,856	9,841,933
Others	104,549	139,075
	18,703,149	20,443,740
Allowance for impairment losses	(91,669)	(95,520)
Subtotal	18,611,480	20,348,220
Total	21,118,756	23,797,237

The Group received securities as collateral in connection with financial assets under resale agreements, some of which are allowed to be re-pledged in the absence of default by counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral. The Group had an obligation to return the collateral to its counterparties at the maturity of the contracts.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 24 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

The fair value of the collateral received in connection with financial assets under resale agreements, the collateral allowed to be re-pledged and the collateral re-pledged were as below:

	31 December 2019	31 December 2018
Collateral received	56,537,257	40,733,860
Including: Collateral allowed to be re-pledged	187,314	1,056,752
Collateral re-pledged	83,282	887,603

### 25 REFUNDABLE DEPOSITS

	31 December 2019	31 December 2018
Performance bonds	2,400,221	1,330,872
Trading deposits	362,194	520,452
Credit deposits	31,196	29,230
Total	2,793,611	1,880,554

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 26 DEFERRED TAX ASSETS AND LIABILITIES

Changes of deferred tax assets and deferred tax liabilities are as follow:

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for credit impairment losses	Others	Total
1 January 2019	529,303	84,035	335,650	25,518	974,506
Credited/(debited) to the consolidated income statement	65,382	(69,378)	(40,064)	33,812	(10,248)
Credited/(debited) to other comprehensive income	–	(817)	51	373	(393)
31 December 2019	594,685	13,840	295,637	59,703	963,865

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for credit impairment losses	Others	Total
1 January 2018	631,255	88,000	50,077	8,130	777,462
Credited/(debited) to the consolidated income statement	(101,952)	74,454	284,950	17,388	274,840
Credited/(debited) to other comprehensive income	–	(78,419)	623	–	(77,796)
31 December 2018	529,303	84,035	335,650	25,518	974,506



## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 26 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Changes of deferred tax assets and deferred tax liabilities are as follow (Continued):

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
1 January 2019	331,291	11,351	342,642
Debited/(credited) to the consolidated income statement	253,632	(9,126)	244,506
Debited/(credited) to other comprehensive income	73,626	100	73,726
31 December 2019	658,549	2,325	660,874

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
1 January 2018	23,628	1,859	25,487
Debited to the consolidated income statement	306,468	9,492	315,960
Debited to other comprehensive income	1,195	–	1,195
31 December 2018	331,291	11,351	342,642

### 27 OTHER NON-CURRENT ASSETS

As at 31 December 2019 and 31 December 2018, other non-current assets of the Group primarily represented long-term deferred expenses incurred on leasehold improvements of property, plant and equipment.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019  
(In RMB thousands, unless otherwise stated)

### 28 MARGIN ACCOUNTS

	31 December 2019	31 December 2018
Margin accounts		
– Individuals	26,694,162	23,181,956
– Institutions	2,260,327	3,165,251
	28,954,489	26,347,207
Allowance for impairment losses	(1,148,349)	(1,199,124)
Total	27,806,140	25,148,083

Margin accounts are funds that the Group provided to clients in margin financing business. As at 31 December 2019 and 31 December 2018, no margin accounts were pledged for repurchase agreements (Note 37).

As at 31 December 2019, the Group received collateral with fair value amounted to RMB95,680.44 million (31 December 2018: RMB71,398.60 million), in connection with its margin financing business.

### 29 ACCOUNTS RECEIVABLE

	31 December 2019	31 December 2018
Clearing funds receivable	128,775	356,704
Assets management fee receivable	85,346	89,704
Clearing settlement fund and refundable deposits advanced on behalf of sponsored structured entities	24,494	24,106
Others (ii)	1,905,223	971,701
	2,143,838	1,442,215
Allowance for impairment losses	(6,972)	(2,177)
Total	2,136,866	1,440,038

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 29 ACCOUNTS RECEIVABLE (Continued)

- (i) ECL on account receivables arising from revenue recognized in accordance with IFRS 15 – Revenue, the Group is measured using simplified approach under IFRS9. ECL on other receivables is measured using the general approach and as at 31 December 2019, account receivables which measured using general approach was classified under Stage 1 (31 December 2018: Stage 1).
- (ii) As at 31 December 2019, others mainly included initial trading deposits for total return swaps of RMB1,655.19 million (31 December 2018: RMB667.57 million).

### 30 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2019		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	142,900,688	87	391
Equity derivatives	71,142,876	939,568	723,540
Credit derivatives	147,000	622	1,463
Others	5,088,463	15,173	36,178
<b>Total</b>	<b>219,279,027</b>	<b>955,450</b>	<b>761,572</b>

	As at 31 December 2018		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	89,898,955	10,734	10,158
Equity derivatives	89,161,627	1,224,396	159,452
Credit derivatives	60,000	–	347
Others	1,306,726	4,454	7,504
<b>Total</b>	<b>180,427,308</b>	<b>1,239,584</b>	<b>177,461</b>

Under the daily settlement arrangement, any gains or losses of the Group's positions in futures contracts, among others, were settled daily and the corresponding payments or receipts were included in "cash and bank balances". Accordingly, the amount of mark-to-market gains or losses of unexpired futures contracts, among others, included derivative financial instruments above was Nil. As at 31 December 2019, the fair value of the Group's unexpired futures contracts was negative RMB56.12 million (31 December 2018: positive RMB2.55 million).

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 31 CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated deposit accounts with banks and authorized institutions to hold cash on behalf of customers arising from its normal course of business. The Group has recorded the related amounts as cash held on behalf of clients and the corresponding liabilities as accounts payable to brokerage clients (Note 34). In Mainland China, the use of cash held on behalf of clients for securities trading and settlement is restricted and governed by relevant third-party custodian regulations issued by the CSRC. In Hong Kong, the “Securities and Futures (Client Money) Rules” under the Securities and Futures Ordinance impose similar restrictions.

### 32 CASH AND BANK BALANCES

	31 December 2019	31 December 2018
Cash on hand	23	38
Deposits in banks	47,221,032	17,055,771
Total	47,221,055	17,055,809

As at 31 December 2019, the Group had restricted deposits of RMB278.37 million (31 December 2018: RMB206.78 million).

### 33 OTHER CURRENT ASSETS

	31 December 2019	31 December 2018
Interest receivable (i)	33,749	35,957
Commodity Inventories	21,789	–
Prepaid expenses	12,285	9,979
Deferred expenses	6,981	43,794
Others	254,766	290,417
	329,570	380,147
Allowance for impairment losses	(37,855)	(38,847)
Total	291,715	341,300

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 33 OTHER CURRENT ASSETS (Continued)

- (i) As at 31 December 2019 and 31 December 2018, interest income of financial assets accrued under effective interest rate method, which was overdue but not received, was reflected in Interest receivable under other current assets. Interest receivable not yet due were included in the carrying amount of the related financial assets.

### 34 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

Accounts payable to brokerage clients represent the amounts received from and repayable to clients arising from the ordinary course of the Group's securities brokerage business. For more details, please refer to Cash Held on Behalf of Clients (Note 31).

### 35 LEASE LIABILITIES

	31 December 2019
<b>Non-current</b>	
Lease liabilities	735,122
<b>Current</b>	
Lease liabilities	340,140
Total	1,075,262

As at 31 December 2019, the Group's leases committed but not yet commenced were RMB41.22 million.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 36 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	31 December 2018
Current		
Financial liabilities at fair value through profit or loss (Held for trading)		
Debt instruments	518,161	1,252,581
Financial liabilities designated as at fair value through profit or loss		
Structured notes	608,183	–
Total	<u>1,126,344</u>	<u>1,252,581</u>

### 37 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	31 December 2019	31 December 2018
Current		
Analyzed by collateral:		
Debt securities (Notes 22 and 23)	43,014,064	25,247,836
Gold	4,612,845	833,097
Others (Notes 22)	7,906,066	6,450,942
Total	<u>55,532,975</u>	<u>32,531,875</u>

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 38 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
<b>Current</b>		
Placements from banks	8,243,359	–
Placements from CSF (Notes 22 and 23)	1,020,186	4,048,839
Total	<u>9,263,545</u>	<u>4,048,839</u>

### 39 TAXES PAYABLE

	31 December 2019	31 December 2018
<b>Current</b>		
Income tax	324,807	110,820
Value added tax	151,731	134,993
Others	124,056	57,168
Total	<u>600,594</u>	<u>302,981</u>

### 40 SHORT-TERM BORROWINGS

	31 December 2019	31 December 2018
<b>Current</b>		
Analyzed by nature:		
Credit borrowings	183,287	1,118,475
Mortgage borrowings (Notes 22 and 23)	705,725	–
Total	<u>889,012</u>	<u>1,118,475</u>

As at 31 December 2019 and 31 December 2018, the Group had variable-rate borrowings which carried interest at HIBOR or LIBOR plus a margin.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 41 SHORT-TERM FINANCING INSTRUMENTS PAYABLE

Name	Issue date	Maturity date	Coupon rate	1 January 2019	Increase	Decrease	31 December 2019
18 CSC D1	12/02/2018	28/01/2019	5.34%	3,046,921	574	(3,047,495)	-
18 CSC D2	14/05/2018	24/04/2019	4.70%	2,982,426	37,817	(3,020,243)	-
19 CSC CP001	25/04/2019	24/07/2019	3.00%	-	3,016,521	(3,016,521)	-
19 CSC CP002	24/05/2019	22/08/2019	2.99%	-	3,016,957	(3,016,957)	-
19 CSC CP003	14/06/2019	12/09/2019	3.06%	-	3,019,869	(3,019,869)	-
19 CSC CP004	12/07/2019	10/10/2019	2.70%	-	3,017,975	(3,017,975)	-
19 CSC CP005	16/09/2019	13/12/2019	2.75%	-	4,026,448	(4,026,448)	-
19 CSC CP006	09/10/2019	08/01/2020	2.88%	-	4,026,439	-	4,026,439
19 CSC CP007	24/10/2019	22/01/2020	3.02%	-	4,022,774	-	4,022,774
19 CSC CP008	11/12/2019	06/03/2020	3.05%	-	4,007,000	-	4,007,000
Structured notes <sup>(i)</sup>				7,724,359	25,065,979	(27,350,598)	5,439,740
Total				13,753,706	53,258,353	(49,516,106)	17,495,953

Name	Issue date	Maturity date	Coupon rate	1 January 2018	Increase	Decrease	31 December 2018
17 CSC D3	22/03/2017	22/03/2018	4.80%	3,112,438	23,277	(3,135,715)	-
17 CSC D4	21/07/2017	21/07/2018	4.74%	3,570,662	86,148	(3,656,810)	-
17 CSC D5	12/09/2017	12/09/2018	4.85%	4,965,232	165,256	(5,130,488)	-
17 CSC D6	20/11/2017	20/11/2018	5.20%	3,926,217	176,519	(4,102,736)	-
18 CSC D1	12/02/2018	28/01/2019	5.34%	-	3,046,921	-	3,046,921
18 CSC D2	14/05/2018	24/04/2019	4.70%	-	2,982,426	-	2,982,426
Structured notes <sup>(i)</sup>				12,517,218	52,085,115	(56,877,974)	7,724,359
Total				28,091,767	58,565,662	(72,903,723)	13,753,706

As at 31 December 2019 and 31 December 2018, there were no defaults related to any short-term financing instruments payable by the Group.

As at 31 December 2019 and 31 December 2018, the interests of short-term financing instruments payable measured by the effective interest rate method were included in the carrying amount of the related financial instruments, which amounted to RMB71.32 million and RMB265.66 million, respectively.



## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 41 SHORT-TERM FINANCING INSTRUMENTS PAYABLE (Continued)

- (i) As at 31 December 2019 and 31 December 2018, the Group had issued two types of structured notes. One type accrues interests at a fixed annual rate in the range of 2.70%-3.70% and 3.00%-5.20%, respectively. The other one accrues interests at floating rate linked to certain stock and commodity indexes.

### 42 OTHER CURRENT LIABILITIES

	31 December 2019	31 December 2018
Bonds in issue with maturity within one year (1)	22,751,549	7,202,701
Accounts payable to underwriting clients	15,069,150	24,667
Amounts due to other holders of consolidated structured entities at fair value	6,885,486	8,100,791
Salaries, bonuses and allowances payable	2,703,648	2,340,803
Settlement deposits payable	372,652	95,908
Dividends payable (Note 15)	371,418	294,000
Futures settlement risk funds payable	92,583	81,629
Provision	54,197	50,570
Securities investor protection fund payable	34,346	24,143
Funds payable to securities holders	6,047	6,090
Others (2)	4,258,641	2,775,741
Total	52,599,717	20,997,043

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 42 OTHER CURRENT LIABILITIES (Continued)

- (1) Bonds in issue with maturity within one year as at 31 December 2019 and 31 December 2018 were as follows:

		31 December 2019	31 December 2018
15 Xintou 01	(i)	1,828,260	–
CSCIFN15B2009	(ii)	1,404,677	–
16 Xintou G1	(iii)	–	3,056,832
16 Xintou G2	(iv)	–	1,516,000
17 CSC G1	(v)	4,124,345	–
17 CSC G2	(vi)	3,090,134	–
17 CSC F1	(vii)	5,104,367	–
17 CSC F2	(viii)	3,024,929	–
18 CSC F1	(ix)	4,172,538	–
“Zhi Yingbao”-070	(x)	–	1,554,066
“Zhi Yingbao”-078	(xi)	–	500,678
“Zhi Yingbao”-079	(xii)	–	503,970
Gushouxin series	(xiii)	2,299	71,155
Total		22,751,549	7,202,701

- (i) In August 2015, the Company publicly issued a 10-year fixed rate corporate bond with a face value of RMB1.8 billion, which offers the options, at the end of the fifth year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 4.20% per annum and is not guaranteed.
- (ii) In September 2015, the Company's subsidiary CSCI Finance (2015) Co., Ltd. publicly issued a 5-year fixed rate credit enhancement bond with a face value of USD0.2 billion. The bond pays interest semi-annually at 3.125% per annum and is unconditionally and irrevocably guaranteed by another subsidiary of the Company China Securities (International) Finance Holding Co., Ltd.
- (iii) In May 2016, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB3 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or the investors to put back the bond. The bond pays interest annually at 3.14% per annum and is not guaranteed. The bond was fully redeemed in May 2019.
- (iv) In August 2016, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB1.5 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or the investors to put back the bond. The bond pays interest annually at 2.90% per annum and is not guaranteed. The bond was fully redeemed in August 2019.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 42 OTHER CURRENT LIABILITIES (Continued)

- (1) Bonds in issue with maturity within one year as at 31 December 2019 and 31 December 2018 were as follows (Continued):
- (v) In April 2017, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 4.48% per annum and is not guaranteed.
  - (vi) In May 2017, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 4.88% per annum and is not guaranteed.
  - (vii) In July 2017, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB5 billion. The bond pays interest annually at 4.74% per annum and is not guaranteed.
  - (viii) In October 2017, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 5.07% per annum and is not guaranteed.
  - (ix) In March 2018, the Company privately issued a 2-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 5.43% per annum and is not guaranteed.
  - (x) In March 2017, the Company issued a 2-year fixed rate structured note, with a face value of RMB1.5 billion. The structured note pays interest annually at 4.60% per annum and is not guaranteed. The structured note was fully redeemed in March 2019.
  - (xi) In October 2018, the Company issued a 396-days fixed rate structured note, with a face value of RMB0.5 billion. The structured note pays interest quarterly at 4.50% per year and is not guaranteed. The structured note was fully redeemed in November 2019.
  - (xii) In October 2018, the Company issued a 397-days fixed rate structured note, with a face value of RMB0.5 billion. The structured note pays interest quarterly at 4.20% per year and is not guaranteed. The structured note was fully redeemed in November 2019.
  - (xiii) As at 31 December 2019, the Company had structured notes named "Gushouxin series" amounted to RMB2.35 million, which accrue interests at a fixed annual rate in the range of 3.10%~3.70%, of which the remaining tenure less than one year amounted to RMB2.30 million. As at 31 December 2018, the Company had two types of structured notes named "Gushouxin series" amounted to RMB71.16 million. One type accrues interests at a fixed annual rate in the range of 3.70%~5.00%, while the other type accrues interests at floating rate linked to one or more stock indices. The principal and interest of these structured notes are payable at maturity and are not guaranteed.
- (2) As at 31 December 2019, others mainly included initial trading deposits of total return swaps amounted to RMB2,343.03 million (31 December 2018: RMB1,275.69 million).

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 43 BONDS IN ISSUE

	31 December 2019	31 December 2018
Subordinated bonds in issue	19,942,512	5,023,481
Corporate bonds in issue	10,135,228	32,626,527
Financial bonds in issue	4,055,229	–
Structured notes in issue	52	–
Total	<u>34,133,021</u>	<u>37,650,008</u>

- (1) As at 31 December 2019 and 31 December 2018, there were no defaults related to any bonds in issue.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### (2) The details of bonds in issue

		31 December 2019	31 December 2018
Corporate bonds			
15 Xintou 01	42(1) (i)	–	1,826,094
CSCIFN15B2009	42(1) (ii)	–	1,377,817
17 Xintou G1	42(1) (v)	–	4,087,902
17 Xintou G2	42(1) (vi)	–	3,086,006
17 Xintou F1	42(1) (vii)	–	5,034,840
17 Xintou F2	42(1) (viii)	–	2,949,329
18 Xintou F1	42(1) (ix)	–	4,143,789
18 Xintou F2	(i)	4,097,300	4,092,222
18 Xintou F3	(ii)	3,511,197	3,505,710
18 Xintou F4	(iii)	2,526,731	2,522,818
Subtotal		10,135,228	32,626,527
Subordinated bonds			
18 Xintou C1	(iv)	5,026,758	5,023,481
19 CSC C1	(v)	5,690,575	–
19 CSC C2	(vi)	5,133,607	–
19 CSC C3	(vii)	4,091,572	–
Subtotal		19,942,512	5,023,481
Financial Bonds			
19 CSC Financial Bond 01	(viii)	4,055,229	–
Structured notes			
Gushouxin series	42(1) (xiii)	52	–
Carrying amount		34,133,021	37,650,008

(i) In April 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 5.12% per annum and is not guaranteed.

(ii) In July 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB3.5 billion. The bond pays interest annually at 4.86% per annum and is not guaranteed.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 43 BONDS IN ISSUE (Continued)

#### (2) The details of bonds in issue (Continued)

- (iii) In July 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB2.5 billion. The bond pays interest annually at 4.84% per annum and is not guaranteed.
- (iv) In November 2018, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5 billion. The bond pays interest annually at 4.38% per annum and is not guaranteed.
- (v) In January 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5.5 billion. The bond pays interest annually at 4.00% per annum and is not guaranteed.
- (vi) In April 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5 billion. The bond pays interest annually at 4.20% per annum and is not guaranteed.
- (vii) In May 2019, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB4 billion. The bond pays interest annually at 4.12% per annum and is not guaranteed.
- (viii) In August 2019, the Company publicly issued a 3-year fixed rate financial bond with a face value of RMB4 billion. The bond pays interest annually at 3.52% per annum and is not guaranteed.

### 44 SHARE CAPITAL

All shares issued by the Company are fully paid common shares, with a notional value of RMB1 per share. The number of shares and nominal value of the Company's share capital are as follows:

	31 December 2019	31 December 2018
Issued and fully paid ordinary shares of RMB1 each (in thousands)		
– A shares	6,385,361	6,385,361
– H shares	1,261,024	1,261,024
Total	<u>7,646,385</u>	<u>7,646,385</u>

The Company completed its initial public offering of A shares on the Shanghai Stock Exchange on 20 June 2018 whereby the Company issued 400,000,000 A shares with a face value of RMB1 per share for a total consideration of RMB2,068,697,180.29, resulting in a capital reserve of RMB1,668,697,180.29.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 45 OTHER EQUITY INSTRUMENTS

In January 2015, the Company issued first tranche of perpetual subordinated bonds amounted to RMB2 billion. In March 2015, the second tranche amounted to RMB3 billion was issued. In August 2019, the Company issued another tranche of perpetual subordinated bonds amounted to RMB5 billion.

Key terms and conditions relating to the above equity instruments are as follows:

- The bonds are repriced every 5 interest-accruing years, and at the end of the repricing cycle, the issuer has the option to extend the bonds for another repricing cycle (another five years) or redeem them in full;
- The bonds offer no redemption option to the investors so that investors cannot require the issuer to redeem their bonds during the duration of the bonds;
- The Company has the option to defer interest payment, except in the event of mandatory interest payments, so that at each interest payment date, the issuer may choose to defer the interest payment to the next payment date for the current period as well as all interests and accreted interests already deferred according to the related terms, without any limitation with respect to the number of deferrals. Mandatory interest payment events are limited to dividend distributions to ordinary equity holders and reductions of registered capital;
- The priority over repayment of the 2015 perpetual subordinated bonds is subordinated to the Company's general debts but senior to the Company's ordinary equity shares, unless in the event of winding up, closure or liquidation of the Company, investors of these bonds cannot require the Company to accelerate payment of bonds' principals. The priority over repayment of the 2019 perpetual subordinated bond is subordinated to the Company's general debts and other subordinated, unless in the event of liquidation of the Company, investors of these bonds cannot require the Company to accelerate payment of bonds' principals.

The perpetual subordinated bonds issued by the Company are classified as equity instruments, and recognized under equity in the consolidated statement of financial position. As at 31 December 2019, the interest accrued but not yet paid by the Company was RMB371 million. As at 31 December 2018, the interest accrued but not yet paid by the Company was RMB294 million, which was paid in the first half of 2019.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 46 RESERVES

The amounts of the Group's reserves and the related movements are presented in the consolidated statement of changes in equity.

#### (1) Capital reserve

Capital reserve primarily includes share premium arising from the issuance of new shares at prices in excess of par value.

#### (2) Surplus reserves

##### (i) Statutory surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its profit for the year for the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after this capitalization is not less than 25% of the registered capital immediately before capitalization.

##### (ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Company may also appropriate its after-tax profit for the year, as determined under China Accounting Standards for Business Enterprises, to its discretionary surplus reserve upon approval by the ordinary equity holders in Annual General Meeting. Subject to the shareholders' approval, the discretionary surplus reserve may be used to offset accumulated losses, if any, and may be converted into capital of the Company.

#### (3) General reserve

Pursuant to the requirements of regulatory authorities, including the Ministry of Finance and the CSRC, the Company is required to appropriate 10% of its profit for the year for the general risk reserve and 10% for the transaction risk reserve. These reserves may be used to offset accumulated losses of the Company but shall not be declared as dividends or converted into share capital.



## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 46 RESERVES (Continued)

#### (3) General reserve (Continued)

In addition, the Group as the mutual fund manager shall appropriate general risk reserve at a proportion of no less than 10% of management fee income. The appropriation could be suspended on condition that the ending balance of risk reserve reached 1% of the aggregate of net asset values of the mutual funds, which are under management, at the end of last quarter.

The Group as the mutual fund custodian shall appropriate general risk reserve at a proportion of no less than 2.5% of custodian fee income. The appropriation could be suspended on condition that the ending balance of risk reserve reached 0.25% of the aggregate of net asset values of the mutual funds, which are under custody, at the end of last quarter.

Regulatory reserves represent reserves that are established by subsidiaries and branches in certain countries or jurisdictions outside Mainland China in accordance with the regulatory requirements in their respective territories are also included herein.

#### (4) Investment revaluation reserve

The investment revaluation reserve represents the fair value changes of financial assets at fair value through other comprehensive income.

#### (5) Foreign currency translation reserve

The foreign currency translation reserve represents the exchange difference arising from the translation of the financial statements of the subsidiaries incorporated outside Mainland China with functional currencies other than RMB.

#### (6) Distributable profits

The Company's distributable profits are based on the retained profits of the Company as determined under China Accounting Standards for Business Enterprises and IFRSs, whichever is lower.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 47 CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash and bank balances	47,221,055	17,055,809
Less: Restricted deposits ( <i>Note 32</i> )	(278,373)	(206,776)
Interest receivable	(7,114)	(7,220)
Cash and cash equivalents	46,935,568	16,841,813

### 48 INTERESTS IN STRUCTURED ENTITIES

The Group is involved with structured entities primarily through investment management business. The Group determines whether to consolidate these structured entities depending on whether the Group has control over them.

#### (1) Structured entities included in consolidated financial statements

Considering that the Company acts as either the investment manager for the structured entities, or as principal in investing in the subordinated tranches or all of the shares issued by the structured entities, bearing most or all the risk of the products and obtaining most or all of the variable returns, the Group therefore consolidated these structured entities in its consolidated financial statements.

As at 31 December 2019 and 31 December 2018, total assets of consolidated structured entities, the Group's investments and maximum exposure arising from its investments in consolidated structured entities are as follows:

	31 December 2019	31 December 2018
Total assets	9,051,141	11,855,904
Investments	2,959,775	3,524,174
Maximum exposure	3,014,723	3,559,564

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 48 INTERESTS IN STRUCTURED ENTITIES (Continued)

#### (2) Interests in unconsolidated structured entities

##### (i) Structured entities sponsored by the Group

Unconsolidated structured entities sponsored by the Group primarily include asset management plans and investment funds sponsored by the Group. As the manager of these structured entities, the Group invests, on behalf of its customers, the funds raised in the assets as described in the investment plan related to each structured entity. The interests held by the Group in these unconsolidated structured entities primarily include investments held directly and/or management fees, commission and performance fee earned from managed structured entities. The Group concluded that it acted as an agent rather than a principal based on its assessment of the variable return derived from these structured entities. Therefore, these structured entities are not consolidated by the Group.

For the year ended 31 December 2019, the Group earned management fee, commission and performance fee amounted to RMB894.57 million (31 December 2018: RMB811.86 million) from unconsolidated structured entities sponsored by the Group, for which the Group held no interest in during and as at the end of the reporting year.

As at 31 December 2019 and 31 December 2018, the maximum exposure and the carrying amount of relevant balance sheet items of the Group arising from these unconsolidated structured entities, for which the Group held interests in as at the end of the reporting year, were set out as below:

	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss		
– Carrying amount	2,405,675	1,790,751
– Maximum exposure	2,430,393	1,818,061

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 48 INTERESTS IN STRUCTURED ENTITIES (Continued)

#### (2) Interests in unconsolidated structured entities (Continued)

##### (ii) Structured entities sponsored by third party financial institutions

As at 31 December 2019 and 31 December 2018, the amount of maximum exposure and the book value of relevant balance sheet items of the Group arising from the interest held of directly invested structured entities sponsored by third party financial institutions were equal, which set out as below:

	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss	28,270,622	21,127,138

### 49 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognized financial assets to third parties or customers. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognize the transferred assets.

#### Repurchase transactions

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under repurchase transactions. The counterparties are allowed to re-pledge those securities sold under repurchase transactions in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require counterparties to return part of collateral or be required to place additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognize them. A financial liability is recognized for cash received.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 49 TRANSFERRED FINANCIAL ASSETS (Continued)

#### Securities lending arrangements

Transferred financial assets that do not qualify for derecognition include securities lent to customers for securities selling transactions, for which the customers provide the Group with collateral that could fully cover the credit risk exposure of the securities lent. The customers have an obligation to return the securities according to the contracts. If the securities increase or decrease in value, the Group may in certain circumstances be required to return part of collateral or require counterparties to place additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognize them.

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties or customers that did not qualify for derecognition and their associated financial liabilities:

	31 December 2019	31 December 2018
Carrying amount of transferred assets		
– Financial assets sold under repurchase agreements	1,155,843	100,262
– Securities lending	624,531	45,016
Total	1,780,374	145,278
Carrying amount of related liabilities		
– Financial assets sold under repurchase agreements	1,059,736	100,143

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 50 COMMITMENTS AND CONTINGENT LIABILITIES

#### (1) Capital commitments

	31 December 2019	31 December 2018
Contracted, but not provided for	2,572	14,683

The above-mentioned capital commitments are primarily in respect of the construction of properties and purchase of equipment by the Group.

#### (2) Legal proceedings

The Company and its subsidiaries are subject to claims and are parties to legal and regulatory proceedings in their ordinary course of businesses. As at 31 December 2019 and 31 December 2018, management of the Group believes that the Group was not involved in any material legal, or arbitration proceedings that if adversely determined, would have material impact on its financial position or results of operations of the Group.

### 51 RELATED PARTY DISCLOSURES

#### (1) Beijing State-owned Capital Operation and Management Center

As at 31 December 2019, Beijing State-Owned Capital Operation and Management Center owned 35.11% of the equity interest and voting rights of the Company (31 December 2018: 35.11%).

Beijing State-Owned Capital Operation and Management Center was established by State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality, which is a People-owned enterprise controlled by the PRC government.

The transactions between Beijing State-owned Capital Operation and Management Center and the Group are in the ordinary course of business under normal commercial terms and conditions. Corresponding transactions and balances with this institution were as follows:

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 51 RELATED PARTY DISCLOSURES (Continued)

#### (1) Beijing State-owned Capital Operation and Management Center (Continued)

	Year ended 31 December	
	2019	2018
Fee and commission income	14,667	8
Interest expense	(20)	(15)

	31 December	31 December
	2019	2018
Financial assets at fair value through profit or loss	70,623	–
Financial assets at fair value through other comprehensive income	31,283	–
Accounts payable to brokerage clients	3	5,247

#### (2) Central Huijin and companies under Central Huijin

As at 31 December 2019, Central Huijin Investment Limited (“Central Huijin”) owned 31.21% of the equity interest and voting rights of the Company (31 December 2018: 31.21%).

Central Huijin is a wholly-owned subsidiary of China Investment Corporation, which is incorporated in Beijing, the PRC. Central Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the China State Council and does not engage in other commercial activities. Central Huijin exercises its legal rights and assumes obligations related to the Company on behalf of the PRC Government. Central Huijin has equity interests in certain other banks and financial institutions under the direction of the PRC government.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 51 RELATED PARTY DISCLOSURES (Continued)

#### (2) Central Huijin and companies under Central Huijin (Continued)

The Group enters into transactions with Central Huijin and its related parties in the ordinary course of business under normal commercial terms. Corresponding transactions and balances with these banks and financial institutions were as follows:

	Year ended 31 December	
	2019	2018
Fee and commission income	106,132	108,349
Interest income	242,334	215,264
Fee and commission expenses	(73,930)	(38,968)
Interest expense	(104,668)	(126,387)

	31 December 2019	31 December 2018
<b>Assets</b>		
Financial assets at fair value through other comprehensive income	277,987	484,786
Financial assets at fair value through profit or loss	1,089,795	858,624
Financial assets held under resale agreements	–	370,663
Derivative financial assets	60,067	81,332
Cash held on behalf of client	7,841,551	5,619,507
Cash and bank balances	1,681,302	1,591,835
Accounts receivable	35,405	19,159
Right of use assets	2,390	–
<b>Liabilities</b>		
Accounts payable to brokerage clients	4,907	1,630
Derivative financial liabilities	15,156	9,661
Financial assets sold under repurchase agreements	500,642	898,307
Short-term borrowings	89,598	–
Accounts payable	118,556	153,894
Lease liabilities	2,387	–



## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 51 RELATED PARTY DISCLOSURES (Continued)

#### (3) Government related entities

According to the provisions of IAS 24 – Related Parties Disclosures, government entities controlled and jointly controlled by the PRC government and their subsidiaries (the “government related entities”) are also regarded as related parties of the Group.

Part of the Group’s transactions including securities and futures dealing and broking, underwriting of debt securities, purchase and sale of government bonds, and equity and debt securities issued by other government related entities are entered into with government related entities.

Directors of the Company consider that transactions with government related entities are activities conducted in the ordinary course of business under normal commercial terms and conditions, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the counterparties are government related entities.

#### (4) Other major shareholders and its related parties

	Year ended 31 December	
	2019	2018
Fee and commission income	107,407	26,742
Interest income	62,760	48,315
Fee and commission expenses	(37,158)	(36,787)
Interest expense	(47,477)	(28,319)

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 51 RELATED PARTY DISCLOSURES (Continued)

#### (4) Other major shareholders and its related parties (Continued)

	31 December 2019	31 December 2018
Assets		
Financial assets at fair value through other comprehensive income	260,516	544,144
Financial assets at fair value through profit or loss	117,375	57,743
Financial assets held under resale agreement	–	103,576
Derivative financial assets	6,229	2,618
Cash held on behalf of client	2,925,033	1,195,192
Cash and bank balance	623,182	780,482
Accounts receivable	10,527	11,610
Liabilities		
Accounts payable to brokerage clients	33,766	148,181
Derivative financial liabilities	16,774	7,427
Financial assets sold under repurchase agreements	579,585	–
Short-term borrowings	–	877,525
Accounts payable	26,507	2,009

#### (5) The Group's associates

The Group entered into transactions with its associates at arm's length in the ordinary course of business. Management considers that transactions between the Group and its associates are not significant.

#### (6) Key management personnel

Key management personnel are those who have the authority and responsibility to directly or indirectly plan, direct and control the Group activities, including the board of directors, the board of supervisors and other senior management personnel.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 51 RELATED PARTY DISCLOSURES (Continued)

#### (6) Key management personnel (Continued)

The Group's remuneration paid for key management personnel are disclosed as follow:

	Year ended 31 December	
	2019	2018
Salaries, bonuses and allowances	134,968	87,113
Staff benefits	1,296	1,986
Contributions to defined contribution schemes	1,641	1,701
Total	137,905	90,800

### 52 FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

#### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: where the inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2: where the inputs are observable for the assets and liabilities, either directly or indirectly, other than quoted prices in Level 1.

Level 3: where the inputs are unobservable inputs for relevant assets or liabilities.

## Notes to the Consolidated Statements (Continued)

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*For the year ended 31 December 2019*

*(In RMB thousands, unless otherwise stated)*

### **52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)**

The Group uses valuation techniques or counterparty quotations to determine fair value when market prices are not available in active markets.

The major parameters used in valuation techniques include, among others, underlying securities prices, interest rates, foreign exchange rates, volatilities, which are all observable and available from an active market.

For certain unlisted equity securities (private equity securities), thinly traded equity securities, unlisted asset management plans, certain over-the-counter derivative contracts and trust plans, the management uses counterparty quotations or valuation techniques to determine their fair value. Valuation techniques used primarily include discount cash flow model, option pricing model and comparable companies methods, etc. The fair value measurement of these financial instruments may use unobservable inputs that may have significant impact on the valuation results, and therefore, the Group includes them as Level 3 assets and liabilities. The unobservable parameters that may have impacts on the valuation include, among others, weighted average cost of capital, liquidity discount, price to book ratio and volatility of underlying assets. As at 31 December 2019 and 31 December 2018, fair value changes resulting from the changes in the unobservable inputs were not significant. The Group has implemented internal control procedures to monitor and control the Group's exposures to such financial instruments.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

#### (1) Financial instruments recorded at fair value

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt instruments	5,559,555	45,155,332	8,828	50,723,715
– Equity investments	8,500,768	157,020	2,518,867	11,176,655
– Fund investments	5,439,702	2,642,149	–	8,081,851
– Others	–	20,088,269	1,685,443	21,773,712
Subtotal	19,500,025	68,042,770	4,213,138	91,755,933
Derivative financial assets	65,015	714,681	175,754	955,450
Financial assets at fair value through other comprehensive income				
– Debt instruments	830,466	31,597,072	2,497	32,430,035
– Equity instruments	60,488	3,153,312	–	3,213,800
Subtotal	890,954	34,750,384	2,497	35,643,835
Total assets	20,455,994	103,507,835	4,391,389	128,355,218
Financial liabilities at fair value through profit or loss				
– Financial liabilities held for trading	–	518,161	–	518,161
– Financial liabilities designated as at fair value through profit or loss	–	–	608,183	608,183
Subtotal	–	518,161	608,183	1,126,344
Derivative financial liabilities	66,622	308,662	386,288	761,572
Total liabilities	66,622	826,823	994,471	1,887,916

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

#### (1) Financial instruments recorded at fair value (Continued)

	31 December 2018			Total
	Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss				
– Debt instruments	6,176,097	24,523,712	100,260	30,800,069
– Equity investments	2,254,471	314,217	1,767,688	4,336,376
– Fund investments	2,981,307	2,034,972	–	5,016,279
– Others	–	15,193,498	1,979,848	17,173,346
Subtotal	11,411,875	42,066,399	3,847,796	57,326,070
Derivative financial assets	4,454	373,976	861,154	1,239,584
Financial assets at fair value through other comprehensive income				
– Debt instruments	290,849	27,620,468	–	27,911,317
– Equity instruments	54,263	3,003,549	–	3,057,812
Subtotal	345,112	30,624,017	–	30,969,129
Total assets	11,761,441	73,064,392	4,708,950	89,534,783
Financial liabilities at fair value through profit or loss	–	1,252,581	–	1,252,581
Derivative financial liabilities	7,504	126,258	43,699	177,461
Total liabilities	7,504	1,378,839	43,699	1,430,042

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

#### (2) Movements in Level 3 financial instruments measured at fair value

Movements in Level 3 financial instruments measured at fair value in each year are as follow:

	Year ended 31 December 2019				
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities
1 January 2019	3,847,796	–	861,154	–	43,699
Total gains/(losses) for the year	220,853	–	(386,514)	4,041	219,286
Total gains recorded in other comprehensive income	–	(12,285)	–	–	–
Increases	1,916,099	–	367,493	604,142	902,124
Decreases	(1,878,024)	–	(666,379)	–	(778,821)
Transfers to Level 3 from Level 1	8,682	11,079	–	–	–
Transfers to Level 3 from Level 2	97,732	3,703	–	–	–
31 December 2019	<u>4,213,138</u>	<u>2,497</u>	<u>175,754</u>	<u>608,183</u>	<u>386,288</u>
Gains/(Losses) for the year included in profit or loss for assets/liabilities held at the end of the year	220,853	–	(386,514)	(4,041)	(219,286)

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

#### (2) Movements in Level 3 financial instruments measured at fair value (Continued)

Movements in Level 3 financial instruments measured at fair value in each year are as follow (Continued):

	Year ended 31 December 2018			
	Financial assets at fair value through profit or loss	Derivative financial assets	Financial liabilities at fair value through profit or loss	Derivative financial liabilities
1 January 2018	1,499,428	18,529	11,640	97,664
Total gains or losses for the year	125,629	997,805	19,835	(408,034)
Increases	2,842,252	24,820	–	386,703
Decreases	(564,824)	(180,000)	(31,475)	(32,634)
Transfers to Level 3 from Level 2	5,941	–	–	–
Transfers to Level 1 from Level 3	(60,630)	–	–	–
31 December 2018	<u>3,847,796</u>	<u>861,154</u>	<u>–</u>	<u>43,699</u>
Gains for the year included in profit or loss for assets/ liabilities held at the end of the year	125,629	997,805	(19,835)	408,034



## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

#### (3) Important unobservable input value in fair value measurement of Level 3

The fair value of financial instruments under Level 3 are primarily determined by discount cash flow model, option pricing model and comparable companies methods, etc. Determinations, etc to classify fair value measures within Level 3 of the valuation hierarchy are primarily based on the significance of the unobservable inputs which mainly include weighted average cost of capital, liquidity discount, price to book ratio, volatility of underlying assets and others to the overall fair value measurement.

#### (4) Transfers between Level 1 and Level 2

During the year ended 31 December 2019, the amount of financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income transferred from Level 1 to Level 2 were RMB40.86 million and RMB9.95 million, respectively (2018: RMB66.26 million and RMB10.11 million).

#### (5) Financial assets and financial liabilities not measured at fair value

The information below summarizes the carrying amounts and fair values of those financial assets and liabilities not measured at fair value in the consolidated statement of financial position. As at 31 December 2019 and 31 December 2018, financial assets and financial liabilities for which the carrying amounts approximate fair value, included financial assets held under resale agreements, refundable deposits, margin accounts, accounts receivable, cash held on behalf of clients, cash and bank balances, lease liabilities, accounts payable to brokerage clients, financial assets sold under repurchase agreements, placements from banks and other financial institutions, short-term borrowings and short-term financing instruments payable.

As at 31 December 2019 and 31 December 2018, the carrying amounts and fair value of bonds in issue (including bonds in issue with maturity within one year) are summarized below:

	31 December 2019	31 December 2018
Bonds in issue (including bonds in issue with maturity within one year)		
– Carrying amount ( <i>Notes 42 and 43</i> )	56,884,570	44,852,709
– Fair value	57,441,093	45,263,891

## Notes to the Consolidated Statements (Continued)

*For the year ended 31 December 2019*

*(In RMB thousands, unless otherwise stated)*

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT

#### Overview

The management considers effective risk management a critical element in ensuring the Company's successful operations. Therefore, the Company has established a set of comprehensive risk management and internal control systems to enable the Company to monitor, evaluate and manage various financial risks in its business activities, including primarily credit risk, market risk and liquidity risk and operational risk.

#### Structure of risk management

##### *The Board*

The Board of Directors is the Company's highest decision-making body in risk management, the executive management is the execution body, and while different units are responsible for directly managing the risks they face in their business or operational activities. The Company has three dedicated risk control departments, namely the Risk Management Department, the Legal and Compliance Department and the Internal Audit Department, which independently monitor and manage risks before the event, during the event and after the event, as per their respective roles and responsibilities.

The Board of Directors is the Company's highest decision-making body in risk management, which makes decisions with respect to the Company's overall risk management strategies and policies, internal control arrangements, and actions to address material risks faced by the Company, among other things.

The Risk Management Committee under the Board of Directors is responsible for supervising the overall risk management of the Company and ensuring the associated risks are adequately managed so that risk management activities can be effectively carried out through the Company's business and operating activities. The Board Risk Management Committee also has the following responsibilities: preparing the overall risk management policies for the Board's deliberation; determining the strategic structure and resources for risk management so that they are aligned with the internal risk management policies; setting limits for major risks; and supervising and reviewing the risk management policies and making recommendations to the Board.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Structure of risk management (Continued)

##### *The Operation Management*

The Company's Executives Committee makes overall decisions with respect to the prevention, control, mitigation, or acceptance of risks in the Company's business and operating activities and makes decisions on efforts to improve the internal control rules and procedures and control measures in accordance with the risk management policies adopted by the Board.

The Company Risk Management Committee of the Executives Committee is responsible for discussing and proposing the Company's risk preference and tolerance as well as key risk limits for further decision-making; review and approval of specific risk limits and risk control criteria for each business lines; drafting and promoting the implementation of various risk management rules and measures; review and approval of new businesses and products; review and approval of the Company's risk reports; and formulating risk control strategies and plans for material business matters.

The Chief Risk Officer of the Company is responsible for leading risk management activities across the Company, including organizing the formulation of relevant risk management rules and procedures, improving the Company's risk management practices, and guiding the Risk Management Department in the identification, evaluation, monitoring and reporting of various risks.

##### *The Department, Branch and Subsidiary*

Each and every department and branch/subsidiary of the Company, within their respective roles and responsibilities, is responsible for following the decisions, rules and procedures, and risk control policies, and implementing risk-control measures and engaging in direct risk control efforts in their business activities. Every staff of the Company has the responsibility to comply with the Company's relevant rules and procedures and contribute to daily risk control efforts as part of their own job responsibilities.

## Notes to the Consolidated Statements (Continued)

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*For the year ended 31 December 2019*

*(In RMB thousands, unless otherwise stated)*

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### **Structure of risk management** (Continued)

##### ***The Department, Branch and Subsidiary*** (Continued)

The Risk Management Department that is responsible for risk management of the Company, the Legal and Compliance Department that is responsible for legal affairs and compliance management, and the Internal Audit Department that is responsible for the Company's internal audit activities are the three independent risk management functions that establish their own rules and procedures and operate independently to promote risk management of the Company. Specifically, the Risk Management Department is responsible for risk management before and during the event through risk monitoring and assessment, the Legal Compliance Department is responsible for managing the overall legal and compliance risks of the Company, and the Internal Audit Department is responsible for conducting audits to identify material defects in key rules and procedures and processes, as well as internal control weakness, and supervising corrections and rectifications.

In addition, pursuant to the needs of risk management in investment banking business, along with regulatory requirements, the Company has established the internal review department. Through such review at the firm level, the Company conducts final risk control prior to the delivery of investment banking projects, and assumes the decision making responsibility of the ultimate approval of materials and documents to be submitted, reported, issued or disclosed in the name of the Company.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk management activities

The Risk Management Department works with business and management departments to identify major risks during the course of different business and management activities, issue the Risk classification and Key Control List, and continue to update the same in light of business changes and monitoring findings.

The Company establishes a before-the-event risk control mechanism. It focuses on each of the main business lines to formulate specific risk limits and risk control standards, and has explicit procedures of risk control; the Risk Management Department and the Legal and Compliance Department have participated in the before-the-event evaluation for important projects and the operation system, and have expressed their opinions independently; important risk control parameters are directly under the management and control of the Risk Management Department, which also conducts independent verification for valuation model of financial instruments before going online.

The Risk Management Department formulates the risk monitoring processes and indicators for key business and management lines. In particular, risk monitoring indicators for brokerage business, proprietary business, securities financing business, and asset management business as well as risk control indicators including net capital are monitored through the monitoring system, while the risk monitoring for other business or management lines primarily relies on regular and ad hoc monitoring by means of on-site monitoring, risk information reporting, data access and regular meetings.

The Company also formulates operational process for risk assessment, and determines main assessment methods and qualitative and quantitative risk rating criteria for various types of risks. The Risk Management Department assesses and rates the risk matters on an ongoing basis, evaluates the control of major business risks on a regular basis, and conducts comprehensive year-end assessments of the risk control process, risk events and positions, and risk incidents of the departments, branches and subsidiaries as a key component of their performance assessment.

## Notes to the Consolidated Statements (Continued)

*For the year ended 31 December 2019*

*(In RMB thousands, unless otherwise stated)*

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### **Risk management activities** (Continued)

The Company has formulated guidelines for various types of risk management and control, including market risk, credit risk, operational risk, liquidity risk and reputation risk, in order to guide and regulate the response to risks in various business lines. The Company has established crisis management mechanism and programs, and has formulated effective contingency measures and plans for various businesses, especially for key risks and emergencies such as liquidity crisis and accidents on transaction system, while emergency response mechanism has been established and is drilled sporadically on a regular or irregular basis.

The Company is responsible for building mechanisms for communicating and reporting risk information and significant risk warnings, communicating and managing risk information and providing significant risk warnings. The Risk Management Department is responsible for formulating operational procedures for communicating and reporting risk information and issuing risk warnings, and the departments and branches and subsidiaries report risk information or issue warnings on potential risks identified by themselves to the Risk Management Department. The Risk Management Department then manages the risk information, performs comprehensive analyses on various risk information to identify risk control weaknesses and loopholes and propose recommendations on improving risk control, reports significant risks to the Chief Risk Officer and executive management or a Risk Management Committee, and at the same time, communicates risk information to relevant departments, while tracking any follow-up activities. The Risk Management Department prepares risk reports and risk control recommendation reports according to the results on risk identification, monitoring and assessment, and reports the findings to involved parties and the executive management of the Company. The Risk Management Department continuously monitors risks and the risk control status by following up on the implementation of risk control recommendations by relevant parties in managing risks identified in the risk reports.

#### **Risk analysis and control**

Financial risks in the Company's daily operating activities primarily include market risk, liquidity risk, credit risk, and operational risk. The Company has established specific policies and procedures to identify and address these risks, set out appropriate risk limits and internal control processes to manage these risks, and built integrated control system and information technology systems to continuously monitor these risks.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk

Credit risks refer to the risks of an economic loss caused by the failure of customers, counterparties or issuers of debt financing instruments (also referred to as financiers) to perform their contractual obligations..

Credit risks of the Company relating to the securities financing business, which includes margin financing and stock pledge repurchase agreement, are primarily attributed to a decline in value, or insufficient liquidity of collateral provided by customers; customers' failure to repay debts in full in a timely manner due to legal disputes over collateral assets; and operational misconducts including fraudulent credit information, violation of contracts and regulatory requirements. Control over credit risks for the securities financing business is managed primarily through risk management education programmes for customers, credit due diligence and verification of customers, risk assessment on collateralized (pledged) securities, setup of trading limits, daily mark to market of exposure, issuing risk notification to customers, margin calls, forced position liquidation and legal recourse. The Company performs an assessment of the need for any allowance for impairment in accordance with the ECL model of the accounting standards of IFRS 9, and actively carry out debt recovery activities for defaulting customers

Credit risk relating to bond investments are primarily due to the decline in the creditworthiness of credit issuer of the debt financing instruments or defaults, counterparty defaults. The Company carry out due diligence for issuers and counterparties, establishes internal ratings for issuers, debts and counterparties. And manages the access and size of transactions according to the internal and external rating, and sets a number of credit limits to control risks on credit facilities, including minimum ratings for credit products and maximum credit exposure of a single borrower. In 2019, due to the increasing number of default cases in the bond market, the Company further tightened the quality of its investment portfolio, post-investment tracking mechanism and credit risk management measures.

The Company controls credit risks relating to over-the-counter derivative transactions by setting counterparty ratings and credit lines, and setting limits on the size of transactions and related credit risk exposures before transactions can take place. The Company monitors and controls credit risk exposure of counterparties within established limits by adopting mark-to-market practices of derivative transactions and related collateral as well as forced position liquidating procedures.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

In order to manage the credit risk arising from the brokerage business, securities brokerage transactions in mainland China are all settled on a fully pledged basis, which enables settlement risks associated with brokerage business to be well under control. The Company strictly complies with relevant trading and settlement rules and procedures to eliminate non-compliant financing operations for clients. The Company strictly implements relevant trading and settlement rules to prevent inappropriate customer financing. In addition, for repurchase agreement transaction, through due diligence, establishment of reasonable customer limits and haircut on collateral bonds, setting standards for minimum collateral level of qualified securities and leverage ratios, concentration limits for single securities used as collateral and other measures, the Company prevents customer under-collateralisation. For option transactions, the Company through measures including margin deposit management, limits setting and forced liquidation control to manage customers' credit risk.

Furthermore, the Company's Risk Management Department monitors credit risk on an ongoing basis, including tracking the qualifying credit status of counterparties and bond issuers, monitoring the collateral coverage of securities and financial business, requiring the business department to fulfill its post-investment management duties, as well as using stress testing and sensitivity analysis, amongst other techniques, to measure the credit risk of major business lines.

##### *Expected credit loss measurement*

The measurement of the ECL allowance for debt instruments, including investments in financial assets measured at amortized cost and FVOCI is an area that requires the use of models and assumptions about the future economic conditions and credit behavior of the clients (such as the likelihood of customers defaulting and the resulting losses).



## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

###### *Expected credit loss measurement (Continued)*

The Group has applied a 'three-stage' impairment model for ECL measurement based on changes in credit quality since the initial recognition of financial assets as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified as "Stage 1" and has its credit risk continuously monitored by the Group;
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired;
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".

Stage 1: The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL;

Stage 2 and Stage 3: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. The Group has measured the loss allowance for these financial instruments at an amount equal to the lifetime ECL.

For securities financing business and debt securities investments classified under Stages 1 and 2, management assesses credit loss allowances using the risk parameter modelling approach that incorporated key parameters, including probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). For credit-impaired financial assets classified under Stage 3, management assessed the credit loss allowances by estimating the cash flows expected to arise from the financial assets after taking into consideration forward looking factors.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

###### *Expected credit loss measurement (Continued)*

Based on the obligors' credit quality, operation situation, contract maturity date, the volatility and liquidity of related collateral securities, and related performance information, the Company sets differentiated collateral to loan ratios as triggering margin calls and force liquidation thresholds (force liquidation thresholds generally no less than 130%) against different exposures related to these transactions.

- Securities financing business with collateral to loan ratios above the force liquidation thresholds and those past due for no more than 30 days are classified under Stage 1.
- Securities financing business with collateral to loan ratios fall below the pre-determined force liquidation thresholds but above 100%; or those past due for more than 30 days but no more than 90 days are classified under Stage 2.
- Securities financing business with collateral to loan ratios fall below 100%; or those past due for more than 90 days are classified under Stage 3.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

###### *Expected credit loss measurement (Continued)*

The measurement of ECL adopted by the management according to IFRS 9, involves judgements, assumptions and estimations.

- Choosing appropriate models and assumptions for the measurement of ECL;
- Determining criteria for significant increase in credit risk (“SICR”), and definitions of defaults or credit impairment;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

###### Measuring ECL – inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired.

ECL are the discounted product of the PD after considering the forward-looking impact, EAD, and LGD.

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. For securities financing business, the Company determines the PD by borrower based on factors including the coverage ratio of margin loan to underlying collateral value and the volatility of such collateral’s valuation. For debt securities investments, external credit rating and related PD are taken into consideration.
- LGD represents the Group’s expectation of the extent of loss on a defaulted exposure. For securities financing business, the Company determines LGD, based on factors including the realizable value of collateral upon forced liquidation taking into consideration the estimated volatility over the realization period. For debt securities investments, LGD is determined based on assessed publicly available information from credit rating agencies, and type of securities.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

###### *Expected credit loss measurement (Continued)*

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

The criteria of Significant increase in credit risk

The Company evaluates financial instruments to identify whether a SICR has occurred since initial recognition at each financial statement date. An ECL allowance of financial assets is recognized according to the stage in which the assets are classified. This took account of what reasonable information, including forward looking information, is available to identify whether a SICR had arisen. The Company considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

The Company considered securities financing business to have experienced a SICR if collateral to loan ratios are lower than the force liquidation thresholds, which means collateral valuation is decline, or the quality of the third-party collateral is significantly reduced. As at 31 December 2019, over 90% of the securities financing balances of the Company were covered by collateral value of over the force liquidation thresholds of related loan or repo amounts and there was no SICR.

For debt securities investments, the Company makes use of open market credit ratings. The Company considers debt securities investments to have experienced a SICR if the latest external ratings of the issuers of debt securities or the debt securities themselves underwent two notches of downward migration or more, compared with those ratings as at the acquisition date; and if the latest external rating (China Lianhe Credit Rating Co., Ltd.) of issuers of debt securities or the debt securities themselves were under the predetermined grading of A-. As 31 December 2019, all the debt securities investments of the Company have been rated as investment grade or above and there was no SICR.

A backstop is applied to all relevant financial assets and they are considered to have experienced a SICR if the borrower, the counterparty, the issuer or the debtor is more than 30 days past due on its contractual payments.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

###### *Expected credit loss measurement (Continued)*

The criteria of Significant increase in credit risk (Continued)

The Company has used the low credit risk exemption for financial instruments, such as cash and bank accounts, settlement reserve, refundable deposits, financial assets held under resale agreements collateralized by debt securities.

Definition of credit-impaired assets

The Company assesses whether a financial instrument is credit-impaired in accordance with IFRS 9, in a manner consistent with its internal credit risk policies for managing financial instruments. The consideration includes quantitative criteria and qualitative criteria. The Company defines a financial instrument as credit-impaired, which is fully aligned with the definition of “in default”, when it meets one or more of the following criteria:

- The borrower is more than 90 days past due on its contractual payments;
- For securities financing business, forced liquidation of a client’s position is triggered based on a predetermined threshold of loan to collateral ratios; whereby the collateral valuation falls short of the related loan or repo amounts;
- The latest external ratings of issuers of debt securities or debt securities themselves are in default grade;
- The debtor, issuer, borrower or counterparty is in significant financial difficulty;
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the Company relating to the debtor, issuer, borrower or counterparty’s financial difficulty;
- It is becoming probable that the debtor, issuer, borrower, or counterparty will enter bankruptcy or undertake a financial restructuring.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

###### *Expected credit loss measurement (Continued)*

###### Definition of credit-impaired assets (Continued)

When a financial asset is considered to be credit-impaired, it may be the result of multiple events, not due to a separately identifiable event.

###### Forward-looking information

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Company has performed historical data analysis and identified the key economic variables impacting credit risk and ECL for each financial instrument portfolio. Key economic variables mainly include the growth rate of Domestic Gross Domestic Product (GDP), Producer Price Index (PPI) and the Interest Rate of Renminbi Loans. The impact of these economic variables on the PD, EAD and LGD has been determined by performing historical statistical regression analysis to forecast the expected changes in these variables on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Company's Expert team also provided other possible scenarios along with scenario weightings. The number of other scenarios used is set based on an analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each financial statement date.

At 31 December 2019 and 31 December 2018, for all portfolios the Company concluded that three scenarios appropriately captured non-linearities of key economic variables. The scenario weightings are determined by a combination of statistical analysis and expert judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

The assessment of SICR is performed using the Lifetime PD under each of the base, and other scenarios, multiplied by the associated scenario weighting. The Group measures ECL as either a probability weighted 12 month ECL or a probability weighted lifetime ECL. These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

###### *Expected credit loss measurement (Continued)*

###### Forward-looking information (Continued)

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes as at the financial statement date.

###### Sensitivity analysis

The allowance for credit losses is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, weighting applied to economic scenarios and other factors considered when applying expert judgement. Changes in these inputs, assumptions and judgements are likely to have an impact on the assessment of SICR and the measurement of ECLs.

As mentioned above, the Company adopts three scenarios for all portfolios, being the optimistic scenario, base scenario and pessimistic scenario. A sensitivity analysis was applied to these scenarios as at 31 December 2019 and the results were as follows:

- (i) The incremental impact on the ECL allowance of applying the probability weighted scenarios was no more than a 5% deviation from the base ECL scenario.
- (ii) The decremental impact on the ECL allowance of increasing the weighting applied to the optimistic scenario by 10% and a corresponding reduction of 10% weighting applied to the base scenario was no more than 5% of the ECL allowance.
- (iii) The incremental impact of shifting 10% of the weighting from the base case scenario to the pessimistic scenario was no more than 5% of the ECL allowance.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

###### *Expected credit loss measurement (Continued)*

###### Sensitivity analysis (Continued)

Meanwhile, the Company also uses sensitivity analysis to monitor the impact of changes to the credit risk classification of financial assets on ECL. As at 31 December 2019, assuming there was no SICR since initial recognition, and all the financial assets in Stage 2 were moved to Stage 1, the decremental impact on ECL recognized in financial statements would be less than 5% of the ECL allowance.

###### Collateral and other credit enhancements

The Company employed a range of policies and credit enhancements to mitigate credit risk exposure to an acceptable level. The most common of these is accepting collateral for funds advanced or guarantee. The Company determined the type and amount of collateral according to the credit risk evaluation of counterparties. The collateral under margin financing and reverse repurchase agreements is primarily stocks, debt securities, funds etc. The management would test the market value of collateral periodically, and send margin calls according to related agreements, also monitor the market value fluctuation of collaterals when reviewing the measurement of the loss allowance.

###### Loss ratio

Loss ratio applied by the Company on its Margin accounts and stock pledged repurchase business under the Stage 1, Stage 2 and Stage 3 were 0.23%, 1.35% and 50.08%, respectively

###### Credit risk exposure analysis

As at 31 December 2019 and 31 December 2018, the credit quality of the Group's financing exposures to customers was in good condition, and over 90% of the margin accounts and financial assets held under resale agreements of the Group were with collateral to loan ratios of over 130%. High threshold of margin loans to collateral ratios indicated that PD was low. For debt securities investments, the Group employed open market credit ratings. Majority of the Group's debt securities investments of the Company were rated as investment grade (AA) or above according to China Lianhe Credit Rating Co.,Ltd.



## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

*Expected credit loss measurement (Continued)*

Credit risk exposure analysis (Continued)

The Group's maximum exposure to credit risk without taking into account of any collateral and other credit enhancements:

	31 December 2019	31 December 2018
Financial assets at fair value through other comprehensive income	32,430,035	27,911,317
Financial assets at amortized costs	–	187,063
Financial assets held under resale agreements	21,118,756	23,797,237
Refundable deposits	2,793,611	1,880,554
Margin accounts	27,806,140	25,148,083
Financial assets at fair value through profit or loss	79,179,041	52,754,080
Derivative financial assets	955,450	1,239,584
Cash held on behalf of clients	52,695,657	33,698,335
Deposits in banks	47,221,032	17,055,771
Others	2,399,811	1,737,544
Total maximum credit risk exposure	266,599,533	185,409,568

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

	31 December 2019			Total
	Stage of ECL			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit- impaired)	
<b>Financial assets held under resale agreements</b>				
Carrying amount	19,835,841	374,703	1,005,091	21,215,635
Loss allowance	(27,466)	(5,075)	(64,338)	(96,879)
Book value	<u>19,808,375</u>	<u>369,628</u>	<u>940,753</u>	<u>21,118,756</u>
Including: Stock pledged repurchase business				
Carrying amount	13,649,571	374,703	1,005,091	15,029,365
Loss allowance	(26,862)	(5,075)	(64,338)	(96,275)
Collateral	<u>47,569,964</u>	<u>992,840</u>	<u>1,594,753</u>	<u>50,157,557</u>
<b>Margin accounts</b>				
Carrying amount	27,766,695	8	1,187,786	28,954,489
Loss allowance	(67,013)	(1)	(1,081,335)	(1,148,349)
Book value	<u>27,699,682</u>	<u>7</u>	<u>106,451</u>	<u>27,806,140</u>
<b>Financial assets at fair value through other comprehensive income</b>				
Book value	<u>32,422,774</u>	<u>4,764</u>	<u>2,497</u>	<u>32,430,035</u>
Loss allowance	(10,514)	(1,558)	(15,366)	(27,438)

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

	31 December 2018			Total
	Stage of ECL			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit- impaired)	
<b>Financial assets held under resale agreements</b>				
Carrying amount	22,610,412	1,198,686	107,735	23,916,833
Loss allowance	(48,389)	(51,546)	(19,661)	(119,596)
Book value	<u>22,562,023</u>	<u>1,147,140</u>	<u>88,074</u>	<u>23,797,237</u>
Including: Stock pledged repurchase business				
Carrying amount	12,629,404	1,198,686	107,735	13,935,825
Loss allowance	(47,875)	(51,546)	(19,661)	(119,082)
Collateral	<u>28,745,076</u>	<u>1,564,314</u>	<u>88,074</u>	<u>30,397,464</u>
<b>Margin accounts</b>				
Carrying amount	24,266,356	203,243	1,877,608	26,347,207
Loss allowance	(88,946)	(5,485)	(1,104,693)	(1,199,124)
Book value	<u>24,177,410</u>	<u>197,758</u>	<u>772,915</u>	<u>25,148,083</u>
<b>Financial assets at fair value through other comprehensive income</b>				
Book value	<u>27,901,206</u>	<u>6,408</u>	<u>3,703</u>	<u>27,911,317</u>
Loss allowance	<u>(7,978)</u>	<u>(1,227)</u>	<u>(1,005)</u>	<u>(10,210)</u>
<b>Financial assets at amortized cost</b>				
Carrying amount	192,120	–	–	192,120
Loss allowance	(5,057)	–	–	(5,057)
Book value	<u>187,063</u>	<u>–</u>	<u>–</u>	<u>187,063</u>

## Notes to the Consolidated Statements (Continued)

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*For the year ended 31 December 2019*

*(In RMB thousands, unless otherwise stated)*

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

The movements of loss allowance is mainly affected by:

- Increases are primarily attributable to new financial instruments recognized, changes in PD and LGD affected by market changes and the resulted movements amongst Stage 1, Stage 2 and Stage 3;
- Reverses includes the reversal caused by the redemption or disposal of financial assets, the impact of changes in model assumptions and updates of model parameters and assumption;
- Transfers between stages due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired, and the corresponding measurement basis changes between the 12-month (12M) or the Lifetime basis; and
- Foreign exchange and other movements includes changes in foreign exchange translations for assets denominated in foreign currencies and other movements.

The Group's credit risk exposure of financial instruments for which an ECL allowance is recognized as follows according to the stage of ECL:

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

(i) Credit loss allowance for financial assets held under resale agreements

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit- impaired)	
1 January 2019	48,389	51,546	19,661	119,596
Increases	15,964	3,818	34,156	53,938
Reverses	(32,892)	(23,498)	(20,277)	(76,667)
Write-offs	–	–	–	–
Transfer:				
Stage 1 to stage 2	(1,414)	1,414	–	–
Stage 1 to stage 3	(4,220)	–	4,220	–
Stage 2 to stage 3	–	(26,578)	26,578	–
Stage 2 to stage 1	1,627	(1,627)	–	–
Foreign exchange and other movements	12	–	–	12
31 December 2019	27,466	5,075	64,338	96,879

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

(i) Credit loss allowance for financial assets held under resale agreements (Continued)

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit- impaired)	
1 January 2018	44,497	–	–	44,497
Increases	8,390	48,588	19,314	76,292
Reverses	(1,221)	–	–	(1,221)
Write-offs	–	–	–	–
Transfer:				
Stage 1 to stage 2	(2,958)	2,958	–	–
Stage 1 to stage 3	(347)	–	347	–
Foreign exchange and other movements	28	–	–	28
31 December 2018	<u>48,389</u>	<u>51,546</u>	<u>19,661</u>	<u>119,596</u>

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

- (ii) Credit loss allowance for financial assets at fair value through other comprehensive income

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2019	7,978	1,227	1,005	10,210
Increases	9,169	1,160	14,358	24,687
Reverses	(6,602)	(831)	–	(7,433)
Write-offs	–	–	–	–
Transfer:				
Stage 1 to stage 2	(2)	2	–	–
Stage 1 to stage 3	(3)	–	3	–
Foreign exchange and other movements	(26)	–	–	(26)
31 December 2019	10,514	1,558	15,366	27,438

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018	4,138	253	–	4,391
Increases	5,848	1,221	749	7,818
Reversals	(1,999)	–	–	(1,999)
Write-offs	–	–	–	–
Transfer:				
Stage 1 to stage 2	(6)	6	–	–
Stage 1 to stage 3	(3)	–	3	–
Stage 2 to stage 3	–	(253)	253	–
Foreign exchange and other movements	–	–	–	–
31 December 2018	7,978	1,227	1,005	10,210

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

(iii) Credit loss allowance for margin accounts

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2019	88,946	5,485	1,104,693	1,199,124
Increases	35,172	–	194,335	229,507
Reverses	(57,194)	(5,165)	(220,351)	(282,710)
Write-offs	–	–	–	–
Transfer:				
Stage 1 to stage 3	(238)	–	238	–
Stage 2 to stage 1	319	(319)	–	–
Stage 3 to stage 1	5	–	(5)	–
Foreign exchange and other movements	3	–	2,425	2,428
31 December 2019	<u>67,013</u>	<u>1</u>	<u>1,081,335</u>	<u>1,148,349</u>

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018	116,742	–	4,255	120,997
Increases	–	4,686	1,091,628	1,096,314
Reversals	(20,543)	–	–	(20,543)
Write-offs	–	–	(120)	(120)
Transfer:				
Stage 1 to stage 2	(799)	799	–	–
Stage 1 to stage 3	(6,290)	–	6,290	–
Foreign exchange and other movements	(164)	–	2,640	2,476
31 December 2018	<u>88,946</u>	<u>5,485</u>	<u>1,104,693</u>	<u>1,199,124</u>



## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.1 Credit risk (Continued)

(iv) Credit loss allowance for financial assets at amortized cost

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2019	5,057	–	–	5,057
Increases	–	–	–	–
Reverses	(5,079)	–	–	(5,079)
Write-offs	–	–	–	–
Foreign exchange and other movements	22	–	–	22
31 December 2019	–	–	–	–

	Stage of ECL			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018	12,283	–	–	12,283
Increases	–	–	–	–
Reversals	(7,552)	–	–	(7,552)
Write-offs	–	–	–	–
Foreign exchange and other movements	326	–	–	326
31 December 2018	5,057	–	–	5,057

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.2 Liquidity risk

Liquidity risks refer to the risks that the Company is unable to acquire sufficient funds in a timely manner at a reasonable cost, in response to repay due debts, fulfill other payment obligations and meet other funding needs during normal course of business.

The Company has established clear decision-making levels, authority delegation and risk control rules and procedures, and clearly defined the roles and responsibilities of the Board of Directors, executive management and business departments in liquidity risk management. The Company has established strict rules and procedures for managing its own funds and requires strict compliance with these rules and procedures in taking debts, providing guarantees and making investments; it also sets liquidity risk limits and conducts daily and monthly liquidity position analyses to manage liquidity movements. For effective management of market liquidity risk of its securities portfolios, the Company has implemented securities centralization management for securities investment and financing activities, and has adopted credit rating criteria for fixed-income securities investments. The Company also calculates liquidity coverage ratio and net stable funds ratio as per regulatory requirements and all indicators fall within the safety zone.

The Asset and Liability Management Committee is responsible for organizing and managing the asset and liability allocation plan of the Company, reviewing and approving the internal valuation interest rate of capital and emergency plans for liquidity risk. The Company established the Treasury Operations Department to initiate the management of the liquidity of its proprietary funds, accounting for expanding mid- and long-term stable funding channels, reasonably adjusting the asset allocation among various business lines, and steadily optimizing its assets and liabilities structure. The Company has improved its daily practice for liquidity risk management and control mechanism with the assistance of classified liquidity reserve system, refining internal funds transfer pricing (FTP) system, as well as establishing and optimizing liquidity emergency plans and stress tests. In addition, in year of 2019, the Company issued various medium and long-term debt financing instruments, such as subordinated bonds, to maintain sufficient liquidity reserve, improve emergency plans for liquidity risk, and ensure liquidity risk under control.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.2 Liquidity risk (Continued)

The maturity profile of the financial liabilities as at the end of the reporting year, based on their contractual undiscounted payments, is as follows:

	31 December 2019					Total
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Accounts payable to brokerage clients	54,625,736	–	–	–	–	54,625,736
Derivative financial liabilities	759,681	1,450	313	128	–	761,572
Financial liabilities at fair value through profit or loss	–	842,773	283,754	–	–	1,126,527
Financial assets sold under repurchase agreements	–	52,701,156	2,944,771	–	–	55,645,927
Placements from banks and other financial institutions	–	9,265,754	–	–	–	9,265,754
Short-term borrowings	–	889,352	–	–	–	889,352
Short-term financing instruments payable	–	16,054,406	1,509,107	–	–	17,563,513
Bonds in issue	–	220,000	1,224,568	35,560,221	–	37,004,789
Lease liabilities	–	135,110	238,789	730,122	63,563	1,167,584
Others (i)	20,694,121	10,169,078	19,458,764	10,286	–	50,332,249
<b>Total</b>	<b>76,079,538</b>	<b>90,279,079</b>	<b>25,660,066</b>	<b>36,300,757</b>	<b>63,563</b>	<b>228,383,003</b>
Cash flows from derivative financial liabilities settled on a net basis	759,681	823	262	128	–	760,894
Gross-settled derivative financial liabilities	–	627	51	–	–	678
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	627	51	–	–	678

(i) Others mainly include bonds in issue with maturity within one year and accounts payable to underwriting clients.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.2 Liquidity risk (Continued)

The maturity profile of the financial liabilities as at the end of the reporting year, based on their contractual undiscounted payments, is as follows (Continued):

	31 December 2018					Total
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Accounts payable to brokerage clients	35,038,585	–	–	–	–	35,038,585
Derivative financial liabilities	166,604	9,376	1,481	–	–	177,461
Financial liabilities at fair value through profit or loss	–	1,253,416	–	–	–	1,253,416
Financial assets sold under repurchase agreements	–	31,897,256	661,438	–	–	32,558,694
Placements from banks and other financial institutions	–	2,051,567	2,047,522	–	–	4,099,089
Short-term borrowings	–	1,119,592	–	–	–	1,119,592
Short-term financing instruments payable	–	9,407,743	4,444,587	–	–	13,852,330
Bonds in issue	–	237,562	1,512,945	39,323,475	–	41,073,982
Others	4,575,065	8,245,415	5,896,613	4,188	533	18,721,814
<b>Total</b>	<b>39,780,254</b>	<b>54,221,927</b>	<b>14,564,586</b>	<b>39,327,663</b>	<b>533</b>	<b>147,894,963</b>
Cash flows from derivative financial liabilities settled on a net basis	166,604	9,355	957	–	–	176,916
Gross-settled derivative financial liabilities	–	21	524	–	–	545
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	21	524	–	–	545

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.2 Liquidity risk (Continued)

The table below analyzes the Group's lease agreements, which were committed as at 31 December 2019 but not commenced into the relevant maturity groupings based on their contractual maturities:

	31 December 2019				Total
	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	
Lease liabilities	7,109	7,109	20,133	6,865	41,216

##### 53.3 Market risk

Market risk represents risk of fluctuations in fair values or future cash flows of financial instruments due to movements in market prices. Market risks primarily include stock price risk, interest rate risk, foreign exchange rate risk, and other price risks.

For market risks, the Company has established a sound risk management organizational structure and built risk management processes that enables end-to-end coverage of investment activities before, during and after making the investments, with risk limits applied to every investment. The Company annually reviews and approves risk limits for the Company as well as each and every proprietary business lines, including exposure limits, stop-loss limits, VaR limits, sensitivity index limit and stress testing limits, and charges the Risk Management Department to monitor and supervise their implementation and compliance. The Company has adopted daily mark-to-market practices, and implemented stop-loss procedures commensurate with its trading strategies. On a regular basis, the Company assesses the risk tolerance of its proprietary business lines, the effectiveness of its risks and the income level after risk adjustments, and includes the assessment results in the performance evaluation of these business lines. The Company makes on-going efforts to improve its proprietary business management system, including automated controls over relevant limit indicators.

In 2019, the overall scale of the Company's proprietary business increased to achieve better investment income, with market risk effectively controlled within the scope of various risk limit indicators.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.3 Market risk (Continued)

(1) Value at risk (VaR)

The Company adopts VaR as a tool to measure the market risk of its entire securities investment portfolio comprising different types and varieties of financial instruments. VaR is a method that estimates the maximum possible loss on the portfolio due to movements in market interest rates or securities prices over a specified time period and within a given confidence level.

VaR is calculated using the Company's historical data. Although VaR analysis is a key instrument for measuring market risk, it has to rely on historical data and relevant information, and accordingly, it has certain inherent limitations so that it may not accurately predict the future changes of risk factors and in particular, cannot effectively reflect the risk under extreme market conditions. As a supplementary measure, the Company implements daily and specific stress tests to assess the impact on extreme adverse movements in risk indicators to the net capital of the Company and the profit and loss on proprietary portfolio and proposes emergency plans with relevant recommendations and measures accordingly.

Consistent with its internal risk management policy and comparable with peers, the Group's VaR was computed at a confidence level of 95% and with a holding period of 1 trading day. The Group's VaR analysis by risk categories is summarized as follows:

	31 December 2019	31 December 2018
Equity price-sensitive financial instruments	166,277	22,039
Interest rate-sensitive financial instruments	116,813	61,703

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.3 Market risk (Continued)

###### (1) Value at risk (VaR) (Continued)

In addition, for the purpose of maintaining market stability, the Company made contributions to a special account solely managed by China Securities Finance Corporation Limited and agreed with other investing securities companies to share risks and returns on the investments in proportion to their respective contributions. This investment is also exposed to market risks, but since it is impossible to accurately estimate the exposure, it is not included in the VaR calculation above.

###### (2) Interest rate risk

Interest rate risk represents the risk of losses to the fair values or future cash flows of financial instruments due to adverse movements in market interest rates. The Company's interest rate risk primarily comes from the interest rate-sensitive financial instruments whose fair values are subject to changes due to adverse movements in market interest rates.

The Company primarily uses interest rate sensitivity analysis to monitor its interest rate risk. Sensitivity analysis measures the impact of fair value changes of financial instruments held at the year-end on the Company's total revenue and total equity when reasonable and possible changes occur to interest rates, assuming all other variables remain the same and market interest rates shift in a parallel manner and does not consider any risk management actions that the management may take to reduce its interest rate risk.

Interest rate sensitivity analysis are as follows:

	31 December 2019	31 December 2018
Sensitivity to revenue		
Change in basis points		
+25 basis points	(303,623)	(161,778)
- 25 basis points	305,685	163,183

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.3 Market risk (Continued)

##### (2) Interest rate risk (Continued)

Sensitivity to equity	31 December 2019	31 December 2018
Change in basis points		
+25 basis points	(267,953)	(133,615)
- 25 basis points	273,987	135,193

##### (3) Foreign currency rate risk

With respect to foreign exchange rate risk, the Group's foreign-currency-denominated assets and liabilities represent only a small portion in its entire assets and liabilities portfolio. As at 31 December 2019, the foreign exchange exposure is approximately RMB1,621 million (31 December 2018: RMB1,721 million). The Group manages its foreign exchange rate risk by limiting the size of its foreign-currency-denominated assets and liabilities and setting stop-loss limits for proprietary investments by its overseas subsidiaries. The majority of its income-generating business activities under the current structure are conducted in Renminbi, with only a small portion denominated in foreign currencies. Given the small portion of the foreign-currency-denominated businesses in both its assets and liabilities portfolio and income structure, the Group believes that its foreign exchange rate risk has an insignificant impact on its current operations.



## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.3 Market risk (Continued)

###### (4) Other price risks

Other price risks refer to risks of fair value decline to the Group's investment portfolio due to fluctuations in market prices other than stock prices, interest rates, and foreign exchange rates, including primarily commodity prices. The Group's investment portfolio primarily comprises equity securities and their derivative instruments as well as fixed income businesses. Other market price-related businesses include gold trading and commodity derivatives trading where the Group primarily focuses on providing liquidity services and arbitrage trading. The size of its portfolio represents a very small portion of the Group's portfolio and a negligible risk exposure. Accordingly, the Group believes that the other price risks do not have a significant impact on the Group's current operations.

##### 53.4 Capital management

The Group's objectives of capital management are:

- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for equity holders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2016) (the "Administrative Measures") issued by the CSRC and effective 1 October 2016, the Company is required to meet the following standards for risk control indicators on a continual basis:

- The risk coverage ratio shall be no less than 100%;
- The capital leverage ratio shall be no less than 8%;

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

#### Risk analysis and control (Continued)

##### 53.4 Capital management (Continued)

The Group's objectives of capital management are: (Continued)

- The liquidity coverage ratio shall be no less than 100%;
- The net stable funding ratio shall be no less than 100%;

Risk coverage ratio = net capital/sum of various risk capital provisions x 100%,

Capital leverage ratio = core net capital/total asset on-/off-balance-sheet x 100%,

Liquidity coverage ratio = high quality liquid assets/net cash outflow in 30 days x 100%,

Net stable funding ratio = available amount of stable funding/required amount of stable funding x 100%.

Core net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 54 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	31 December 2019	31 December 2018
<b>Non-current assets</b>			
Property, plant and equipment		490,054	439,704
Right-of-use assets		833,701	
Investment properties		49,438	47,742
Intangible assets		209,077	161,781
Investment in subsidiary	20	5,333,123	4,093,123
Investment in associates		45,824	47,565
Financial assets at fair value through profit or loss		3,112,441	4,234,861
Financial assets at fair value through other comprehensive income		3,153,312	3,003,549
Financial assets held under resale agreements		2,507,276	3,256,324
Refundable deposits		960,075	629,612
Deferred tax assets		864,274	899,233
Other non-current assets		109,426	153,654
<b>Total non-current assets</b>		<b>17,668,021</b>	<b>16,967,148</b>
<b>Current assets</b>			
Margin accounts		27,752,838	24,347,080
Accounts receivable		1,977,201	947,910
Financial assets at fair value through profit or loss		75,551,994	41,539,033
Financial assets at fair value through other comprehensive income		31,436,517	27,606,444
Derivative financial assets		955,450	1,239,584
Financial assets held under resale agreements		18,392,326	19,436,964
Cash held on behalf of clients		47,853,696	29,876,323
Cash and bank balances		44,916,905	14,257,151
Other current assets		151,373	194,331
<b>Total current assets</b>		<b>248,988,300</b>	<b>159,444,820</b>
<b>Total assets</b>		<b>266,656,321</b>	<b>176,411,968</b>

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 54 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	Note	31 December 2019	31 December 2018
<b>Current liabilities</b>			
Accounts payable to brokerage clients		47,967,795	29,983,709
Lease liabilities		279,206	
Derivative financial liabilities		763,495	177,307
Financial liabilities at fair value through profit or loss		1,126,344	1,252,581
Financial assets sold under repurchase agreements		54,928,626	31,413,929
Placements from banks and other financial institutions		9,263,545	4,048,839
Taxes payable		529,492	211,998
Short-term financing instruments payable		17,495,953	13,847,959
Other current liabilities		43,974,564	12,515,345
<b>Total current liabilities</b>		<u>176,329,020</u>	<u>93,451,667</u>
<b>Net current assets</b>		<u>72,659,280</u>	<u>65,993,153</u>
<b>Total assets less current liabilities</b>		<u>90,327,301</u>	<u>82,960,301</u>
<b>Non-current liabilities</b>			
Bonds in issue		34,256,291	36,579,245
Lease liabilities		525,976	
Deferred tax liabilities		639,292	321,588
Other non-current liabilities		4,480	4,614
<b>Total non-current liabilities</b>		<u>35,426,039</u>	<u>36,905,447</u>
<b>Net assets</b>		<u><u>54,901,262</u></u>	<u><u>46,054,854</u></u>
<b>Equity</b>			
Share capital		7,646,385	7,646,385
Other equity instruments		9,980,698	5,000,000
Reserves		20,858,907	18,992,277
Retained earnings		16,415,272	14,416,192
<b>Total equity</b>		<u><u>54,901,262</u></u>	<u><u>46,054,854</u></u>

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 55 STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Retained Earnings	Total
At 1 January 2019		7,646,385	5,000,000	8,690,960	2,876,986	7,419,395	4,936	14,416,192	46,054,854
Profit for the year		-	-	-	-	-	-	5,397,214	5,397,214
Other comprehensive income for the year		-	-	-	-	-	216,263	-	216,263
Total comprehensive income for the year		-	-	-	-	-	216,263	5,397,214	5,613,477
Capital injected by equity holders									
- Capital injected by other equity instrument holders	45	-	4,980,698	-	-	-	-	-	4,980,698
Appropriation to surplus reserves	46	-	-	-	539,721	-	-	(539,721)	-
Appropriation to general reserves	46	-	-	-	-	1,110,646	-	(1,110,646)	-
Dividends - 2018	15	-	-	-	-	-	-	(1,376,349)	(1,376,349)
Distribution to other equity instrument holders	15	-	-	-	-	-	-	(371,418)	(371,418)
At 31 December 2019		7,646,385	9,980,698	8,690,960	3,416,707	8,530,041	221,199	16,415,272	54,901,262

The net profit of the Company for the year ended 31 December 2019 amounted to RMB5,397 million (2018: RMB2,951 million).

## Notes to the Consolidated Statements (Continued)

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 55 STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (Continued)

	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Retained Earnings	Total
1 January 2018		7,246,385	5,000,000	7,022,263	2,581,926	6,825,340	(234,029)	14,025,053	42,466,938
Profit for the year		-	-	-	-	-	-	2,950,605	2,950,605
Other comprehensive income for the year		-	-	-	-	-	238,965	-	238,965
Total comprehensive income for the year		-	-	-	-	-	238,965	2,950,605	3,189,570
Capital injected by equity holders									
- issuance of A shares	44	400,000	-	1,668,697	-	-	-	-	2,068,697
Appropriation to surplus reserves	46	-	-	-	295,060	-	-	(295,060)	-
Appropriation to general reserves	46	-	-	-	-	594,055	-	(594,055)	-
Dividends - 2017	15	-	-	-	-	-	-	(1,376,351)	(1,376,351)
Distribution to other equity instrument holders	15	-	-	-	-	-	-	(294,000)	(294,000)
At 31 December 2018		7,646,385	5,000,000	8,690,960	2,876,986	7,419,395	4,936	14,416,192	46,054,854

## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 56 EVENTS AFTER THE REPORTING PERIOD

#### (1) Issuance of commercial papers

In January 2020, the Company publicly issued a 88-day commercial paper (“20 CSC CP001”) with a face value of RMB4 billion, which accrues interests at a fixed annual rate of 2.79%. The commercial paper pays the principal and interest at maturity and is not guaranteed.

In January 2020, the Company publicly issued a 88-day commercial paper (“20 CSC CP002”) with a face value of RMB4 billion, which accrues interests at a fixed annual rate of 2.79%. The commercial paper pays the principal and interest at maturity and is not guaranteed.

In February 2020, the Company publicly issued a 83-day commercial paper (“20 CSC CP003”) with a face value of RMB4 billion, which accrues interests at a fixed annual rate of 2.52%. The commercial paper pays the principal and interest at maturity and is not guaranteed.

In March 2020, the Company publicly issued a 91-day commercial paper (“20 CSC CP004”) with a face value of RMB4 billion, which accrues interests at a fixed annual rate of 2.42%. The commercial paper pays the principal and interest at maturity and is not guaranteed.

#### (2) Issuance of corporate bonds

In March 2020, the Company publicly issued corporate bonds with a face value of RMB6 billion, which include two tranches (“20 CSC G1” and “20 CSC G2”). The total issuance amount of the 3 year bond “20 CSC G1” is RMB5 billion, which pays interest annually at 2.94% per annum and is not guaranteed. The total issuance amount of the 5 year bond “20 CSC G2” is RMB1 billion, which pays interest annually at 3.13% per annum and is not guaranteed.

#### (3) Private placement of A Share ordinary shares

In March 2020, the Company has received the Approval Regarding the Private Placement of CSC Financial Co., Ltd. (Zheng Jian Approval No. [2020]345) from CSRC, which approved the Company's private placement of ordinary A shares of not exceeding 1,277,072,295 Shares. Such approval shall remain valid for 12 months from the date of the approval of the issuance.

## Notes to the Consolidated Statements (Continued)

*For the year ended 31 December 2019*

*(In RMB thousands, unless otherwise stated)*

### 56 EVENTS AFTER THE REPORTING PERIOD (Continued)

#### (4) Transfer of shares by a state-owned shareholders at nil consideration

In January 2020, the Company received a notice from the largest shareholder, Beijing State-owned Capital Operation and Management Center (“Beijing State Management Center”) that it intends to transfer all of its holding of 2,684,309,017 shares representing 35.11% of the total share capital of the Company to Beijing Financial Holdings Group Co., Ltd. (“Beijing Financial Holdings Group”) for nil consideration (“Transfer”). As at 19 March 2020, the Company received a notice from Beijing State Management Center that the transfer has been approved by State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality.

After the completion of this Transfer, Beijing State Management Center will no longer hold any shares in the Company and Beijing Financial Holdings Group will directly hold 2,684,309,017 shares, representing 35.11% of the total share capital of the Company, making it the largest shareholder of the Company. The Transfer has no impacts on the Company's non-controlling shareholders and the status that the Company has no actual controlling person.

The Transfer is subject to the approval of relevant regulators and authorities. The Company will timely disclose information on further progress of this Transfer.

#### (5) Dividend

On 26 March 2020, the Board of directors proposes a cash dividend of RMB2.35 (tax inclusive) per 10 ordinary shares, amounting to RMB1,797 million (tax inclusive) in total based on 7,646,385,238 shares for the year ended 31 December 2019. The dividend distribution represents 35.03% of profit for the year 2019 attributable to ordinary equity holders of the Company in the consolidated financial statements. The remaining undistributed profit will be carried forwards to the following years. Such proposal is subject to the approval by the ordinary equity holders in the Annual General Meeting.



## Notes to the Consolidated Statements (Continued)

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For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

### 56 EVENTS AFTER THE REPORTING PERIOD (Continued)

#### (6) Impact assessment on epidemic situation of COVID-19

Since the outbreak of COVID-19 in January 2020, the Group has, in full compliance with the “Circular regarding Further Strengthening the Support of the Financial Sector to the Control and Prevention of the Novel Coronavirus Outbreak” jointly issued by the People’s Bank of China, Ministry of Finance, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission and the State Administration of Foreign Exchange, The Group determinedly implements the measures on disease control and prevention and resumption of normal work and operations in accordance with the policy centrally managed by the Central Party Committee, the State Council, and the Beijing Municipal Government. On the basis of carrying out sound disease control and prevention measures, the Group, strives to take effective policies and procedures to ensure smooth provision of securities services, protection of the rights and interests of the investors; and orderly execution of business operations and client services.

COVID-19 will affect the global economy outlook and the operations of enterprises, and may have a further impact on the capital market and securities market, as well as the Group’s quality or levels of return of financial asset in the short term. The Group will continue to pay close attention to the development of the situation as well as the various control policies, evaluate and actively respond to its impacts on the financial position and operating results of the Group.



中信建投証券股份有限公司  
CSC FINANCIAL CO., LTD.