



# 中州证券

## Central China Securities Co., Ltd.

(a joint stock company incorporated in 2002 in Henan Province, the People's Republic of China with limited liability under the Chinese corporate name “中原证券股份有限公司” and carrying on business in Hong Kong as “中州证券”)

(2002 年於中華人民共和國河南省成立的股份有限公司，中文公司名稱為「中原证券股份有限公司」，在香港以「中州证券」名義開展業務)

Stock Code 股份代號 : 01375

# 2019

## ANNUAL REPORT 年報

## IMPORTANT NOTICE

The Board, Supervisory Committee, Directors, Supervisors and senior management of the Company warrant the truthfulness, accuracy and completeness of contents of this report and that there is no false representation, misleading statement contained herein or material omission from this report, for which they will assume joint and several liabilities.

This report has been considered and approved at the seventeenth meeting of the sixth session of the Board and the eleventh meeting of the sixth session of the Supervisory Committee where all Directors and Supervisors attended the respective meeting.

The annual financial statements for 2019 prepared by the Company in accordance with the International Financial Reporting Standards and China's Accounting Standard for Business Enterprises have been audited by PricewaterhouseCoopers and ShineWing Certified Public Accountants (Special General Partnership), respectively with respective standard unqualified audit report issued to the Company.

Mr. Jian Mingjun, head of the Company, Mr. Chang Junsheng, the person in charge of accounting affairs, Mr. Li Zhaoxin, the Chief Accountant and Mr. Guo Liangyong, head of the accounting department (head of financial division) warrant that the financial statements set out in this report are true, accurate and complete.

The Company's proposed profit distribution plan for the second half of 2019 as considered and approved by the Board is not to distribute a cash dividend, nor capitalize capital reserve into share capital, which is subject to the approval of the shareholders' general meeting of the Company. The Company has distributed an interim dividend of RMB0.20 for every 10 shares (tax inclusive) for the first half of 2019 in December 2019.

The forward-looking statements in this report including future plans and development strategies do not constitute a substantive commitment of the Company to investors. Investors and related persons should understand the difference among plans, forecasts and commitments and be aware of investment risks.

There was no appropriation of funds of the Company by the controlling shareholder(s) or its related/connected parties for non-operating purposes during the Reporting Period.

The Company had made no guarantee to external parties against the stipulated decision-making process during the Reporting Period.

This report has been prepared by the Company in both Chinese and English languages. In the event of any discrepancies between the English version and the Chinese version of this report, the Chinese version shall prevail.



## MATERIAL RISK ALERT

The Company's business is largely dependent on the Chinese economy and market condition as most assets of the Company are located in China and the income is mainly derived from domestic securities market. The operating results of the Company and the performance of the securities market are strongly correlated. The securities market is relatively cyclical and volatile as it may be affected by a number of factors, including macro economic performance and policies, the level of market development, fluctuations in financial market and investors' actions. It may be difficult for the Company to effectively defend itself from market risks in the event of extreme securities market condition and inadequate hedging strategies.

As China gradually widens the restrictions to foreign-owned securities companies, foreign investment will keep an ongoing development both in scope and in depth. In the face of intense competition in China's securities industry, the Company's business may be materially and adversely affected if it fails to compete effectively. The challenges from internet finance in recent years have already led to a declining commission rate of the Company's brokerage business. The commission rates of securities brokerage business may continue to go downward, the trading volume in and the activity of the market can hardly remain at a high level continuously, and the spreads of capital-based intermediary business may further narrow down, all of which may adversely affect the Company's profit growth. As the capital market reform continues to develop, the Company's investment banking business will be challenged in terms of customer base expansion, pricing and ability in distribution, which may cause adverse impact on the income of the Company's investment banking business. Besides, along with the intensified competitions in the asset management industry and deleveraging of the financial sector, the asset under management of the Company may be reduced, which may result in a negative impact on the asset management fees or performance rewards charged by the Company. Against the backdrop of continuous industry innovation, the Company has been committed to providing its customers with new products and services in order to strengthen its competitive position in the industry. However, business innovation leads to new risk exposures to the Company. Moreover, the Company's operation relies on the management and professionals. Due to keen market competition for this kind of talents, failure in attracting or retaining these talents may have adverse impact on the Company's business.

The Company manages risks according to internal risk management framework and procedures, but certain risk management measures are based on historical market data or past experience which may fail to predict future risks accurately, especially, it may lack effectiveness for extreme market events. For example, where there are inadequate countermeasures taken by the Company in connection with the policies issued by the State with a view to preventing and defusing financial risks and stabilising capital market and untimely adjustment to business structure, the financing businesses (such as stock pledge) of the Company may take greater risks, where there are inadequate forecasts to an instant crash appearing in share prices of companies listed in Hong Kong, the Company's international businesses may take greater risks. The Company has further exposure to various risks, such as failure of information technologies, which would result in adverse impact on business operation. Any force majeure, including but not limited to the outbreak of the COVID-19 in China and some countries and regions abroad since early 2020, may limit the level of economic activity in the affected areas, which may adversely affect the Company's business, financial conditions and operating results.

For the risks in the Company's operation, investors are advised to refer to IV. (IV) "Potential risks" under Section 4 of this report.

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## SECTION 1 DEFINITIONS

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

### DEFINITIONS OF COMMON TERMS

Company, Parent Company or Central China Securities	Central China Securities Co., Ltd.
Group	the Company and its subsidiaries
Board	the board of the Directors of the Company
Director(s)	Director(s) of the Company
Supervisory Committee	the Supervisory Committee of the Company
Supervisor(s)	Supervisor(s) of the Company
Hong Kong Listing Rules	the Rules Governing the Listing of Security on the Hong Kong Stock Exchange
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
Corporate Governance Code	Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Hong Kong Listing Rules
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
this report	this annual report
SSE	the Shanghai Stock Exchange
SSE Composite Index	composite stock price index of the SSE
Wind Info	Wind Info Co., Ltd. (上海萬得信息技術股份有限公司)
IPO	the initial public offering
A shares	domestic listed ordinary shares with a nominal value of RMB1.00 each in the share capital of the Company, which are listed and traded on the SSE.
H shares	overseas listed foreign ordinary shares with a nominal value of RMB1.00 each in the share capital of the Company, which are listed and traded on the Main Board of the Hong Kong Stock Exchange
Reporting Period/Period	1 January 2019 to 31 December 2019
end of the Reporting Period/end of the Period	31 December 2019
PRC or China	the People's Republic of China

## SECTION 1 DEFINITIONS

State Council	the State Council of the PRC (中華人民共和國國務院)
CSRC	the China Securities Regulatory Commission (中國證券監督管理委員會)
Ministry of Finance	the Ministry of Finance of the PRC (中華人民共和國財政部)
NDRC	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
CSF	China Securities Finance Corporation Limited (中國證券金融股份有限公司)
CPCHPC	Henan Provincial Committee of the Communist Party of China (中國共產黨河南省委員會)
Henan Provincial Government	Henan Provincial People's Government (河南省人民政府)
Henan Branch of the CSRC	Henan Branch of the China Securities Regulatory Commission (中國證券監督管理委員會河南監管局)
Henan SASAC	State-owned Assets Supervision and Administration Commission of Henan Provincial People's Government (河南省人民政府國有資產監督管理委員會)
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
New Third Board	National Equities Exchange and Quotations
Henan Investment Group	Henan Investment Group Co., Ltd. (河南投資集團有限公司)
Anyang Iron & Steel Group	Anyang Iron & Steel Group Co., Ltd. (安陽鋼鐵集團有限責任公司)
Pingmei Shenma	China Pingmei Shenma Energy & Chemical Group Co., Ltd. (中國平煤神馬能源化工集團有限責任公司)
Anyang Economic Development	Anyang Economic Development Group Co., Ltd. (安陽經濟開發集團有限公司)
Jiangsu SOHO Holdings	Jiangsu SOHO Holdings Group Co., Ltd. (江蘇省蘇豪控股集團有限公司)
Shenhua Group	Henan Shenhua Group Co., Ltd. (河南神火集團有限公司)
Jiaozuo Economic and Technology Development	Jiaozuo Economic and Technology Development Co., Ltd. (焦作市經濟技術開發有限公司)
Shenzhen Rising	Shenzhen Rising Investment Development Co., Ltd. (深圳市廣晟投資發展有限公司)
Hebi Construction and Investment	Hebi Construction & Investment Group Co., Ltd. (鶴壁市經濟建設投資集團有限公司)
Henan Securities	Henan Securities Co., Ltd. (河南證券有限責任公司)

## SECTION 1 DEFINITIONS

Central China Futures	Central China Futures Co., Ltd. (中原期貨股份有限公司)
ZDKY Venture Capital	Zhongding Kaiyuan Venture Capital Management Co., Ltd. (中鼎開源創業投資管理有限公司)
ZZKY Venture Capital	Henan Zhongzheng Kaiyuan Venture Capital Fund Management Co., Ltd. (河南中證開元創業投資基金管理有限公司)
Central China Blue Ocean or CCBO	Central China Blue Ocean Investment Management Company Limited (中州藍海投資管理有限公司)
Central China International	Central China International Financial Holdings Company Limited (中州國際金融控股有限公司)
Central China International Holdings	Central China International Holdings Co., Ltd. (中州國際控股有限公司)
Central China International Financial Group	Central China International Financial Group Limited (中州國際金融集團股份有限公司)
Equity Exchange Co.	Central China Equity Exchange Co., Ltd. (中原股權交易中心股份有限公司)
Central China Micro-lending	Henan Central China Micro-lending Company Limited (河南省中原小額貸款有限公司)
Yuxin Investment	Yuxin Investment Management (Shanghai) Co., Ltd. (豫新投資管理(上海)有限公司)
Zhongyuan Trust	Zhongyuan Trust Co., Ltd. (中原信託有限公司)
Articles of Association	the prevailing valid Articles of Association of the Company
Company Law	the Company Law of the PRC (中華人民共和國公司法)
Securities Law	the Securities Law of the PRC (中華人民共和國證券法)
RMB	the lawful currency of China Renminbi, with the basic unit “yuan”
HK\$	Hong Kong dollars and cents, the lawful currency of Hong Kong
Hong Kong	the Hong Kong Special Administrative Region of the PRC
STAR Market	science and technology innovation board of SSE

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

### I. INFORMATION ABOUT THE COMPANY

Chinese name of the Company	中原证券股份有限公司
Chinese abbreviation of the Company	中原证券
English name of the Company	CENTRAL CHINA SECURITIES CO., LTD.
English abbreviation of the Company	CCSC
Legal representative of the Company	Jian Mingjun
President of the Company	Chang Junsheng

### Registered Capital and Net Capital of the Company

Unit: Yuan Currency: RMB

	At the End of the Reporting Period	At the End of Last Year
Registered capital	3,869,070,700.00	3,869,070,700.00
Net capital	6,316,632,921.18	6,970,999,780.73

### Qualifications for Each Individual Business of the Company

1. Securities brokerage
2. Securities investment consulting
3. Financial advisory services relating to securities trading and securities investment activities
4. Proprietary trading of securities
5. Financial advisory services for merger, acquisition and restructuring of listed companies
6. Securities asset management
7. Entrusted investment management business
8. Stock lead underwriting business
9. Entrusted on-line securities business
10. Sponsorship of offering and listing of securities
11. Proxy sale of open-end securities investment funds
12. "SSE 50ETF" participant broker
13. Buyout repurchase of T-bonds on SSE
14. IPO book-building and placement
15. Sponsorship of shareholder structure reform
16. Warrant trading
17. Clearing participants of China Securities Depository and Clearing Corporation Limited
18. Foreign exchange business
19. National inter-bank lending and borrowing business
20. Primary dealer of Integrated Electronic Platform of Fixed-income Securities of SSE
21. Qualified investor of block trading system
22. Trading in the inter-bank bond market

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

23. Intermediary introduction business for futures companies
24. Agency system host securities dealer business
25. Sponsoring broker of New Third Board
26. Passed the globally recognised standard ISO/IEC20000 for IT service management field
27. Direct investment business
28. Margin financing and securities lending business
29. Agency sale of financial products
30. Underwriting of private placement bonds for small and medium-sized enterprises
31. Exchange-quoted bond pledged repo business
32. Agreed repurchase type securities trading business
33. Fund business
34. Capital refinancing business
35. Agency service for registration of pledge of securities
36. Stock-pledged repo
37. Securities refinancing and lending business
38. Shanghai-Hong Kong Stock Connect business
39. Market-making business on the National Equities Exchange and Quotations
40. Piloting of issuing short-term corporate bonds
41. Piloting of OTC market business
42. Piloting of internet securities business
43. Option brokerage business on SSE
44. Market-making business on quotation system of inter-institutional private products
45. Shenzhen-Hong Kong Stock Connect business on the Shenzhen Stock Exchange

## II. CONTACT PERSONS AND CONTACT METHODS

	Secretary to the Board	Representative of securities affairs
Name	Zhu Qiben	Yang Feng
Address	19F, Hailian Building, 20 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China (postcode: 450018)	19F, Hailian Building, 20 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China (postcode: 450018)
Tel	0371-69177590	0371-69177590
Fax	0371-86505911	0371-86505911
Email address	zhuqb@ccnew.com	yangfeng@ccnew.com

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

### III. BASIC PROFILE

Registered address of the Company	10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China
Postcode of the registered address of the Company	450018
Office address of the Company	10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China
Postcode of the office address of the Company	450018
Website of the Company	<a href="http://www.ccnew.com">http://www.ccnew.com</a>
Email address	<a href="mailto:investor@ccnew.com">investor@ccnew.com</a>
Principal place of business in Hong Kong	Suite 3108, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

### IV. INFORMATION DISCLOSURE AND PLACE FOR INSPECTION

Designated media for disclosure of the Company's information	China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Website designated by CSRC for publishing this report	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Website designated by the Hong Kong Stock Exchange for publishing this report	<a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a>
Place for inspection of the Company's annual report	19F, 10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province, China

### V. SHARES OF THE COMPANY

Class of Shares	Stock Exchange of Listing	Stock Name	Stock Code
A Shares	SSE	中原证券	601375
H Shares	Hong Kong Stock Exchange	中州证券	01375



## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

### VI. OTHER INFORMATION OF THE COMPANY

#### (I) History of the Company

On 25 October 2002, according to CSRC's Reply Concerning Approval of Opening of Central China Securities Co., Ltd. (Zheng Jian Ji Gou Zi [2002] No.326) (《關於同意中原證券股份有限公司開業的批覆》(證監機構字[2002]326號)), Henan Finance Securities Company Limited and the Securities branch of Anyang Trust & Investment Company Limited merged and reorganised into one, which later joined other qualified companies to form Central China Securities Co., Ltd. after increase in capital and share. The Company was registered with Henan Administration for Industry & Commerce on 8 November 2002 with a registered capital of RMB1,033,790,000. After incorporation, the Company, according to CSRC's reply, acquired the securities branch and securities services department (which were originally under Henan Securities) and other securities-related assets.

On 15 January 2008, as approved by the CSRC, the Company's registered capital changed from RMB1,033,790,000 to RMB2,033,515,700.

On 10 June 2008, Henan Investment Group was approved by the CSRC to receive 196,704,200 shares of the Company (accounting for 9.673% of the registered capital) held by Henan Construction Investment Corporation and 715,253,600 shares of the Company (accounting for 35.173% of the registered capital) held by Henan Economic and Technology Development Co., Ltd., after which Henan Investment Group holds 911,957,800 shares of the Company in aggregate (accounting for 44.846% of the Company's registered capital).

On 22 September 2011, the CSRC approved that Bohai Industrial Investment Fund Management Co., Ltd. (on behalf of Bohai Industrial Investment Fund) was qualified to hold more than 5% of equity of Central China Securities Co., Ltd. as a shareholder and to receive 608,000,000 shares (accounting for 29.899% of the Company's registered capital) of the Company held by Xuji Group Co., Ltd.

On 25 June 2014, shares issued overseas by the Company were listed on the main board of Hong Kong Stock Exchange (stock abbreviation: 中州證券; stock code: 01375). According to the Reply Concerning Management and Transfer of State-owned Equities of Central China Securities Co., Ltd. (Guo Zi Chan Quan [2013] No.1070) (《關於中原證券股份有限公司國有股權管理及國有股轉持有關問題的批覆》(國資產權[2013]1070號)) by State-owned Assets Supervision and Administration Commission of the State Council, after the Company completed this issuance, state-owned shareholders Henan Investment Group, Anyang Iron & Steel Group, Pingmei Shenma, Anyang Economic Development, Jiangsu SOHO Holdings, Shenhua Group, Jiaozuo Economic and Technology Development, Shenzhen Rising and Hebi Construction and Investment transferred their respective 40,994,778 shares, 8,842,345 shares, 3,738,231 shares, 2,432,074 shares, 1,348,575 shares, 884,166 shares, 678,113 shares, 449,525 shares and 442,193 shares (59,810,000 shares in total) to National Council for Social Security Fund. On 28 October 2014, the Company completed the change of the registered capital with the Henan Administration for Industry & Commerce, with the registered capital increased to RMB2,631,615,700.

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

The non-public issuance of 592,119,000 H Shares was completed by the Company on 3 August 2015 with a nominal value of RMB1 each at an issue price of HK\$4.28 per H share. On 14 August 2015, the Company completed the registration of change of the registered capital with the Henan Administration for Industry & Commerce, with the registered capital increased to RMB3,223,734,700.

On 18 November 2016, the Company was approved to issue no more than 700,000,000 RMB denominated ordinary shares, with a par value of RMB1 each. According to the Implementing Measures for the Transfer of Some State-owned Shares from the Domestic Securities Market to the National Social Security Fund (Cai Qi [2009] No.94) (《境內證券市場轉持部分國有股充實全國社會保障基金實施辦法》(財企[2009]94號)) and the Reply Concerning Proposal for Management of State-owned Equities and Transfer of State-owned Shares in Relation to the Issuance of A Shares by Central China Securities Co., Ltd. (Yu Guo Zi Chan Quan [2015] No.26) (《關於中原證券股份有限公司發行A股國有股權管理方案及國有股轉持的批覆》(豫國資產權[2015]26號)) by the SASAC of Henan Province, based on the 700,000,000 shares to be issued under this issuance, state-owned shareholders Henan Investment Group, Anyang Iron & Steel Group, Pingmei Shenma, Anyang Economic Development, Jiangsu SOHO Holdings, Shenhua Group, Jiaozuo Economic and Technology Development, Shenzhen Rising and Hebi Construction and Investment transferred their respective 47,979,175 shares, 10,348,840 shares, 4,375,124 shares, 2,846,433 shares, 1,578,336 shares, 1,034,804 shares, 793,645 shares, 526,112 shares and 517,531 shares (70,000,000 shares in total) to National Council for Social Security Fund.

On 3 January 2017, A shares of the Company were listed on SSE.

From 12 February 2018, the Company repurchased certain H shares by means of on-market share buyback, which was completed on 18 May 2018. The Company has repurchased 54,664,000 H shares on a cumulative basis. On 11 July 2018, the Company completed the registration of changes with the administrative department for industry and commerce and obtained the business licence reissued by the Henan Administration for Industry and Commerce, with the Company's registered capital changed to RMB3,869,070,700.

### (II) Status of the Company's organizational structure

The Company operates in accordance with the relevant laws and regulations including the Company Law, the Securities Law and Guidelines for the Internal Control of Securities Companies (《證券公司內部控制指引》) and the requirements of the Articles of Association, thus scientific and effective corporate governance system has been established. The Company has also established a corporate governance structure that balances the power between the general meeting, the Board and the Supervisory Committee, in which the general meeting is the corporate authoritative body, the Board is the decision making authority and the Supervisory Committee is the supervision authority.

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

### 1. Organizational structure diagram of the Company

As at the date of this report, the organizational structure diagram of the Company is as follows:



## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

### 2. Major subsidiaries of the Company

As of the end of the Reporting Period, the Company directly owned 4 domestic subsidiaries and 1 overseas subsidiary. For details, please refer to III. (V) "Analysis of major subsidiaries and companies in which the Company has invested" under Section 4 of this report.

### (III) Number and network of securities branches of the Company

As of the end of the Reporting Period, the Company had 88 securities branches in 13 provinces, autonomous regions and municipalities directly under the central government, including 2 in Beijing, 2 in Shanghai, 2 in Zhejiang Province, 2 in Guangdong Province, 1 in Hubei Province, 1 in Hunan Province, 1 in Jiangsu Province, 1 in Shaanxi Province, 1 in Shandong Province, 1 in Hebei Province, 1 in Tianjin, 1 in Shanxi Province and 72 in Henan Province. See the following table for details:

No.	Securities branch	Address	Person in charge
1	Central China Securities Co., Ltd. Zhengzhou Wei Wu Road Securities Branch	2-3F, Wing Building, West of Main Tower of Integrated Office Building, No.37 Wei Wu Road, Jinshui District, Zhengzhou City, Henan Province	Chen Mingwei
2	Central China Securities Co., Ltd. Zhengzhou Tongbai Road Securities Branch	No.43 Tongbai Road, Zhongyuan District, Zhengzhou City, Henan Province	Xin Zhihong
3	Central China Securities Co., Ltd. Zhengzhou Free Trade Zone Securities Branch	Room 202, Floor 5A, 138 Jingbei First Road, Zhengzhou Area (Jiangkai), Pilot Free Trade Zone, Henan Province	Zhang Yingju
4	Central China Securities Co., Ltd. Zhengzhou Zijingshan Road Securities Branch	20F, Post Office Tower, No.61 Zijingshan Road, Guancheng Hui District, Zhengzhou City, Henan Province	Jia Yingkui
5	Central China Securities Co., Ltd. Zhengzhou Jingsan Road Securities Branch	No.25 Jingsan Road, Jinshui District, Zhengzhou City, Henan Province	Li Kaihui
6	Central China Securities Co., Ltd. Zhengzhou Weier Road Securities Branch	3F, Business Building, Jingwei Apartment, No.30 Weier Road, Jinshui District, Zhengzhou City, Henan Province	Wang Tianpeng
7	Central China Securities Co., Ltd. Zhengzhou Guoji Road Securities Branch	Room Shang-15, 1-2F, Building 32, Sennavis II Area of Provence, No.168 Guoji Road, Jinshui District, Zhengzhou City, Henan Province	Guo Zhijun
8	Central China Securities Co., Ltd. Xinzheng Xinhua Road Securities Branch	No.4-5, 1F, Building 1, Xinhua Community, Xinhua Road, Xinzheng City, Henan Province	Feng Yongjun

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
9	Central China Securities Co., Ltd. Xinmi East Avenue Securities Branch	No.17, East Avenue, Xinmi City, Zhengzhou City, Henan Province	Zhang Yonghong
10	Central China Securities Co., Ltd. Gongyi Songshan Road Securities Branch	No.119-8 Songshan Road, Gongyi City, Zhengzhou City, Henan Province	Niu Zhihong
11	Central China Securities Co., Ltd. Zhong Mou Guang Hui Street Securities Branch	Shop on 1F (facing the street), Southeast of the intersection of Guang Hui Street and Wansheng Road, Zhong Mou County, Zhengzhou City, Henan Province	Li Shuaijun
12	Central China Securities Co., Ltd. Dengfeng Shaolin Avenue Securities Branch	Shaolin Avenue, Dengfeng City, Henan Province (West Hall on 1F of Shaolin International Hotel)	Qu Bo
13	Central China Securities Co., Ltd. Dengzhou North Wenhua Road Securities Branch	No.91 North Wenhua Road, Dengzhou City, Henan Province	Ma Xue
14	Central China Securities Co., Ltd. Nanyang East Fanli Road Securities Branch	Building 2, Rulin Yuzhu Garden, East Fanli Road, Nanyang City, Henan Province	Zhao Xiaoyu
15	Central China Securities Co., Ltd. Nanyang Wuyi Road Securities Branch	Area A2, Nandaqing Integrated Service Building, East Wuyi Road, Guanzhuang Working Area, Nanyang City, Henan Province	Wang Qingfeng
16	Central China Securities Co., Ltd. Xixia Century Avenue Securities Branch	Intersection of Baiyu Road and Century Avenue, Xixia County, Nanyang City, Henan Province	Zhang Wandong
17	Central China Securities Co., Ltd. Neixiang Yongshun Road Securities Branch	Yongshun Road, Tuandong Town, Neixiang County, Henan Province	Zhang Hui
18	Central China Securities Co., Ltd. Pingdingshan Lingyun Road Securities Branch	Shop 207, 2F, Building 20, Jiujiu Lvshuyuan, West to Middle Lingyun Road, Xinhua District Pingdingshan City, Henan Province	Li Jiangong
19	Central China Securities Co., Ltd. Pingdingshan Jianshe Road Securities Branch	37 Middle Jianshe Road (Renmin Plaza), Weidong District, Pingdingshan City, Henan Province	Zheng Wenchao
20	Central China Securities Co., Ltd. Ruzhou Chengyuan Road Securities Branch	1-2F, West side of the Chengyuan Road, Ruzhou City, Henan Province	Shi Lin

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
21	Central China Securities Co., Ltd. Wugang Wenzhou Road Securities Branch	East to north section of Wenzhou Road, Wugang City, Pingdingshan City, Henan Province (opposite to the local taxation bureau)	Du Zhen
22	Central China Securities Co., Ltd. BaoFeng Zhongxing Road Securities Branch	Shop 111, Dongcheng International Residential Community, Zhongxing Road, Chengguan Town, Baofeng County, Pingdingshan City, Henan Province	Jiao Dezhi
23	Central China Securities Co., Ltd. Luohe Changjiang Road Securities Branch	No.29 Changjiang Road, Yuanhui District, Luohe City, Henan Province	Wu Jun
24	Central China Securities Co., Ltd. Linying Yinghe Road Securities Branch	A6-8, Longting Shoufu Community, Middle Yinghe Road, Linying County, Luohe City, Henan Province	Zhao Jun
25	Central China Securities Co., Ltd. Puyang Kaizhou Road Securities Branch	1F, China Unicom Building, Southwest of the intersection of Zhongyuan Road and Kaizhou Road, Puyang City, Henan Province	Wu Zhigao
26	Central China Securities Co., Ltd. Puyang Zhongyuan Road Securities Branch	No.18, Zhongyuan Road, Hua Long District, Puyang City, Henan Province	Zhang Yunpeng
27	Central China Securities Co., Ltd. Qingfeng Chaoyang Road Securities Branch	No.240 Chaoyang Road, Qingfeng County, Puyang City, Henan Province	Wang Xiangxin
28	Central China Securities Co., Ltd. Puyang County Yumin Road Securities Branch	East to the Middle Yumin Road, Puyang County, Henan Province	Chang Shaoyong
29	Central China Securities Co., Ltd. Anyang Zhonghua Road Securities Branch	Building 7, Guangsha New Garden, Zhonghua Road, Anyang City, Henan Province	Pei Haixia
30	Central China Securities Co., Ltd. Anyang Wenfeng Avenue Securities Branch	West Wenfeng Avenue, Yindu District, Anyang City, Henan Province	Fu Hongbin
31	Central China Securities Co., Ltd. Linzhou Xinglin Street Securities Branch	Northwest Angle, Intersection of Zhenlin Road and Xinglin Street, Kaiyuan District, Linzhou City, Henan Province	Jiang Hua
32	Central China Securities Co., Ltd. Hua County Wenming Road Securities Branch	No.2, Building B28, Huatong Century City, Wenming Road, Hua County, Henan Province	Chen Limin

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
33	Central China Securities Co., Ltd. Neihuang Zaoxiang Avenue Securities Branch	Room 8, Shuimuqinghua Shop, Zaoxiang Avenue, Neihuang County, Henan Province	Zhang Yabing
34	Central China Securities Co., Ltd. Tangyin Renmin Road Securities Branch	Area A of Shangri-La, Southwest Angle, Intersection of Renmin Road and Zhonghua Road, Tangyin County, Anyang City, Henan Province	Wu Xinsheng
35	Central China Securities Co., Ltd. Xinxiang Xiangyang Road Securities Branch	No.107 Store, No.1 Xinshang International Building, Intersection of Xiangyang Road and Zhenzhong Road, Xinxiang City, Henan Province	Yang Tao
36	Central China Securities Co., Ltd. Changyuan Renmin Road Securities Branch	No.3 Store, Yilong Ginza Apartment, Renmin Road, Changyuan County, Henan Province	Qiu Fei
37	Central China Securities Co., Ltd. Hui County Gongcheng Avenue Securities Branch	North to the East Gongcheng Avenue, Hui County, Henan Province	Zhang Xiaodong
38	Central China Securities Co., Ltd. Weihui Bigan Avenue Securities Branch	No.152 Bigan Avenue, Weihui City, Xinxiang City, Henan Province	Wei Dong
39	Central China Securities Co., Ltd. Yuanyang Huanghe Avenue Securities Branch	East to Shengshi Elegant Garden 2-2-1, South to Huanghe Avenue, Yuanyang County, Henan Province	Zhang Lefei
40	Central China Securities Co., Ltd. Xun County Huanghe Road Securities Branch	200m East to the North of the Intersection of Huanghe Road and Liyang Road, Xun County, Hebi City, Henan Province	Jie Jiwu
41	Central China Securities Co., Ltd. Qi County Qihe Road Securities Branch	No.306 Qihe Road, Qi County, Hebi City, Henan Province	Jia Yuan
42	Central China Securities Co., Ltd. Xuchang Balong Road Securities Branch	Future East Coast Huacheng, South Balong Road, Xuchang City, Henan Province	Li Jianxin
43	Central China Securities Co., Ltd. Changge Chenshi Road Securities Branch	Intersection of Chenshi Road and Tianping Road, Changge City, Henan Province	Wang Jun
44	Central China Securities Co., Ltd. Yuzhou Fudong Road Securities Branch	Middle Fudong Road, Yuzhou City, Xuchang City, Henan Province	Wang Zhiquan

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
45	Central China Securities Co., Ltd. Yanling Cuiliu Road Securities Branch	1F, Street-Facing Building, West to 4F County Government, Cuiliu Road, Development Zone, Xuchang City, Yanling County, Henan Province	Zhang Weilin
46	Central China Securities Co., Ltd. Xiangcheng Zhongxin Road Securities Branch	East Zhongxin Road, Xiangcheng County (opposite to Bureau of Finance), Henan Province	Qiao Guangjun
47	Central China Securities Co., Ltd. Gushi Hongsu Road Securities Branch	3F, Century Mansion, Chen Yuanguang Plaza, Intersection of North Chengliao Road and Hongsu Road, Gushi County, Xinyang City, Henan Province	Li Xiaohong
48	Central China Securities Co., Ltd. Guangshan Guanghui Avenue Securities Branch	Fortune Plaza at the Intersection of Guanghui Avenue and Guangming Avenue, Zishui Office, Guangshan County, Xinyang City, Henan Province	Li Mingbao
49	Central China Securities Co., Ltd. Huangchuan Hangkong Road Securities Branch	Building 3, Cao Street, South Hangkong Road, Huangchuan County, Xinyang City, Henan Province	Li Xiang
50	Central China Securities Co., Ltd Mengzhou West Hanyu Street Securities Branch	No.292, West Hanyu Street, Mengzhou City, Henan Province	Zhen Rongxing
51	Central China Securities Co., Ltd. Qinyang North Jianshe Road Securities Branch	North Jianshe Road, Qinyang City, Jiaozuo City, Henan Province	Ma Jie
52	Central China Securities Co., Ltd. Wuzhi Xinghua Road Securities Branch	3F, Northwest Angle, Intersection of Heping Road and Xinghua Road, Wuzhi County, Henan Province	Yan Lei
53	Central China Securities Co., Ltd. Jiyuan City Jiyuan Avenue Securities Branch	The 14th Shop of the Street Shops from West to East, Commercial and Residential Building 1, Area A, Jishui Garden, South side of the Xueyuan Road, Jiyuan City, Henan Province	Zhang Weihua
54	Central China Securities Co., Ltd. Lankao Yulu Avenue Securities Branch	East to North Yulu Avenue, Lankao County, Kaifeng City, Henan Province	Li Ming
55	Central China Securities Co., Ltd. Lingbao Hangu Road Securities Branch	Intersection of Hangu Road and Jingshan Road, Lingbao City, Henan Province	Li Jinfeng

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
56	Central China Securities Co., Ltd. Mianchi County Huanghe Road Securities Branch	Shop 06, Building 1, Xinhua International Community, Middle Huanghe Road, Mianchi County, Sanmenxia City, Henan Province	Zhang Xueyun
57	Central China Securities Co., Ltd. Shangqiu Nanjing Road Securities Branch	3F, Block A, Yingtian International Plaza, West Gui'de Road, South Nanjing Road, Suiyang District, Shangqiu City, Henan Province	Zhang Zhongmin
58	Central China Securities Co., Ltd. Yongcheng Zhongyuan Road Securities Branch	Intersection of Zhongyuan Road and Guangming Road, Dongcheng District, Yongcheng City, Henan Province	Zhong Yahui
59	Central China Securities Co., Ltd. Minquan Boai Road Securities Branch	Shop 6, Building 11, Middot, at the intersection of Qiushui Road and Boai Road, Minquan County, Henan Province	Wang Peng
60	Central China Securities Co., Ltd. Xiayi Kongzu Avenue Securities Branch	Shop of No.595 Kongzu Avenue, Xiayi County, Shangqiu City, Henan Province	Chen Haibin
61	Central China Securities Co., Ltd. Yucheng Songshan Road Securities Branch	1-2F, Shop 109-110, Building 5, Royal Pearl River, North to Songshan Road, Chengguan Town, Yucheng County, Shangqiu City, Henan Province	Ma Zhongliang
62	Central China Securities Co., Ltd. Zhecheng Weilai Avenue Securities Branch	Shop 116, West Garden, Jinsha Mansion, Weilai Avenue, Zhecheng County, Shangqiu City, Henan Province	Shi Di
63	Central China Securities Co., Ltd. Luyi Ziqi Avenue Securities Branch	No.301, East Unit, 3F, Su Shang Xin Commercial Building, Intersection of Xianyuan Road and Ziqi Avenue, Luyi County, Henan Province	Li Yong
64	Central China Securities Co., Ltd. Xihua Fengmu Road Securities Branch	Middle Fengmu Road, Xihua County, Zhoukou City, Henan Province	Zhang Yang
65	Central China Securities Co., Ltd. Shenqiu Jixiang Road Securities Branch	South of East Jixiang Road, Huaidian Town, Shenqiu County, Zhoukou City, Henan Province	Ma Guang

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
66	Central China Securities Co., Ltd. Luoyang Kaiyuan Avenue Securities Branch	Building 1, No.260 Kaiyuan Avenue, Luoyang City, Henan Province	Zhang Ruiping
67	Central China Securities Co., Ltd. Luoyang West Zhongzhou Road Securities Branch	No.26 West Zhongzhou Road, Jianxi District, Luoyang City, Henan Province	Zhu Yu
68	Central China Securities Co., Ltd. Yichuan East Renmin Road Securities Branch	3F, Building 1, Shengfu Jiayuan, North of Renmin East Road, Binhe New District, Yichuan County, Luoyang City, Henan Province	Gao Jingxian
69	Central China Securities Co., Ltd. Xin'an Cihe Road Securities Branch	North Jianhe Road, Xincheng West District, Xin'an County, Luoyang City, Henan Province	Wang Haiyun
70	Central China Securities Co., Ltd. Yanshi Yingbin Road Securities Branch	Room 301, Building 1, Yuehai International, No.41 Huaxia Road, Yiluo Subdistrict Office, Yanshi City, Henan Province	Huang Erbin
71	Central China Securities Co., Ltd. Xiping Xiping Avenue Securities Branch	No.158 Xiping Avenue, Xiping County, Zhumadian City, Henan Province	Li Guangxi
72	Central China Securities Co., Ltd. Shangcai Caidu Avenue Securities Branch	No. 21, West Section of Caidu Avenue, Chongyang Office, Shangcai County, Zhumadian city, Henan Province	Li Dawei
73	Central China Securities Co., Ltd. Shanghai Mudanjiang Road Securities Branch	Unit C404, No.318 Mudanjiang Road, Baoshan District, Shanghai	Zhou Dawei
74	Central China Securities Co., Ltd. Shanghai Hunan Road Securities Branch	1-2F, No.2589 Hunan Road, Pudong New Area, Shanghai City	Zhang Zhenming
75	Central China Securities Co., Ltd. Shenzhen Longcheng Avenue Securities Branch	Unit 907, Genzon Times Square Tower, 89 Longcheng Avenue, Center City, Longcheng Street, Longgang District, Shenzhen, Guangdong Province	Zeng Hao

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
76	Central China Securities Co., Ltd. Guangzhou West Tiyu Road Securities Branch	Room 3802, 3803, 3804, 3805, Tower B, No.191 West Tiyu Road, Tianhe District, Guangzhou City (for office use only), Guangdong Province	Xiong Peili
77	Central China Securities Co., Ltd. Jinan South Gongye Road Securities Branch	Room 103, Building 1, Wealth Center of China Railway, No.59 Gongyanan Road, Hi-tech Zone, Jinan City, Shandong Province	Yang Chen
78	Central China Securities Co., Ltd. Beijing Jiuxianqiao Road Securities Branch	Room 909, 9F, Building 53, No.14 Jiuxianqiao Road, Chaoyang District, Beijing City	Xia Qun
79	Central China Securities Co., Ltd. Beijing North Yuetan Street Securities Branch	Room 1601 and 1602, 16F, Main Building, North Block, Yuetan Building, No. 2 Yuetan North Street, Xicheng District, Beijing	Zhou Weidong
80	Central China Securities Co., Ltd. Hangzhou Xintang Road Securities Branch	Room 301, 3F, Building 2, Xincheng Shidai Plaza, No.111 Xintang Road, Jiangan District, Hangzhou City, Zhejiang Province	Cao Jianbo
81	Central China Securities Co., Ltd. Yiwu North Chouzhou Road Securities Branch	Room 201 and 202, No.955 North Chouzhou Road, Yiwu City, Zhejiang Province	Qiu Xiaoxiao
82	Central China Securities Co., Ltd. Tianjin Zhangzizhong Road Securities Branch	Room 702, No.2 Zhangzizhong Road, Haihe Huading Mansion, Hongqiao District, Tianjin City	Lv Yaodong

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Securities branch	Address	Person in charge
83	Central China Securities Co., Ltd. Shijiazhuang Zhongshan West Road Securities Branch	Shop 2A003, 2F Zhongdian Information Plaza, No.356 Zhongshan West Road, Qiaoxi District, Shijiazhuang City, Hebei Province	Chang Hongxin
84	Central China Securities Co., Ltd. Xi'an East Youyi Road Securities Branch	3F, Block A, Fanmei Building, No.1 Nanguanzheng Street, Beilin District, Xi'an, Shaanxi Province	Ji Lijuan
85	Central China Securities Co., Ltd. Jishou Century Avenue Securities Branch	Room 106, Building 62, China Railway Real Estate Shijishanshui Phase II, Ganzhou Century Avenue, Jishou City, Hunan Province	Xiang Qingfeng
86	Central China Securities Co., Ltd. Zhangjiagang Jiannong Road Securities Branch	No.7 Jiannong Road, Building 10 of Gang Cheng Hua Fu, Yangshe Town, Zhangjiagang City, Jiangsu Province	Gu Yajun
87	Central China Securities Co., Ltd. Wuhan Luoshi Road Securities Branch	Room 12, 13 and 14, 7F, Starlight, South Lake, Intersection of South Luoshi Road and Wenhui Road, Hongshan District, Wuhan City, Hubei Province	Xu Hongjian
88	Central China Securities Co., Ltd. Yuncheng North Huidong Road Securities Branch	1F, Tianyu Commercial Building, No.9 North Huidong Road, Yuncheng City, Shanxi Province	Tang Feng

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

### (IV) Number and network of other branches

As of the end of the Reporting Period, the Company had 27 branch offices, as detailed below:

No.	Branch office	Address	Date of incorporation	Person in charge	Contact No.
1	Central China Securities Co., Ltd. Zhengzhou Branch Office	10 Business Outer Ring Road, Zhengzhou Section (Zhengdong), Henan Pilot Free Trade Zone	2011/3/10	Li Huafeng	0371-60155208
2	Central China Securities Co., Ltd. Nanyang Branch Office	No.170 Renmin Road, Nanyang City, Henan Province	2003/5/20	Yang Qing	0377-63205303
3	Central China Securities Co., Ltd. Pingdingshan Branch Office	1/F, Chang'an Hotel, West Zhongxing Road Bridge, Zhanhe District, Pingdingshan City, Henan Province	2015/6/30	Wen Yiyao	0375-4801728
4	Central China Securities Co., Ltd. Luohe Branch Office	No.337-8 Huanghe Road, Yancheng District, Luohe City, Henan Province	2003/6/9	Luo Donghai	0395-3183866
5	Central China Securities Co., Ltd. Puyang Branch Office	No.203, Middle Jianshe Road, Puyang City, Henan Province	2014/4/21	Yu Chunyan	0393-8151517
6	Central China Securities Co., Ltd. Anyang Branch Office	Financial Securities Building, North Hongqi Road, Beiguan District, Anyang City, Henan Province	2003/5/8	Tian Liqi	0372-2095699
7	Central China Securities Co., Ltd. Xinxiang Branch Office	No.250, Renmin Road, Xinxiang City, Henan Province	2003/4/29	Deng Feng	0373-2068736
8	Central China Securities Co., Ltd. Hebi Branch Office	Southeast Corner, Intersection of Qibin Avenue and Xinghe Street, Qibin District, Hebi City, Henan Province	2004/5/26	Wang Nan	0392-3299909
9	Central China Securities Co., Ltd. Xuchang Branch Office	No.669, Yingchang Avenue, Weidu District, Xuchang City, Henan Province	2014/6/12	Liu Zhigang	0374-2663273
10	Central China Securities Co., Ltd. Xinyang Branch Office	Hongyunxin Square Office Building, No.136 Zhongshan Road, Shihe District, Xinyang City, Henan Province	2006/7/26	Chen Lei	0376-6210378

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Branch office	Address	Date of incorporation	Person in charge	Contact No.
11	Central China Securities Co., Ltd. Jiaozuo Branch Office	No.1838 Middle Jiefang Road, Jiaozuo City, Henan Province	2003/6/2	Ding Qingming	0391-3288118
12	Central China Securities Co., Ltd. Kaifeng Branch Office	Yindi Business Plaza, Intersection of Daliang Road and Xihuan Road, Kaifeng City, Henan Province	2006/8/11	Xu Weiwen	0371-23899816
13	Central China Securities Co., Ltd. Yellow River Golden Triangle Demonstration Area Branch Office	2F, Building 4-6, Jinxiuhuating, Daling Road, Sanmenxia City, Henan Province	2013/11/20	Wang Lin	0398-2830400
14	Central China Securities Co., Ltd. Shangqiu Branch Office	Office Building of Labour Union, No.96, Shenhua Avenue, Shangqiu City, Henan Province	2014/4/24	Su Wenfeng	0370-2580966
15	Central China Securities Co., Ltd. Zhoukou Branch Office	3F (facing the street), Office Building of Henan Netcom Zhoukou Branch, No.81, Middle Section of Qiyi Road, Zhoukou City, Henan Province	2006/4/26	Li Hui	0394-8288680
16	Central China Securities Co., Ltd. Luoyang Branch Office	No.30, West Kaixuan Road, Xigong District, Luoyang City, Henan Province	2013/11/28	Song Fei	0379-63915178
17	Central China Securities Co., Ltd. Zhumadian Branch Office	No.196 Jiefang Road, Zhumadian City, Henan Province	2003/4/23	Dong Baojun	0396-2989099
18	Central China Securities Co., Ltd. Shanghai 1st Branch Office	No.261 West Dalian Road, Shanghai	2003/8/29	Shen Ruowei	021-65080598
19	Central China Securities Co., Ltd. Shenzhen Branch Office	Unit 04 & 05, 31F, Shenzhen China Life Insurance Building, No.123 Fu Hua One Road, Futian CBD, Shenzhen, Guangdong Province	2015/5/14	Jiang Huijun	0755-83801055
20	Central China Securities Co., Ltd. Beijing Branch Office	Room 1611, 16F, Main Building, North Block, Yuetan Mansion, No. 2 Yuetan North Street, Xicheng District, Beijing	2011/9/16	Zhao Huiwen	010-83065722

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

No.	Branch office	Address	Date of incorporation	Person in charge	Contact No.
21	Central China Securities Co., Ltd. Sichuan Branch Office	No.4, 2F, Block 13, No.1000 Jincheng Avenue, Gaoxin District, Chengdu, Sichuan Province	2017/2/3	Li Yang	028-86051566
22	Central China Securities Co., Ltd. Jiangsu Branch Office	Room 1205-1206, No.168 Lushan Road, Jianye District, Nanjing City, Jiangsu Province	2017/9/5	Zhang Hanmin	025-83696336
23	Central China Securities Co., Ltd. Hainan Branch Office	Room 2007, 20F, Hainan Building, No.5 Guoxing Avenue, Meilan District, Haikou City, Hainan Province	2017/9/12	Dong Peng	0898-66515090
24	Central China Securities Co., Ltd. Shandong Branch Office	301-305, Building 5, No. 159 Jiefang Road, Lixia District, Jinan City, Shandong Province	2011/2/25	Kong Qingli	0531-83130681
25	Central China Securities Co., Ltd. Shandong 1st Branch Office	District B, Jinlingshang Street, 16 Xianxialing Road, Laoshan District, Qingdao City, Shandong Province	2004/2/4	Zhao Shengchang	0532-88970289
26	Central China Securities Co., Ltd. Hunan Branch Office	Building 5, Wanxiang Xintian, No. 70 Zhanbei Road, Furong District, Changsha City, Hunan Province	2011/1/11	Zhu Guojun	0731-84598699
27	Central China Securities Co., Ltd. Shanghai Branch Office	22-23, Building T1, No. 1788 and 1800 Century Avenue, Free Trade Zone, China (Shanghai)	2009/7/2	Zhoujie	021-50588666

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

### VII. OTHER RELEVANT INFORMATION

Accounting firm engaged by the Company (domestic)	Name	ShineWing Certified Public Accountants (Special General Partnership)
	Office address	8F, Fu Hua Mansion, No. 8 ChaoYang Men Beidajie, Dongcheng District, Beijing City
	Names of signing accountants	Yan Fanqing and Cui Weiwei
Accounting firm engaged by the Company (overseas)	Name	PricewaterhouseCoopers
	Office address	22/F, Prince's Building, Central, Hong Kong
	Name of signing accountant	Yip Siu Fun
Sponsor performing the duty of continuous supervision during the Reporting Period	Name	Huatai United Securities Co., Ltd.
	Office address	6F, Block A, Fengming International Building, No. 22 Fengsheng Hutong, Xicheng District, Beijing
	Names of signing representatives of the sponsor	Sun Zexia and Wu Ling
	Term of continuous supervision	11 October 2019 — 31 December 2019
Legal advisors as to PRC Law	Beijing Junzhi Law Firm	
Legal advisors as to Hong Kong Law	Linklaters	
A Share Registrar	China Securities Depository and Clearing Corporation Limited, Shanghai Branch	
H Share Registrar	Computershare Hong Kong Investor Services Limited	
Unified social credit code	91410000744078476K	

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

### VIII. PRINCIPAL ACCOUNTING DATA AND FINANCIAL INDICATORS

#### (I) Principal accounting data and financial indicators for the last three years

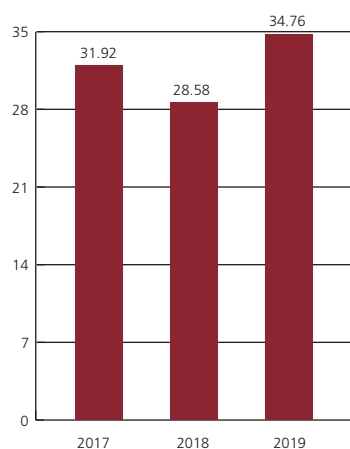
Item	2019	2018	Change of this period from last period	2017
<b>Operating results (RMB'000)</b>				
Revenue and other income <sup>1</sup>	3,475,769	2,857,917	21.6%	3,192,494
Profit before income tax	116,118	101,118	14.8%	680,109
Profit for the year attributable to shareholders of the Company	58,223	65,789	-11.5%	441,983
Net cash inflow/outflow from operating activities	1,482,039	2,659,950	-44.3%	-1,596,902
<b>Earnings per share (RMB/share)</b>				
Basic earnings per share	0.02	0.02	—	0.11
Diluted earnings per share	0.02	0.02	—	0.11
<b>Profitability index</b>				
Weighted average return on net assets (%)	0.59	0.66	Decrease by 0.07 percentage point	4.24
Item	31 December 2019	31 December 2018	Change of the end of this period from the end of last period	31 December 2017
<b>Scale merit (RMB'000)</b>				
Total assets	43,569,902	42,155,282	3.4%	40,661,468
Total liabilities	33,072,117	30,880,242	7.1%	29,209,349
Accounts payable to brokerage clients	8,895,067	6,561,060	35.6%	7,526,503
Equity attributable to shareholders of the Company	9,671,207	9,950,899	-2.8%	10,169,852
<b>Total share capital ('000 shares)</b>	3,869,071	3,869,071	—	3,923,735
<b>Net asset value per share attributable to the Company's shareholders (RMB/share)</b>				
	2.50	2.57	-2.7% Increase by 1.4 percentage points	2.59
<b>Gearing ratio (%)<sup>2</sup></b>	69.7	68.3		65.0

<sup>1</sup> As share of profit of associates has been represented as a separate item in the consolidated income statement, the relevant figure under "Revenue and other income" for each of 2017, 2018 and 2019 as listed in the above table does not include such item.

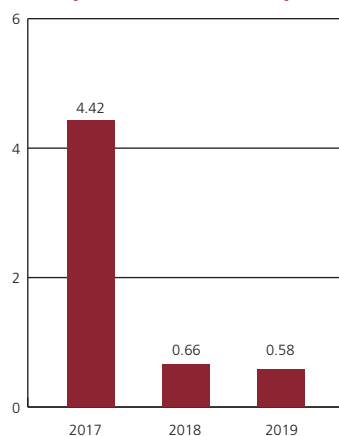
<sup>2</sup> Gearing ratio = (total liabilities — accounts payable to brokerage clients — accounts payable to underwriting clients)/(total assets — accounts payable to brokerage clients — accounts payable to underwriting clients)

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

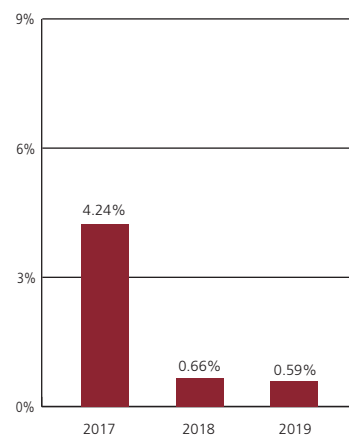
**Revenue and other income  
(RMB100 million)**



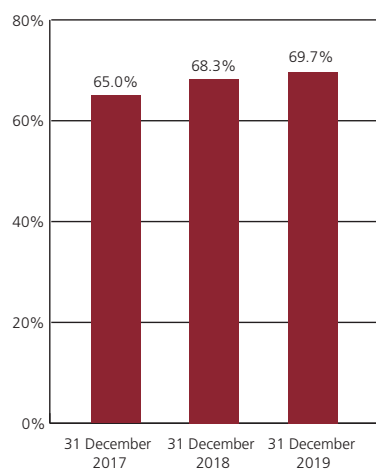
**Profit for the year attributable to shareholders of the Company  
(RMB100 million)**



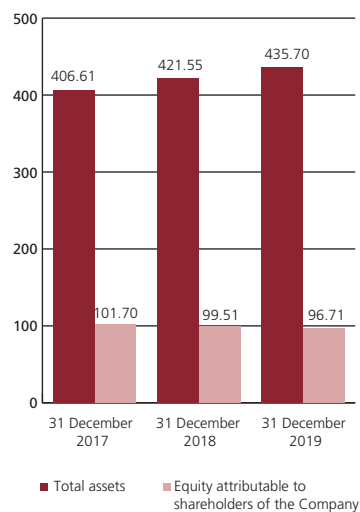
**Weighted average return on net assets**



**Gearing ratio**



**Scale merit  
(RMB100 million)**



## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

### (II) Principal accounting data and financial indicators for the last five years

#### Earnings (RMB'000)

Item	2019	2018	2017	2016	2015
Revenue and other income	3,475,769	2,857,917	3,192,494	3,130,320	5,365,260
Operating expenses	3,402,076	2,778,885	2,518,951	2,150,498	3,439,869
Profit before income tax	116,118	101,118	680,109	974,567	1,890,969
Profit for the year attributable to shareholders of the Company	58,223	65,789	441,983	718,646	1,405,501

#### Assets (RMB'000)

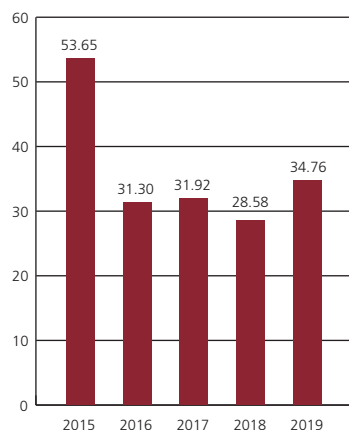
Item	31 December 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
Total assets	43,569,902	42,155,282	40,661,468	40,384,574	41,651,249
Total liabilities	33,072,117	30,880,242	29,209,349	28,837,804	32,774,795
Accounts payable to brokerage clients	8,895,067	6,561,060	7,526,503	10,368,090	14,867,251
Equity attributable to shareholders of the Company	9,671,207	9,950,899	10,169,852	10,582,117	8,161,581
Total share capital ('000 shares)	3,869,071	3,869,071	3,923,735	3,923,735	3,223,735

#### Key financial indicators

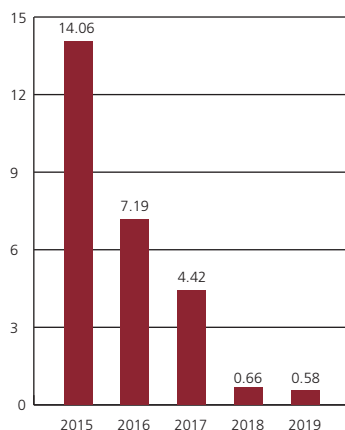
Item	2019	2018	2017	2016	2015
Basic earnings per share (RMB/share)	0.02	0.02	0.11	0.22	0.49
Diluted earnings per share (RMB/share)	0.02	0.02	0.11	0.22	0.49
Weighted average return on net assets (%)	0.59	0.66	4.24	8.89	20.54
	31 December 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
Gearing ratio (%)	69.7	68.3	65.0	61.5	66.9
Net asset value per share attributable to the Company's shareholders (RMB/share)	2.50	2.57	2.59	2.70	2.53

## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

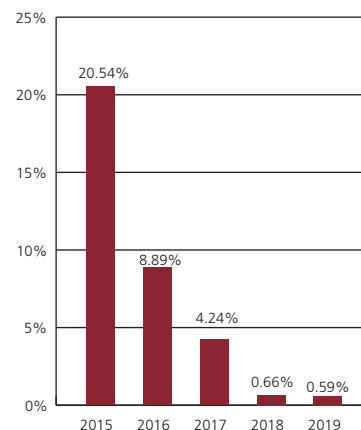
**Revenue and other income  
(RMB100 million)**



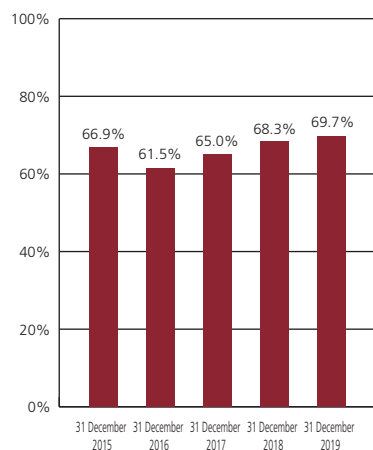
**Profit for the year attributable to shareholders of the Company  
(RMB100 million)**



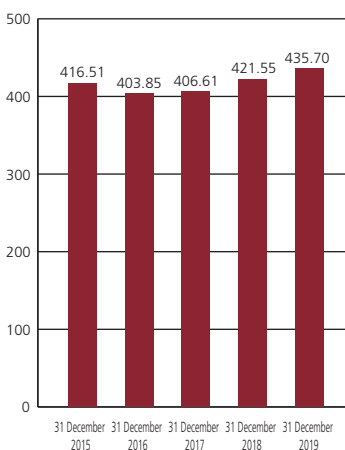
**Weighted average return on net assets**



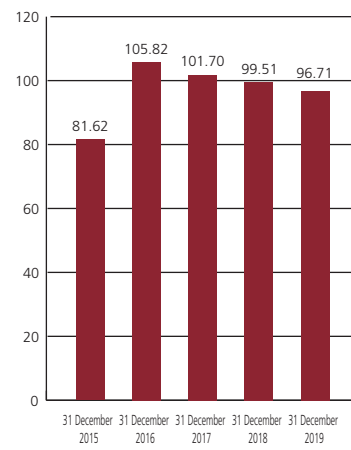
**Gearing ratio**



**Total assets  
(RMB100 million)**



**Equity attributable to shareholders of the Company  
(RMB100 million)**



## SECTION 2 COMPANY PROFILE AND KEY FINANCIAL INDICATORS

### (III) Net capital and risk control indicators of the parent company

Unit: Yuan Currency: RMB

Items	At the End of the Reporting Period	At the End of Last Year
Net capital	6,316,632,921.18	6,970,999,780.73
Net assets	9,931,785,470.13	9,704,314,003.71
Sum of various risk capital provisions	2,935,782,395.38	2,679,680,197.21
Total on-and-off balance sheet assets	31,975,334,104.74	31,868,160,613.18
Risk coverage ratio (%)	215.16	260.14
Capital leverage ratio (%)	15.49	14.99
Liquidity coverage ratio (%)	195.70	733.23
Net stable funding ratio (%)	129.38	153.19
Net capital/net assets (%)	63.60	71.83
Net capital/liabilities (%)	29.07	31.86
Net assets/liabilities (%)	45.71	44.36
Proprietary equity securities and its derivatives/net capital (%)	11.00	14.40
Proprietary non-equity securities and its derivatives/net capital (%)	255.03	203.18
Amount of margin financing (securities lending inclusive)/net capital (%)	118.96	105.88

Note 1: The data at the beginning of 2019 were represented and adjusted according to the Notice on the Revision and Issuance of the Format of the Financial Statements of the Financial Enterprise for 2018 (Cai Kuai [2018] No.36) issued by the Ministry of Finance on 26 December 2018.

Note 2: During the Reporting Period, the Company's major risk control indicators, such as net capital, are in compliance with the regulatory requirements.

### IX. DIFFERENCES OF ACCOUNTING DATA UNDER DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

The consolidated financial statements prepared by the Company in accordance with the International Financial Reporting Standards and the consolidated financial statements prepared in accordance with China's Accounting Standards for Business Enterprises indicate no difference in the profit for the year of 2019 and the year of 2018 and the total equity as at 31 December 2019 and 31 December 2018.

## SECTION 3 SUMMARY OF THE COMPANY'S BUSINESS

### I. PARTICULARS OF THE PRINCIPAL BUSINESSES ENGAGED BY THE COMPANY, OPERATING MODELS AND INDUSTRIAL STATUS DURING THE REPORTING PERIOD

#### (I) Principal businesses engaged by the Company and operating models during the Reporting Period

The Company is principally engaged in the brokerage business, investment banking business, investment management business, proprietary trading business and offshore business.

The brokerage business of the Company refers to the Company's business of trading of stocks, funds, bonds and futures on behalf of the customers based on their engagement, and providing investment consultancy services, financial planning services, and providing customers with financial business services such as margin financing and securities lending and stock pledge. The Company is in return for customers' commissions, interests from financing and other service charges, etc.

The investment banking business of the Company mainly includes the underwriting and sponsorship business of equity securities, the underwriting business of bond products, the financial advisory business regarding mergers, acquisitions and restructuring, and business for the New Third Board. The Company obtains the corresponding returns such as underwriting fee, sponsorship fee and financial advisory fee by providing the aforesaid financial services to customers.

The Company's investment management business is mainly comprised of asset management business, private fund management business, alternative investment business. The Company earns management fees and excess revenue distribution through asset management business and private fund management business, meanwhile, it obtains investment revenues from proprietary capital investment.

The scope of investment of the proprietary trading business of the Company includes publicly offered stocks, bonds, funds, derivatives and other financial products approved by the CSRC. The Company obtains investment revenues through investment in the above-mentioned products.

The business scope of the Company's overseas business covers capital market services, including securities brokerage, margin financial, futures brokerage, investment banking services, securities research, and proprietary investment, etc.



## SECTION 3 SUMMARY OF THE COMPANY'S BUSINESS

### (II) Development stage and cyclical characteristic of the Company's industry and its industry position during the Reporting Period

Creating a “standardized, transparent, open, vibrant and resilient” capital market which was proposed on the Central Economic Working Conference at the end of 2018 conveyed to the market the state's ardent expectations of the overall operation of the capital market for a long period of time in the future. Since 2019, with the rapid propulsion of a new round of reform and opening up in capital market of our country, the ability of securities industry to provide the real economy with better quality and more efficient financial services has been fastly enhanced and has entered into a fast lane with high quality development.

According to the statistics of the Securities Association of China, as of the end of 2019, there were 133 securities companies in China, with total assets and net assets of RMB7.26 trillion and RMB2.02 trillion, respectively, increased by 15.97% and 6.88% as compared with the end of 2018, respectively, with total operating income and net profit of RMB360.483 billion and RMB123.095 billion, respectively, increased by 35.37% and 84.77% as compared with the end of 2018, the operating conditions were significantly improved as a whole. As present, the securities industry is still unable to weaken its cyclical characteristic of industry attributes, but keeps a “spiral” rising trend on a whole.

Currently, the Company is the only securities company registered as a legal person in Henan Province. After over 10 years of development, the Company has developed itself into a comprehensive securities company with distinctive advantages in the region. At present, the Company is one of the 12 A+H listed brokers, and keeps a favourable development momentum in various businesses since the listing.

## SECTION 3 SUMMARY OF THE COMPANY'S BUSINESS

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

#### (I) Advantage of the synergy throughout the whole industrial chain, which are led by the investment banking business

Focusing on the business strategy of “strengthening investment banking business and making excellent investments”, the Company continued to deepen the reform of investment banking and vigorously introduced professional talents such as sponsor representatives, with professional capabilities and industry ranking significantly improved and reserve projects significantly increased. The leading role of driving the investment, asset management and wealth management businesses has become increasingly prominent.

#### (II) Advantage of A+H listing platforms

The Company is the eighth securities company in China listed on the main board both in Hong Kong and mainland China. Not only does the Company have the smooth channels to replenish net capital and operating capital and rich means for development, but also the brand and social influence improves significantly, thus expanding its development prospect.

#### (III) Comprehensive financial operation advantage

Currently, the Company owns such subsidiaries as Equity Exchange Co., Central China Futures, Central China Blue Ocean, ZDKY Venture Capital, Central China International and Central China Micro-lending with good momentum of development. The Company is now leading the establishment of Zhongyuan Life Insurance Co, Ltd.\* (中原人壽保險股份有限公司) (provisional name) and has preliminarily formed a comprehensive structure for financial operation, which can improve the operating results of the Parent Company while providing diversified financial services for customers.

#### (IV) Advantage of “base area”

As the only securities company as a legal person in Henan Province, the Company is endowed with the “base area” of the largest economic province in China’s central and western areas. The Company has deeply explored the Henan market for a long time and established deep cooperation with the local government, enterprises and individual customers, with a stable customer base and several businesses ranking at the top in terms of regional market share.



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### I. REVIEW OF BUSINESS

#### (I) Business review

In 2019, the Group recorded total revenue and other income of RMB3,475.8 million, representing an increase of 21.6% as compared with 2018; operating expenses amounted to RMB3,402.1 million, representing an increase of 22.4% as compared with 2018; net profit attributable to shareholders of the Company amounted to RMB58.2 million, representing a decrease of 11.5% as compared with 2018; basic earnings per share amounted to RMB0.02, which was the same as 2018; weighted average return on net assets was 0.59%, representing a decrease of 0.07 percentage point as compared with 2018.

In 2019, the revenue and other income generated from brokerage business amounted to RMB1,790.1 million, representing an increase of 36.8% as compared with last year, primarily attributable to the increase in commission and fee income generated from securities brokerage business and revenue generated from bulk commodity trading; the revenue and other income generated from investment banking business amounted to RMB217.0 million, representing an increase of 128.2% as compared with last year, primarily attributable to the increase in commission and fee income generated from underwriting and sponsorship business; the revenue and other income generated from proprietary trading business amounted to RMB933.5 million, representing an increase of 59.1% as compared with last year, primarily attributable to the increase in net investment gains from bond trading; the revenue and other income generated from headquarters and other businesses amounted to RMB578.5 million, representing an increase of 16.8% as compared with last year, primarily attributable to the increase in net investment gains; the revenue and other income generated from investment management business amounted to RMB215.7 million, representing a drop of 6.1% as compared with last year, primarily attributable to the decrease in commission and fee income generated from asset management; the revenue and other income generated from overseas business amounted to RMB-90.5 million, representing a drop of 149.1% as compared with last year, primarily attributable to the decrease in net investment gains.

#### (II) Major risks and uncertainties

Major risks faced by the Company include: credit risk, market risk, liquidity risk, operational risk, compliance risk and information technology risk, etc. For the major risks faced by and counter-measures taken by the Group, please refer to IV. (IV) "Potential risks" in this section.

#### (III) Material subsequent events

Since the end of the Reporting Period to the date of publication of this report, no subsequent event has occurred which had a material impact on the Group. For details of other subsequent events of the Group, please refer to Note 61 to the Consolidated Financial Statements as set out in this report.

#### (IV) Future development and forward-looking

For the prospects of the Company's future development, please refer to IV. "DISCUSSION AND ANALYSIS ON THE FUTURE DEVELOPMENT OF THE COMPANY" in this section.

#### (V) Environmental policies and performance

Sustainable development has become a global issue. The Company has always adhered to the concepts of energy conservation, consumption reduction, pollution reduction and ecological protection throughout the operation and management. The Company has been actively improving its environmental management system and practicing green sustainable development in compliance with laws, regulations and regulatory documents 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》) and the Law of the People's Republic of China on Conserving Energy (《中華人民共和國節約能源法》).

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

As for green finance, as a responsible financial service enterprise, the Company has been adhering to the concept of green development. The Company strictly controls the investment banks and the investment projects in respect of environmental protection, and undertakes no projects of which prevention and treatment of pollution does not meet the requirements of the PRC's policies. The Company will never ignore environmental protection for benefits and will overcome obstacles in the prevention and treatment of pollution with practical actions. During the Reporting Period, the Company entered into service terms with a number of environmental protection companies in order to help the environmental protection industry to flourish and actively contribute to the construction of ecological civilization with its professional advantages.

As for green office, the Company's effort in paper reduction and green office can be reflected by the application of Office Automation System (OA System) to manage the administrative tasks such as the application and purchase, instruction requests and applications of materials and use of official document seals. During the Reporting Period, the Company called on its entire staff to operate and work in a low-carbon and environmentally-friendly way, so as to maximally save social resources and reduce pollution to the environment, and thus adhering to green operation throughout the operation and management.

As for energy conservation and emission reduction, the Company has made much effort to reduce the environmental impact through careful management of energy consumption and resources use. As part of the Company's water saving initiatives, through water saving labels displayed in restrooms which remind employees to save water, the Company urges its employees to turn off the faucets tightly after use every time to avoid unnecessary waste. Other water saving measures include installation of infrared water tap and cistern flush, as well as repairing dripping tap and other devices in a prompt manner to reduce water use to the extent possible. For reduction of electricity consumption, the Company encourages appropriately increasing the temperature of air conditioners in summer, and ensures that electrical appliances are cut off when no one is using them. Through a series of management measures, the energy saving goal of effectively reducing electricity consumption has been achieved. For reduction of patrol waste and air pollution, the Company's fleet staff has to perform regular maintenance to raise the efficiency of the Company's vehicles and make sure to switch off idling engines while not using the vehicles.

### **(VI) Compliance with relevant laws and regulations with significant impact**

The Company strictly complies with domestic and overseas laws and regulations as well as industry standards such as the Hong Kong Listing Rules, SFO and the Company Law, Securities Law and the Regulations on the Supervision and Administration of Securities Companies of the PRC.

### **(VII) Material relationship with employees, customers and suppliers**

The Company provides services for the various institutional and individual customers engaged in a number of industries. The Company's clients include large, small and medium enterprises, high-net-worth clients and retail customers. Major customers are located in mainland China. With our future expansion in overseas markets, we are expected to provide services for more overseas customers. The top 5 customers of the Company in total accounted for less than 30% of the operating revenue. No customer has a material relationship with the Company.

Due to the nature of the business, the Company does not have a major supplier. No employee has a material relationship with the Company.



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### II. DISCUSSION AND ANALYSIS ON BUSINESS OPERATION

#### (I) Overall business performance

In 2019, influenced by multiple factors, the stock market rose first, then suppressed, and then adjusted and enhanced in turbulence. In the face of the complex and changeable environment, the Company continued to deepen the internal reform, vigorously improved the professional level, and improved the overall quality and efficiency, presenting a good development trend.

Significant progress has been made in the overall reform of the Company. The comprehensive performance appraisal system was basically established, and the endogenous driving force for the development of major business lines was strengthened. Important steps were taken in the transformation of wealth management. A new organizational structure was established at the headquarters level, and the reform approaches at the branch level were established.

The Company's professional ability has been significantly improved. The compliance risk control level has been significantly improved, and the classification rating has been upgraded for five levels in a row. The Company is the security company with the biggest upgrade. The professional evaluation result of the professional ability of the financial consultant in the mergers and acquisitions of investment banks was promoted from C to B, and the business competitiveness was enhanced. Shanghai and Shenzhen stock exchanges fully recognized the investment education work of the Company. The "Central China investor education base" was named as the "national investment education base" by the CSRC at the end of November.

Various businesses of the Company have steadily improved. The fixed income investment business comprehensively strengthened the internal control management, vigorously enhanced the management efficiency, and positively grasped the bond market opportunity, rendering outstanding profit contribution. The wealth management line accelerated the transformation and, at the same time, seized the market opportunities to realize rapid growth of assessment income and profits. The investment bank business continued to develop in a positive way, the ranking of equity underwriting increased by 40 places over the previous year, and the transaction amount of merger, acquisition and restructuring financial advisory business ranked among the top 20 in the industry. Remarkable effect was achieved in the structure adjustment of market-making business, resulting in substantial loss reduction. JALON MICO NANO (建龍微納), SongYang Recycle Resources (松煬資源) and Montage Technology (瀾起科技) invested by its subsidiaries successively achieved the listing on the main board and science and technology innovation board. The new listed enterprises and new financings in the Equity Exchange Co. both hit a new high.

The Company vigorously strengthened its construction of risk control and compliance capacity, and took various measures to prevent and resolve operating risks. At present, all business risks are generally measurable, controllable and tolerable.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### (II) Analysis of principal operations

#### 1. Brokerage business

##### (1) Securities brokerage

###### Market environment

In 2019, the Shanghai and Shenzhen stock exchanges rose after being beaten down. The dream of building a strong nation in science and technology first promoted the increase in SME Index and ChiNext Index, and the SSE Composite Index and Shenzhen Component Index and ChiNext index increased by 22.30%, 44.08% and 43.79% respectively throughout the year. The amount of shares traded increased significantly, with the trading volume of shares and funds traded in the two stock markets reaching RMB272.31 trillion in 2019, increasing 35.70% from the previous year. Against the background of intensified market competition and continuous decline in the commission rate of the industry, the percentage of revenue from the traditional brokerage business continued to decline, and revenue elasticity continued to decrease. The booming demand of the clients for wealth management services resulted in the increasingly fierce competition in large wealth management, which puts forward higher requirements on the comprehensive strength of securities companies in terms of products, talents, channels, research, science and technology, etc. [Source: Wind Info]

###### Business measures and performance

In 2019, the Company actively seized the new opportunities of deepening the development of the capital market and continuously accelerated the transformation of the online-offline integrated wealth management service model; continued to deepen the application of financial technology and accelerated the development of online channels and the construction of intelligent service systems; accelerated the integration of information systems; orderly promoted the functional transformation and personnel streamlining of branch offices, and constantly increased the investment in training resources of professional investment advisory team; maximized the innovation vitality and profit potential of branches based on market-oriented reform. In the meantime, the Company accelerated the construction of financial product system, improved customers' awareness of the company's products and "Wealth Central China" (财富中原) service brand, and the response and satisfaction ability of wealth management and other comprehensive financial services for different customer groups.



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

During the Reporting Period, the Company's A-share fund trading volume reached RMB1,341.681 billion, with a market share of 4.93%, and the number of new customers reached 226,900. The balance for margin financing and securities lending was RMB5.526 billion, increasing 35.72% from the previous year. The trading volume of stock options was 2.3923 million, increasing 44.60% from the previous year. The sales of public funds reached RMB1.563 billion, increasing 34.94% year-on-year. The sales of revenue receipts reached RMB3.476 billion, increasing 25.90% from the previous year. The agency sale of new trust product amounted to RMB129 million.

### Outlook for 2020

In 2020, the Company will take customer needs as the guide, deeply explore customer's demand for value, and accelerate the integration of products, talents, channels, science and technology and other factors based on the whole business chain system, establish a more comprehensive customer ranking and classification service system, explore a new model of service of the investment advisory team, and further create an online and offline integrated wealth management business ecosystem featuring "technology driven, professional support and integrated linkage"; foster the core competitiveness of wealth management centering on customer needs and build a new business model centered on professional services, with an aim to fully improve service efficiency, improve and optimize customer experience with higher quality service.

### (2) *Futures brokerage*

The Company carried out its futures brokerage business, futures investment consultation and asset management business through its subsidiary Central China Futures, and carried out risk management business through Central China Futures' subsidiary Yuxin Investment.

### Market environment

In 2019, the listing of new products and the internationalization of varieties were accelerated in China's futures market. The function of serving the real economy was further manifested, and the scale and operation quality of futures business were steadily increased and improved. In addition, futures companies were listed in A-share market, marking the formal entry of futures industry into the new era of equity financing. In 2019, the accumulated trading volume in the national futures market was 3.962 billion lots and the accumulated turnover was RMB290.61 trillion, representing an increase of 30.81% and 37.85%, respectively, as compared to the previous year. [Source: China Futures Association]

### Business measures and performance

In 2019, centering on the operating principle of "focusing on scale, giving consideration to benefits, strengthening synergies, innovating and keeping steady", Central China Futures vigorously promoted the "transformation + revenue generation" of the brokerage, asset management and risk management business by continuously adjusting the structure, setting up more institutions, upgrading the brand, and setting up new research institutes etc. In addition, team building, talent introduction, mechanism improvement, comprehensive services and compliance risk control also reached a new level and achieved stable development.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

During the Reporting Period, the Company had 2,487 new clients, and the total number of clients served reached 26,500. The number of institutional clients increased by 7.69% as compared to the previous year, and the capital scale of institutional clients increased by 52.03% as compared to the previous year. The accumulative number of transactions was 18.8165 million, and the total transaction amount was RMB1,073.123 billion, increasing 4.88% and 8.69% respectively from the previous year. Yuxin Investment, a subsidiary of Central China Futures, was awarded the Gold Prize of Market-making Business of Shanghai Futures Exchange in 2019 and the title of "Excellent Risk Management Company" of Zhengzhou Commodity Exchange in 2019.

### Outlook for 2020

In 2020, the futures market will be further opened up to the outside world, and the development of futures companies will face many opportunities and challenges. Central China Futures will, centering on the transformation and development of the main business, focus on the transformation of the brokerage business into a comprehensive derivative business service platform that serves customers to create value as its core, practice the concept of financial services for the real economy, base on industrial services, engage in the real industry through business combination of futures and cash commodities trading, and strengthen the service for institutional customers, to achieve significant improvement in scale and social benefits. At the same time, with the promotion of scale as the starting point, it will intensify the introduction of professional talents, stimulate business vitality with market-oriented mechanisms, and realize the overall consideration and dynamic balance of risk compliance management and business development through the institutionalization and proceduralization of risk management, ensuring healthy and sustainable development of various businesses.

## 2. Investment banking business

### Market environment

During the Reporting Period, the introduction of STAR Market and the encouragement policies of mergers, acquisitions and restructuring and refinancing provided market opportunities for the development of investment banking business. There were 203 companies in total that completed the initial offering in Shanghai and Shenzhen stock exchanges, with financing amount of RMB253.248 billion, representing a growth of 83.76% as compared to the previous year; the refinancing fund raised by the listed companies was RMB1,279.127 billion, increasing 19.22% from the previous year. There were 249 new listed companies in the New Third Board market, with the total financing amount of RMB26.463 billion, representing a decrease of 56.22% as compared to the previous year. The total amount of bonds issued by various institutions was RMB45.18 trillion, representing an increase of 3.03% as compared to the previous year. [Source: Wind Info, New Third Board]



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### Business measures and performance

In 2019, the Company's investment banking business line continued to deepen its reform and improve its quality and efficiency. On the one hand, we continued to improve the system construction, strictly implemented the requirements of the internal control guidelines, improved the internal control level of investment banking business, attracted professional talents, further optimized and enriched the investment banking business structure, and built a professional investment banking team with fine management of stocks and bonds, win-win team cooperation, and strong backstage support. On the other hand, we seized the development opportunities and vigorously promoted the development of all kinds of businesses, especially the further expansion of the science and technology innovation board market. We gave play to the local advantages, deeply explored the Henan market, and strengthened the in-depth cooperation with large provincial management enterprises. The number of projects completed and in stock increased significantly compared with the same period last year, gradually forming a benign echelon layout of projects. As of the end of the Reporting Period, the Company ranked the 30th in equity underwriting amount (including stock issuance amount of merger, acquisition and restructuring projects), and the 19th among the merger, acquisition and restructuring financial advisory (based on transaction amount) in Shanghai and Shenzhen stock exchanges. The Company won the award of "Outstanding Underwriter of Local Government Bonds of Shanghai Stock Exchange for the Year of 2019" at the commendation meeting for outstanding participant institutions of bond market held by SSE. [Source: Wind Info, quanshangcn]

During the Reporting Period, the Company has completed 1 joint lead underwriting project for IPO and 3 refinancing projects of listed companies, the equity lead underwriting amount was RMB2.113 billion in total in Shanghai and Shenzhen stock exchanges throughout the year, representing an increase of 523.30% from the previous year; the Company has completed 4 corporate bond projects, 9 corporate debt projects and 2 financial bond projects, the lead underwriting amount of various bonds throughout the year was RMB11,253 million in total, representing an increase of 97.42% from the previous year; in addition, the Company has completed 5 independent financial advisory projects for merger and acquisition and restructuring of listed companies, and 8 targeted financing projects on New Third Board.

### Outlook for 2020

In 2020, the Company will continue to deepen investment banking reform, follow the development of STAR Market, GEM and New Third Board reform and other market opportunities, accelerate business transformation and development, and better serve the real economy. To the end, we will build a professional equity issuing team and debt issuing team in respect of the investment banking business line, strengthen the construction of underwriting capacity; bring local advantages into full play, make a deep exploration of Henan market, increase the efforts of project implementation and development, and ensure that investment banking business will continue to develop vigorously. We will promote the risk control mode of investment banking from passive to active according to the regulatory requirements, and promote the risk control level of investment banking to a new level.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### 3. Investment management business

#### (1) Asset management

##### Market environment

In 2019, with the intensive implementation of new asset management regulations and supporting rules, it has become an industry consensus for asset management business to return to active management and complete net worth transformation and upgrading. In the new market environment, the new pattern of industry ecology has been further reshaped. Various institutions have made use of their own advantages and expertise to cultivate innovation capabilities in asset allocation, risk pricing and product service, and further highlighted their differentiated core competitive advantages. As a result, the development gap of various asset management institutions is further widened and the industry concentration degree is further enhanced.

##### Business measures and performance

In 2019, the Company's asset management business, while enhancing the management of existing products and risk resolution, strengthen the formulation and revision of the basic system, earnestly implement the requirements of new asset management regulations, taking into consideration the guiding requirements of new asset management regulations and the development trend of the industry. We strengthened compliance risk control construction, improved risk control and internal control management capacity, enhanced business process streamlining and improved operation efficiency. We adopted a series of measures, such as optimizing the organizational structure and improving the management efficiency, to consolidate the foundation for the development of asset management business.

As of the end of the Reporting Period, the total asset under management of the Company amounted to RMB7.618 billion, including 12 collective asset management plans in the amount of RMB5.028 billion, 7 targeted asset management plans in the amount of RMB1.860 billion and 2 specific asset management plans in the amount of RMB730 million.

##### Outlook for 2020

In 2020, the Company will, centering on improving active management capacity, adopt differentiated and moderately scaled business strategy, make active equity investment business deployment, moderately carry out fixed income investment and institutional financing business, constantly enhance the professional product design and asset allocation ability, create retail customer oriented product line, build up the institutional customer product line, and promote the transformation of wealth management of the Company by grasping the development opportunities of capital market.



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### (2) *Private fund management*

The Company carried out private fund management business through ZDKY Venture Capital, the subsidiary of the Company, and its subsidiaries.

#### Market environment

In 2019, due to the impact of macroeconomic and financial environment and regulatory policies, China's equity investment market was generally faced with fundraising difficulties. There were 2,710 new funds in the market, with a total amount of RMB1,244.404 billion raised, both presenting a downward trend. The investment activity and investment amount of domestic equity investment institutions also declined significantly, with the investment amount of RMB763.094 billion, decreasing 29.3% from the previous year. In view of the pain points in the equity investment industry, the regulatory authorities have actively improved the policies, with higher standardized requirements for the filing of private funds and further elimination of hidden barriers to market access. Meanwhile, thanks to the development of the science and technology innovation board, the exit channels of VC and PE institutions have been improved, and the number of exits from the equity investment market in China has increased. The number of exit cases in the year was 2,949, increasing 19.0% from the previous year, and the number of IPO cases of enterprises invested was 1,573, increasing 57.9% from the previous year. [Source: ZeroIPO Research Center]

#### Business measures and performance

In 2019, focusing on the two main lines of government industrial fund and merger and acquisition fund for listed companies, ZDKY Venture Capital widely approached potential partners, and made vigorous efforts to post-investment management and enterprise empowerment. Some investment projects began to generate returns. In particulars, JALON MICO NANO (建龍微納) invested by the fund of ZDKY Venture Capital was successfully listed on the STAR Market.

During the Reporting Period, three new funds were set up, with an increased fund management scale of RMB1.906 billion, and two equity-type investment projects were completed, with a total investment amount of RMB360 million. As of the end of the Reporting Period, ZDKY Venture Capital and its subsidiaries filed and managed 15 private funds, with a scale of RMB5.100 billion.

#### Outlook for 2020

In 2020, ZDKY Venture Capital will strengthen capacity building for raising funds in the market, actively introduce provincial-level platforms, large state-owned enterprises, listed companies, industry leaders, and national strategic partners, and promote the establishment of equity investment funds such as private placement funds and merger and acquisition funds to expand the size of funds. At the same time, we pay special attention to the fund investment operation, try to obtain high-quality equity investment projects meeting our investment standard, with big market influence, wide brand awareness and high comprehensive income through various channels, strengthen the support to the real economy, and make efforts to improve the ability to raise funds in the market through high-quality projects, in order to bring more returns for fund investors while supporting the development of entity enterprises.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### (3) *Alternative investment*

The Company carried out alternative investment business through, its subsidiary, Central China Blue Ocean.

#### Market environment

In 2019, China accelerated the efforts to comprehensively deepen the reform of the capital market, and set up the science and technology innovation board with the pilot registration system. The reform of other sectors and the merger and acquisition and restructuring business was gradually pushed forward. The regulatory authorities introduced a number of favorable policies to broaden the exit channels of investment institutions. However, on the other hand, the continuous adjustment of the macro economy and the constant change of the international trade environment made the development environment of real enterprises more complex and changeable, which further led to the sudden increase of the operating risk of the projects invested and the difficulty of realizing the investment return.

#### Business measures and performance

In 2019, Central China Blue Ocean adjusted its investment strategy, enhanced the cooperation with the Company's investment banking team, focused on the investment of enterprises to be listed, and steadily exited the investment in financial products. We strengthened post-investment management and the disposition of risk project, and achieved positive results.

During the Reporting Period, 13 new investments were made by Central China Blue Ocean, with a total investment scale of RMB310 million, including 6 equity investments with a scale of RMB165 million, and 7 financial product investments with a scale of RMB145 million. 14 investment projects of various types were withdrawn, and the investment amount recovered was RMB310 million. As of the end of the Reporting Period, Central China Blue Ocean invested in 30 projects with a total scale of RMB2.234 billion.

#### Outlook for 2020

In 2020, Central China Blue Ocean will further grasp the historical opportunities offered by the STAR Market and the registration system, make use of the advantages of the Company's platform, strengthen business cooperation, keep exploring enterprises with hardcore investment value, focusing on the intrinsic value and long-term development of enterprises, carry out value discovery and value creation, empower the invested enterprises and help them grow and develop, so as to steadily increase the yield rate on investment.



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### 4. Proprietary trading

#### *Market environment*

In 2019, uncertainties in the macro environment increased. The trade war between China and the United States encountered backs and forths, downward pressure on the economy increased, and counter-cyclical adjustments to policies were even more flexible. With the introduction of the science and technology innovation board and the modification of the Securities Law, China's capital market has ushered in new changes. Affected by economic policies and external factors, the SSE Composite Index rose 22.30%, getting rid of the wide-ranged turbulence. The bond market presented an overall trend of shock and differentiation. Affected by factors such as breach of the deposit receipt by the counterparty and inflation, the interest rate market showed a sharp fluctuation trend in general, credit risk was exposed to some extent, and structural differentiation gradually emerged. The yield on the 10-year treasury bond remained generally stable, with the Comprehensive Full Price Index of ChinaBond increased by 1.31%. [Source: Wind Info]

#### *Business measures and performance*

In 2019, the Company continued to improve its internal control system, tighten credit risk management, strengthen prior risk control and market access, and strengthen credit risk control for its proprietary trading business. In terms of equity type trading, we carried out investment operation with the prudent principle of pursuing absolute return, strengthened the research on macro industries and product varieties, focusing on the structural opportunities in the market, and enhanced the research ability and strategic deployment in frontier fields in light of the opportunity of the STAR Market. In terms of fixed income trading, we actively seized opportunities in the market through improving asset structure, enhancing credit research and increasing the proportion of investment in credit bonds, tried to invest by leveraging the trends in products such as rate securities and treasury bond futures, and deeply explored the profit model of paying equal attention to asset allocation and band trade, so as to achieve steady growth of proprietary bond trading business. In terms of fixed income sales transactions, we continued to explore the sales market, strengthen customer maintenance and development, and promote the sales of various products through business innovation and channel expansion, thus achieving good sales performance.

During the Reported Period, equity-type investment turned losses into profits, achieving a gain of RMB47,767,900. The fixed income investment achieved a gain of RMB531,853,300, representing an increase of 55.20% as compared to the previous year.

#### *Outlook for 2020*

In 2020, while developing its existing proprietary trading business, the Company will actively develop new businesses and promote their rapid development. With regard to equity trading, we will continue to study and optimize the investment strategies for stock options and other derivatives, further study and develop new strategies, build a more efficient trading system, grasp the various investment opportunities, and strive to continue to improve the investment yield. For fixed-income investment business, the Company will, based on the market change, enrich the varieties of fixed-income products, steadily push forward the bond market-making, interest rate swap and other relevant investment businesses, promote business innovation ability and the automation level of trading, constantly expand the depth and breadth of business coverage. As to the fixed income sales transaction business, we will further give play to the advantages of strong professionalism, wide customer coverage, and effective internal and external interaction of the fixed income business, continuously improve the level of all-round service to clients, and promote the better development of bond sales business.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### 5. Overseas business

The Company carried out the overseas business through Central China International and its subsidiaries.

#### ***Market environment***

In 2019, the Hong Kong stock market improved as compared to the previous year, with 183 newly listed companies, decreasing 16.06% from the previous year. An amount of approximately HK\$312.9 billion was raised through initial public offering, increasing 8.65% from the previous year. The economy of Hong Kong fluctuated to a certain extent due to various factors, and some listed companies had operational difficulties, leading to a relatively concentrated outbreak of credit risks. [Source: the HKEx website]

#### ***Business measures and performance***

In 2019, the licensed businesses, such as brokerage, investment banking, fixed income (DCM) and futures, of Central China International maintained a trend of steady development in the operation and management. The ranking of Central China International Securities Co., Ltd. in terms of brokerage trading volume as published by the Hong Kong Stock Exchange rose from the 128th in the previous year to the 105th in 2019 and Central China International Futures Co., Ltd. was granted the “Model Chinese Futures Trader of 2019” award by the Hong Kong Stock Exchange. As of the end of the Reporting Period, the number of securities brokerage accounts reached 7,013, with an increase of 4.05% from the previous year; the cumulative trading volume of the brokerage securities was HK\$24.232 billion, with an increase of 29.00% from the previous year; in terms of investment banking, 11 investment banking projects were completed in the year, raising approximately HK\$1.2 billion. However, due to the impact of economic fluctuations, some investment projects had the risk of becoming overdue. Central China International has tried a variety of approaches to promote risk mitigation.

#### ***Outlook for 2020***

In 2020, Central China International will accelerate the business transformation, strengthen domestic and foreign linkage, focus on corporate financing, fixed income and high-end wealth management, and strive to build a professional team, improve the compliance risk control system, take the initiative to reduce leverage and defuse risks, and provide high-quality services and financial products, in order to bring clients and shareholders sustained and steady returns.



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### 6. Others

#### (1) *Regional equity market business*

The Company carries out the regional market business through its subsidiary, Equity Exchange Co.

##### Market environment

On 26 June 2019, the CSRC issued the Guiding Opinions on Standardizing the Development of Regional Equity Markets, which put forward specific requirements for further promoting the healthy development of regional equity market from ten aspects, such as accurately grasping the market development orientation, strictly implementing classified and hierarchical management, consolidating and refining equity financing business. The policy system of regional equity market was further improved.

##### Business measures and performance

During the Reporting Period, Equity Exchange Co. continued to maintain a good development trend, with the successful establishment of “Service Base of Capital Market for Henna” in Shanghai Stock Exchange. The total number of listed enterprises thereon exceeded 6,800, ranking top among the 34 regional equity markets in China. Taking convertible bonds and equity pledge financing as the breakthrough point, we held regular road shows for enterprises in various forms, and greatly expanded the channels of direct financing for enterprises. A total of 12 convertible bonds were issued with a total amount of RMB460 million throughout the year. We held tour seminars on capital market in key cities to enhance the sense of gain with respect to the listing service for enterprises. As of the end of the Reporting Period, there were 380 custodian enterprises with 42.5 billion shares in custody, and the accumulative financing amount was RMB6.230 billion.

##### Outlook for 2020

As a local stock exchange in Henan province, Equity Exchange Co. will follow the concept of high-quality development and promote the market upgrade in four aspects: listed enterprises, investment institutions, intermediaries and platform services. We will provide practical services for enterprises to be listed, and promote the registration and custody of stock rights of unlisted joints stock limited companies, continue to expand the scale of financing, carry out precise enterprise training, strengthen market self-discipline management, in order to realize the transformation from quantity expansion to quality improvement, and provide more comprehensive financial services for small, medium and micro enterprises.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### (2) *Micro-lending business*

The Company conducts micro-lending business through its subsidiary, Central China Micro-lending.

#### Market environment

In 2019, the micro-lending industry in Henan province continued the trend of polarization. Most micro-lending companies are subject to various disadvantageous factors such as small amount of registered capital, limited financing channels, high financing cost and weak risk control ability, increasing the operation pressures. Meanwhile, some financial institutions, large enterprise groups and listed companies actively set up small lending companies. These small lending companies created their own operating characteristics and market competitiveness, and gradually developed and grew, becoming the core strength of the small lending industry in Henan province.

#### Business measures and performance

In 2019, Central China Micro-lending actively explored the business model suitable for its own development based on the industry characteristics and shareholder background, and gradually defined the market deployment of “one large and one small”. “Large” means to develop the large high-quality clients that use the services of the Group, actively connect with the Group’s investment banking, asset management and other business lines, and provide more comprehensive financial services for high-quality enterprise clients by making use of the Group advantages. “Small” means to do a good job in small and micro businesses and individual financial services, rely on the “fourth board loan”, “employee loan”, “two mortgages loan” and other innovative small and micro loan and individual loan products, and constantly improve the ability to serve small and micro businesses. During the Reporting Period, the loans provided by Central China Micro-lending totaled RMB695 million. As of the end of the Reporting Period, the balance of loans amounted to RMB1.154 billion.

#### Outlook for 2020

In 2020, Central China Micro-lending will steadily promote the strategic deployment of “one large and one small”, gradually form the customer structure and operation characteristics that center on the interaction with the Group’s investment and loan as well as the small and micro loans and individual loans, strengthen the solution of problematic loans, and further improve the level of business risk control and profitability.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### III. PRINCIPAL OPERATIONS DURING THE REPORTING PERIOD

#### (I) Analysis on financial statements

##### 1. Details of principal items in the consolidated income statement

In 2019, the Group recorded total revenue and other income of RMB3,475.8 million, representing an increase of 21.6% as compared with 2018; operating expenses were RMB3,402.1 million, representing an increase of 22.4% as compared with 2018; recorded net profit attributable to shareholders of the Company of RMB58.2 million, representing a decrease of 11.5% as compared with 2018; basic earnings per share amounted to RMB0.02, which was the same as 2018; weighted average return on net assets was 0.59%, representing a decrease of 0.07 percentage point as compared with 2018.

##### (1) Summary of financial results

In 2019, the Group's profit before income tax amounted to RMB116.1 million, representing an increase of 14.8% as compared to 2018. The key financial results are as follows:

Unit: in RMB million

Item	2019	2018	Change	YOY Change (%)
<b>Revenue</b>				
Commission and fee income	1,146.2	910.4	235.8	25.9%
Interest income	979.7	1,291.9	-312.2	-24.2%
Net investment gains	722.3	348.0	374.3	107.6%
Other operating income	627.6	307.7	319.9	104.0%
<b>Total revenue and other income</b>	<b>3,475.8</b>	<b>2,857.9</b>	<b>617.9</b>	<b>21.6%</b>
<b>Operating expenses</b>	<b>3,402.1</b>	<b>2,778.9</b>	<b>623.2</b>	<b>22.4%</b>
<b>Share of profits of associates</b>	<b>42.4</b>	<b>22.1</b>	<b>20.3</b>	<b>91.9%</b>
<b>Profit before income tax</b>	<b>116.1</b>	<b>101.1</b>	<b>15.0</b>	<b>14.8%</b>
Income tax expense	41.0	5.3	35.7	673.6%
<b>Net profit for the year</b>	<b>75.1</b>	<b>95.9</b>	<b>-20.8</b>	<b>-21.7%</b>
Net profit attributable to shareholders of the Company	58.2	65.8	-7.6	-11.5%

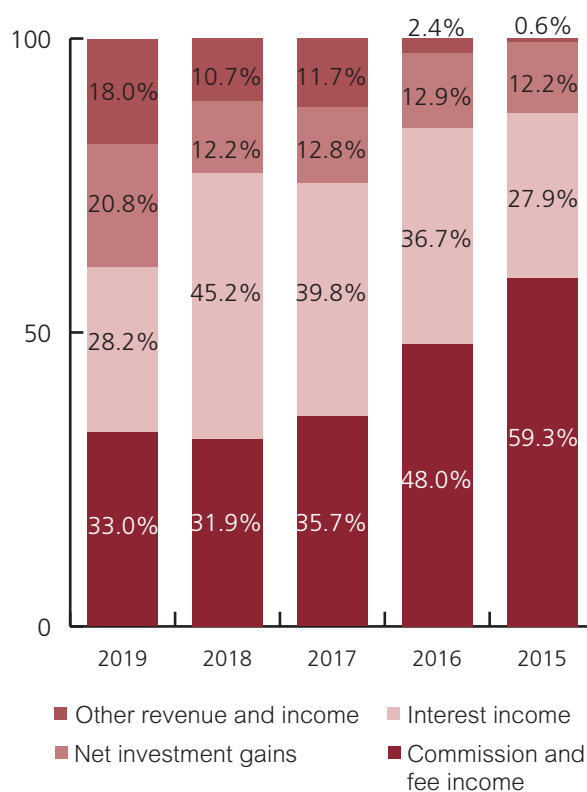
## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### (2) Revenue structure

In 2019, total revenue and other income of the Group amounted to RMB3,475.8 million, representing an increase of 21.6% as compared to 2018. Among which, the proportion of commission and fee income was 33.0%, representing an increase of 1.1 percentage points as compared to 2018; the proportion of interest income was 28.2%, representing a decrease of 17.0 percentage points as compared to 2018; the proportion of net investment gains was 20.8%, representing an increase of 8.6 percentage points as compared to 2018; the proportion of other revenue and income was 18.0%, representing an increase of 7.3 percentage points as compared to 2018. The revenue structures of the Group in the past five years are as follow:

Item	2019	2018	2017	2016	2015
Commission and fee income	33.0%	31.9%	35.7%	48.0%	59.3%
Interest income	28.2%	45.2%	39.8%	36.7%	27.9%
Net investment gains	20.8%	12.2%	12.8%	12.9%	12.2%
Other operating income	18.0%	10.7%	11.7%	2.4%	0.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Bar chart below sets forth the comparison of structures:



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

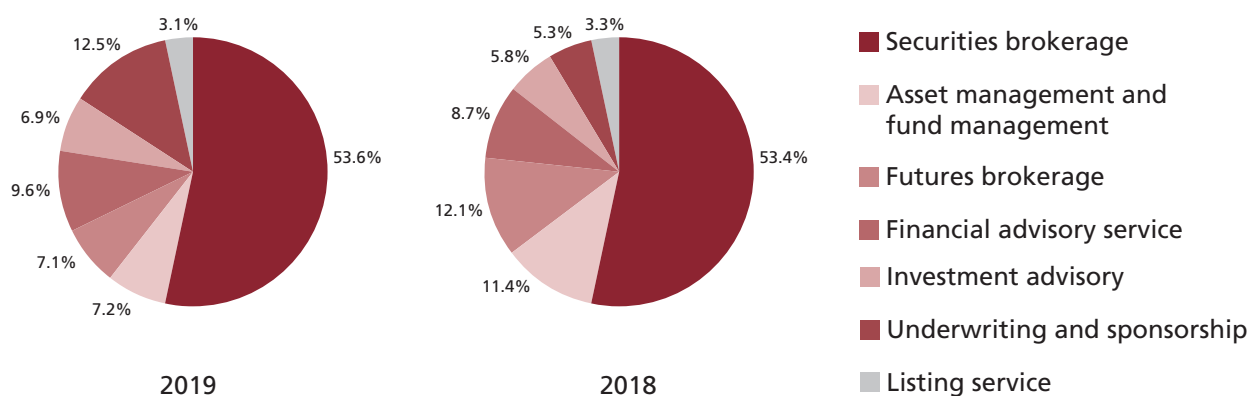
### Commission and fee income

In 2019, the Group's commission and fee income consists of the following:

Unit: in RMB million

Item	2019	2018	Changes	YOY Change (%)
<b>Commission and fee income</b>				
Securities brokerage	613.9	486.5	127.4	26.2%
Asset and fund management	83.0	104.2	-21.2	-20.3%
Futures brokerage	81.5	110.2	-28.7	-26.0%
Financial advisory	109.8	79.6	30.2	37.9%
Investment advisory	78.7	52.4	26.3	50.2%
Underwriting and sponsorship	143.7	47.8	95.9	200.6%
Listing service	35.6	29.7	5.9	19.9%
<b>Total commission and fee income</b>	<b>1,146.2</b>	<b>910.4</b>	<b>235.8</b>	<b>25.9%</b>
<b>Commission and fee expenses</b>	<b>185.0</b>	<b>175.0</b>	<b>10.0</b>	<b>5.7%</b>
<b>Net commission and fee income</b>	<b>961.2</b>	<b>735.4</b>	<b>225.8</b>	<b>30.7%</b>

The Group's commission and fee income consists of:



In 2019, net commission and fee income of the Group amounted to RMB961.2 million, representing a year-on-year increase of RMB225.8 million or 30.7%. The increase was primarily attributable to the increase in commission and fee generated from securities brokerage business and underwriting and sponsorship.

Commission and fee income generated from securities brokerage business increased by RMB127.4 million or 26.2% year-on-year, primarily attributable to an increase in trade volume due to the improved securities market in 2019.

Asset and fund management fee income decreased by RMB21.2 million or 20.3% year-on-year, mainly because the Company recorded reduction in its asset management business and thus a decrease in management fee income.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Commission and fee income from futures brokerage decreased by RMB28.7 million or 26.0% year-on-year, mainly due to the decrease in exchange fee rebates.

Financial advisory fee income generated from investment banking business increased by RMB30.2 million or 37.9% year-on-year, primarily attributable to the increase in financial advisory income generated from mergers and acquisitions and reorganization.

Underwriting and sponsorship fee income generated from investment banking business increased by RMB95.9 million or 200.6% year-on-year, primarily because of the increase in the underwriting amount of equity and debt.

### Interest income

In 2019, net interest income of the Group amounted to RMB28.5 million, representing a decrease of RMB231.2 million or 89.0% as compared to 2018. The Group's net interest income for 2019 consists of the following:

Unit: in RMB million

Item	2019	2018	Change	YOY Change (%)
<b>Interest income</b>				
Financial assets held under resale agreements	194.0	509.9	-315.9	-62.0%
Margin financing and securities lending	389.2	418.9	-29.7	-7.1%
Bank deposits	212.0	177.0	35.0	19.8%
Loans and advances to clients	100.5	126.0	-25.5	-20.2%
Financial asset measured at amortised cost	38.9	45.4	-6.5	-14.3%
Financial assets designated as at fair value through other comprehensive income	45.1	14.7	30.4	206.8%
<b>Total interest income</b>	<b>979.7</b>	<b>1,291.9</b>	<b>-312.2</b>	<b>-24.2%</b>
<b>Interest expenses</b>	<b>951.2</b>	<b>1,032.2</b>	<b>-81.0</b>	<b>-7.8%</b>
<b>Net interest income</b>	<b>28.5</b>	<b>259.7</b>	<b>-231.2</b>	<b>-89.0%</b>

Interest income from financial assets held under resale agreements decreased by RMB315.9 million or 62.0% year-on-year, primarily attributable to the decrease in interest income from securities-backed lending business and buyout repurchase business of bond.

Interest income from margin financing and securities lending decreased by RMB29.7 million or 7.1% year-on-year, primarily attributable to the decrease of daily average size of margin financing and securities lending business.

Interest income from bank deposits increased by RMB35 million or 19.8% year-on-year, primarily attributable to the increase in interest income of the deposits of client funds.

Interest income from loans and advances to clients decreased by RMB25.5 million or 20.2% year-on-year, primarily attributable to the decrease in interest income of micro-lending business of subsidiaries.

Interest expenses decreased by RMB81.0 million or 7.8% year-on-year, primarily attributable to the decrease in costs of active financing activities.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### Net investment gains

In 2019, net investment gains of the Group amounted to RMB722.3 million, representing an increase of RMB374.3 million or 107.6% as compared to 2018. The Group's net investment gains for 2019 consist of the following:

Unit: in RMB million

Item	2019	2018	Change	YOY Change (%)
<b>Net investment gains</b>				
Dividends and interest income from financial assets at fair value through profit or loss	676.5	569.4	107.1	18.8%
Net losses from financial assets at fair value through profit or loss	25.5	-210.0	235.5	-112.1%
Net gains/(losses) from financial liabilities at fair value through profit or loss	-8.4	0.1	-8.5	-8500.0%
Net losses from derivative financial instruments	-36.6	-6.9	-29.7	430.4%
Net losses from financial assets at fair value through other comprehensive income	11.8	—	11.8	N/A
Gains from disposal of associates	54.2	2.1	52.1	2481.0%
Others	-0.8	-6.7	5.9	-88.1%
<b>Total</b>	<b>722.3</b>	<b>348.0</b>	<b>374.3</b>	<b>107.6%</b>

### (3) Operating expenses

In 2019, operating expenses of the Group (excluding commission and fee expenses and interest expenses) amounted to RMB2,265.8 million, representing an increase of RMB694.1 million or 44.2% as compared to 2018. The Group's operating expenses primarily consist of the following:

Unit: in RMB million

Item	2019	2018	Change	YOY Change (%)
<b>Operating expenses</b>				
Staff costs	889.5	635.9	253.6	39.9%
Depreciation and amortisation	133.5	74.0	59.5	80.4%
Other operating expenses	883.4	542.2	341.2	62.9%
Impairment losses	359.4	319.6	39.8	12.5%
<b>Total</b>	<b>2,265.8</b>	<b>1,571.7</b>	<b>694.1</b>	<b>44.2%</b>

Staff costs increased by RMB253.6 million or 39.9% year-on-year, primarily attributable to the increase in labor cost due to the increased number of staff in investment banking business line.

Depreciation and amortisation increased by RMB59.5 million or 80.4% year-on-year, primarily attributable to the increase of depreciation to right-of-use assets.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Other operating expenses increased by RMB341.2 million or 62.9% year-on-year, primarily attributable to the increase in costs of bulk commodity trading.

Impairment losses increased by RMB39.8 million or 12.5% year-on-year, primarily attributable to the increase in provision for impairment of financial assets measured at amortised cost. Details are as follows:

Unit: in RMB million

Item	2019	2018	Change	YOY Change (%)
<b>Impairment losses</b>				
Financial assets held under resale agreements	177.4	209.8	-32.4	-15.4%
Loans and advances to clients	39.4	42.3	-2.9	-6.9%
Margin accounts receivable	5.4	14.5	-9.1	-62.8%
Financial asset measured at amortised cost	121.9	15.5	106.4	686.5%
Financial assets at fair value through other comprehensive income	0.0	0.1	-0.1	-100.0%
Investment in associates	—	28.7	-28.7	-100.0%
Others	15.3	8.6	6.7	77.9%
<b>Total</b>	<b>359.4</b>	<b>319.5</b>	<b>39.9</b>	<b>12.5%</b>

### 2. Analysis on principal items in the consolidated statement of cash flows

Excluding the effect of changes in client margin deposit, the net increase in cash and cash equivalents amounted to RMB199.5 million, which was because the net cash inflows generated from operating activities was more than the net cash outflows arising from financing activities and investing activities of the Group for the year.

Among which:

- (1) Net cash flow arising from operating activities for 2019 amounted to RMB1,482.0 million, mainly attributable to cash inflow of RMB5,680.0 million due to a decrease in financial assets held under resale agreements. The above cash inflows have been partially offset by the cash outflow of RMB3,143.8 million caused by an increase in financial assets designated as at fair value through profit or loss.
- (2) Net cash flow arising from investment activities amounted to RMB-86.5 million in 2019, mainly attributable to cash outflow of RMB156.3 million due to cash paid for purchase of associates;
- (3) Net cash flow arising from financing activities amounted to RMB-1,196.1 million in 2019, mainly attributable to cash outflow of RMB4,187.0 million from redemption of short-term notes, cash outflow of RMB4,002.1 million from redemption of bonds and the cash of RMB4,035.9 million due to the repayment of borrowings. The above cash outflow was partially offset by cash received from issuance of short-term notes of RMB4,023.9 million, net proceeds received from issuance of bonds of RMB4,501.4 million and cash raised from borrowings of RMB3,740.0 million.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### 3. Analysis on principal components of consolidated statement of financial position

As at the end of 2019, total assets of the Group amounted to RMB43,569.9 million, up by 3.4% as compared to RMB42,155.3 million as at the end of 2018. Total liabilities amounted to RMB33,072.1 million, up by 7.1% as compared to RMB30,880.2 million as at the end of 2018. Equity attributable to shareholders of the Company amounted to RMB9,671.2 million, down by 2.8% as compared to RMB9,950.9 million as at the end of 2018.

The asset structure of the Group remained stable with sound asset quality and liquidity. As at the end of 2019, the total assets of the Group comprised of: cash assets, which primarily included cash and bank balances (including cash held for brokerage clients), clearing settlement funds and refundable deposits, amounted to RMB12,245.0 million, representing 28.1% of our total assets. Margin assets, which primarily included financial assets held under resale agreements, margin accounts receivable and loans and advances to customers, amounted to RMB10,172.6 million, representing 23.3% of our total assets. Financial investment assets, which primarily included investment in associates and investment in financial assets, amounted to RMB19,684.2 million, representing 45.2% of our total assets. Other operating assets, which primarily included property and equipment, investment properties and intangible assets, amounted to RMB1,468.1 million, representing 3.4% of our total assets. In 2019, the Group has made corresponding impairment provision for financial assets held under resale agreements, loans and advances to customers and financial asset measured at amortised cost.

Our gearing ratio increased. As at the end of 2019, the total self-owned liabilities of the Group after deducting accounts payable to brokerage clients and accounts payable to underwriting clients from the total liabilities amounted to RMB24,177.1 million, representing a decrease of RMB142.1 million or 0.58% as compared to RMB24,319.2 million as at the end of 2018. Calculated by assets and liabilities after deducting accounts payable to brokerage clients and accounts payable to underwriting clients, the gearing ratio as at the end of 2019 was 69.7%, up by 1.4 percentage points from 68.3% as at the end of 2018.

#### (1) Asset items

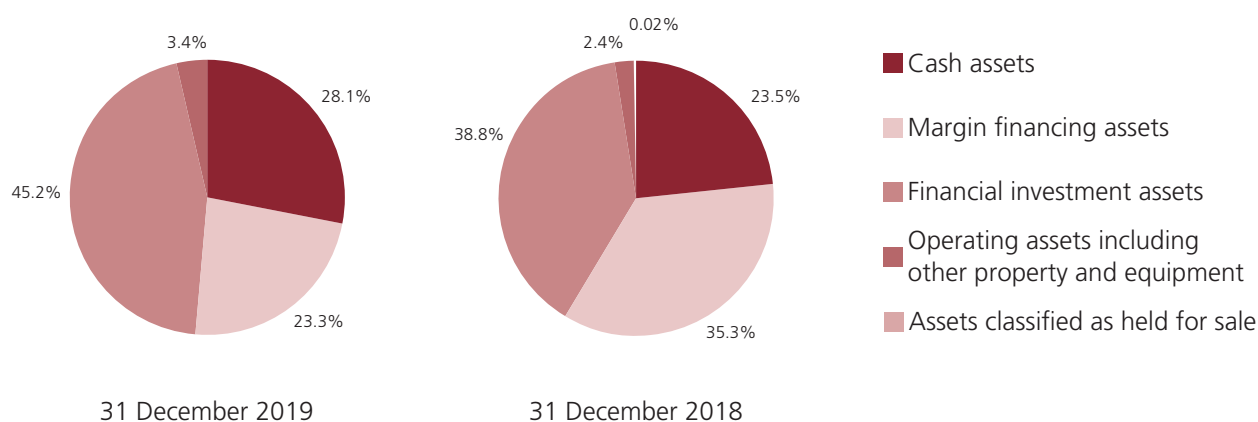
Changes in the major asset items of the Group are as follows:

Unit: in RMB million

Item	31 December 2019	31 December 2018	Change	YoY Change (%)
<b>Total assets</b>				
Cash assets	12,245.0	9,884.9	2,360.1	23.9%
Margin financing assets	10,172.6	14,880.8	-4,708.2	-31.6%
Financial investment assets	19,684.2	16,353.6	3,330.6	20.4%
Operating assets including other property and equipment	1,468.1	1,026.6	441.5	43.0%
Assets classified as held for sale	—	9.4	-9.4	-100.0%
<b>Total</b>	<b>43,569.9</b>	<b>42,155.3</b>	<b>1,414.6</b>	<b>3.4%</b>

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

Total assets of the Group consist of:



### Cash assets

As at the end of 2019, cash assets of the Group increased by RMB2,360.1 million or 23.9% year-on-year, representing 28.1% of the Group's total assets. The following table sets forth the composition of the Group's cash assets:

Unit: in RMB million

Item	31 December 2019	31 December 2018	Change	YoY Change (%)
<b>Cash assets</b>				
Cash and bank balances (including cash held for brokerage clients)	9,331.7	7,261.8	2,069.9	28.5%
Clearing settlement funds	2,518.1	2,340.4	177.7	7.6%
Refundable deposits	395.2	282.7	112.5	39.8%
<b>Total</b>	<b>12,245.0</b>	<b>9,884.9</b>	<b>2,360.1</b>	<b>23.9%</b>

Changes in cash assets were primarily reflected in cash and bank balances (including cash held for brokerage clients), increased by RMB2,069.9 million or 28.5% year-on-year, which was primarily attributable to the increase in cash held for brokerage clients under the influence of the market condition.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### Margin financing assets

As at the end of 2019, margin financing assets of the Group decreased by RMB4,708.2 million or 31.6% year-on-year, representing 23.3% of the Group's total assets. The following table sets forth the composition of the Group's margin financing assets:

Unit: in RMB million

Item	31 December 2019	31 December 2018	Change	YoY Change (%)
<b>Margin financing assets</b>				
Financial assets held under resale agreements	3,023.9	8,916.6	-5,892.7	-66.1%
Margin accounts receivable	6,060.7	4,720.5	1,340.2	28.4%
Loans and advances to customers	1,088.0	1,243.7	-155.7	-12.5%
<b>Total</b>	<b>10,172.6</b>	<b>14,880.8</b>	<b>-4,708.2</b>	<b>-31.6%</b>

Financial assets held under resale agreements decreased by RMB5,892.7 million or 66.1% as compared to the end of 2018, which was primarily attributable to the decrease in scale of the buyout repurchase business of bond.

The scale of on-balance sheet securities-backed lending business amounted to RMB2,029 million with the average collateral ratio of 131.01%, while the scale of off-balance sheet securities-backed lending business was nil.

Margin accounts receivable increased by RMB1,340.2 million or 28.4% as compared to the end of 2018, which was primarily attributable to the increase in the scale of domestic margin financing.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### Financial investment assets

As at the end of 2019, financial investment assets of the Group increased by RMB3,330.6 million or 20.4% year-on-year, representing 45.2% of the Group's total assets. The following table sets forth the composition of the Group's financial investment assets:

Unit: in RMB million

Item	31 December 2019	31 December 2018	Change	YoY Change (%)
<b>Financial investment assets</b>				
Investment in associates	1,104.7	939.3	165.4	17.6%
Financial assets at fair value through profit or loss	17,227.0	13,931.8	3,295.2	23.7%
Financial assets at fair value through other comprehensive income	664.7	725.6	-60.9	-8.4%
Financial asset measured at amortised cost	676.4	693.9	-17.5	-2.5%
Derivative financial assets	11.4	63.0	-51.6	-81.9%
<b>Total</b>	<b>19,684.2</b>	<b>16,353.6</b>	<b>3,330.6</b>	<b>20.4%</b>

### Operating assets including other property and equipment

As at the end of 2019, operating assets including other property and equipment of the Group amounted to RMB1,468.1 million, up by RMB441.5 million or 43.0% year-on-year, representing 3.4% of the Group's total assets. The composition of the Group's operating assets including other property and equipment is as follows:

Unit: in RMB million

Item	31 December 2019	31 December 2018	Change	YoY Change (%)
<b>Operating assets including other property and equipment</b>				
Property and equipment and investment properties	245.9	247.1	-1.2	-0.5%
Intangible assets	66.9	158.6	-91.7	-57.8%
Right-of-use assets	275.3	—	275.3	N/A
Deferred tax assets	345.6	251.3	94.3	37.5%
Goodwill	22.4	22.0	0.4	1.8%
Other current assets and other non-current assets	512.0	347.6	164.4	47.3%
<b>Total</b>	<b>1,468.1</b>	<b>1,026.6</b>	<b>441.5</b>	<b>43.0%</b>

As the implementation of the new leasing standards since 1 January 2019, the right-of-use assets increased by RMB275.3 million in 2019.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

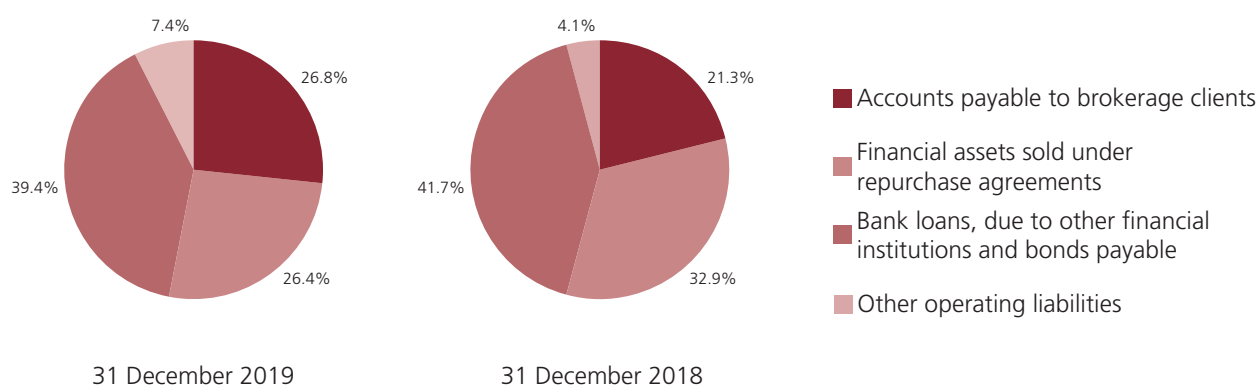
### (2) Liability items

As at the end of 2019, total liabilities of the Group amounted to RMB33,072.1 million, representing a year-on-year increase of RMB2,191.9 million or 7.1%. As at the end of 2019, accounts payable to brokerage clients amounted to RMB8,895.1 million, representing an increase of 35.6% as compared to the end of 2018. The increase was primarily attributable to the increase in capital of client from brokerage business. Financial assets sold under repurchase agreements amounted to RMB8,721.1 million, representing a decrease of 14.3% as compared to the end of 2018. The decrease was primarily attributable to the decrease in scale of securities-backed lending business. Bank loans, due to other financial institutions and bonds payable amounted to RMB13,022.5 million, representing an increase of 1.0% as compared to the end of 2018. Other operating liabilities amounted to RMB2,433.4 million, representing an increase of 93.2% as compared to the end of 2018. The increase was primarily attributable to the increase in financial liabilities designated as at fair value through profit or loss. Major changes in the Group's liabilities are as follows:

Unit: in RMB million

Item	31 December 2019	31 December 2018	Change	YoY Change (%)
<b>Liabilities</b>				
Accounts payable to brokerage clients	8,895.1	6,561.1	2,334.0	35.6%
Financial assets sold under repurchase agreements	8,721.1	10,171.8	-1,450.7	-14.3%
Bank loans, due to other financial institutions and bonds payable	13,022.5	12,888.1	134.4	1.0%
Other operating liabilities	2,433.4	1,259.2	1,174.2	93.2%
<b>Total</b>	<b>33,072.1</b>	<b>30,880.2</b>	<b>2,191.9</b>	<b>7.1%</b>

The Group's total liabilities consist of:



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### Bank loans, due to other financial institutions and bonds payable

Unit: in RMB million

Item	31 December 2019	31 December 2018	Change	YoY Change (%)
<b>Bank loans, due to other financial institutions and bonds payable</b>				
Due to banks and non-bank financial institutions	3,943.1	4,116.4	-173.3	-4.2%
Bonds payable and short-term notes payable	9,079.4	8,771.7	307.7	3.5%
<b>Total</b>	<b>13,022.5</b>	<b>12,888.1</b>	<b>134.4</b>	<b>1.0%</b>

Due to banks and non-bank financial institutions decreased by RMB173.3 million year-on-year, representing a decrease of 4.2%. The decrease was primarily attributable to the decrease in bank loans.

Bonds payable and short-term notes payable increased by RMB307.7 million year-on-year, representing an increase of 3.5%. The increase was primarily attributable to the increase in the scale of issuance of bonds.

### Other operating liabilities

Unit: in RMB million

Item	31 December 2019	31 December 2018	Change	YoY Change (%)
<b>Other operating liabilities</b>				
Accrued staff costs	478.7	337.2	141.5	42.0%
Financial liabilities designated as at fair value through profit or loss	1,114.6	380.0	734.6	193.3%
Lease liabilities	177.8	—	177.8	N/A
Deferred income tax liabilities	8.3	3.5	4.8	137.1%
Derivative financial liabilities	0.1	—	0.1	N/A
Other operating current liabilities	653.9	538.5	115.4	21.4%
<b>Total</b>	<b>2,433.4</b>	<b>1,259.2</b>	<b>1,174.2</b>	<b>93.2%</b>

Accrued staff costs increased by RMB141.5 million or 42.0% year-on-year, primarily attributable to the increase in the provision for staff costs payable.

Financial liabilities designated as at fair value through profit or loss increased by RMB734.6 million or 193.3% year-on-year, primarily attributable to the increase in scale of debt securities selling.

Lease liabilities increased by RMB177.8 million year-on-year, primarily attributable to the implementation of the new leasing standards since 1 January 2019.

Other operating current liabilities increased by RMB115.4 million or 21.4% year-on-year, primarily attributable to the increase in other payables.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### (3) Equity items

As at the end of 2019, total equity of the Group amounted to RMB10,497.8 million, representing a decrease of 6.9% as compared to the end of 2018. The changes in the Group's equity were as follows:

Unit: in RMB million

Item	31 December 2019	31 December 2018	Change	YoY Change (%)
Share capital	3,869.1	3,869.1	—	—
Reserves	5,713.9	5,843.7	-129.8	-2.2%
Retained earnings	88.2	238.2	-150.0	-63.0%
Non-controlling interests	826.6	1,324.1	-497.5	-37.6%
<b>Total</b>	<b>10,497.8</b>	<b>11,275.0</b>	<b>-777.2</b>	<b>-6.9%</b>

### 4. Segment results

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

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

Item	2019		2018		Change	
	(in RMB million)	%	(in RMB million)	%	(in RMB million)	%
Brokerage	1,790.1	50.9	1,308.2	45.4	481.9	36.8
Investment banking	217.0	6.2	95.1	3.3	121.9	128.2
Investment management	215.7	6.1	229.6	8.0	-13.9	-6.1
Proprietary trading	933.5	26.5	586.7	20.4	346.8	59.1
Overseas business	-90.5	-2.5	184.3	6.4	-274.8	-149.1
Headquarters and others	578.5	16.4	495.2	17.2	83.3	16.8
Inter-segment eliminations	-126.1	-3.6	-19.1	-0.7	-107.0	N/A
<b>Total</b>	<b>3,518.2</b>	<b>100.0</b>	<b>2,880.0</b>	<b>100.0</b>	<b>638.2</b>	<b>22.2</b>

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

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

Item	2019		2018		Change	
	(in RMB million)	%	(in RMB million)	%	(in RMB million)	%
Brokerage	1,602.3	47.1	1,075.6	38.7	526.7	49.0
Investment banking	209.1	6.1	136.1	4.9	73.0	53.6
Investment management	50.6	1.5	79.9	2.9	-29.3	-36.7
Proprietary trading	638.6	18.8	555.7	20.0	82.9	14.9
Overseas business	241.1	7.1	193.9	7.0	47.2	24.3
Headquarters and others	688.0	20.2	742.0	26.7	-54.0	-7.3
Inter-segment eliminations	-27.6	-0.8	-4.3	-0.2	-23.3	N/A
<b>Total</b>	<b>3,402.1</b>	<b>100.0</b>	<b>2,778.9</b>	<b>100.0</b>	<b>623.2</b>	<b>22.4</b>

The following table sets forth the Group's segment results (profit/loss before income tax) for the years indicated, which is calculated as segment revenue and other income (including inter-segment revenue) minus segment expenses (including inter-segment expenses):

Item	2019		2018		Change	
	(in RMB million)	%	(in RMB million)	%	(in RMB million)	%
Brokerage	187.8	161.7	232.6	230.1	-44.8	-19.3
Investment banking	7.8	6.7	-41.1	-40.8	48.9	N/A
Investment management	165.1	142.2	149.6	148.0	15.5	10.4
Proprietary trading	294.9	254.0	31.0	30.7	263.9	851.3
Overseas business	-331.6	-285.6	-9.6	-9.5	-322.0	N/A
Headquarters and others	-109.4	-94.2	-246.7	-244.0	137.3	N/A
Inter-segment eliminations	-98.5	-84.8	-14.7	-14.5	-83.8	N/A
<b>Total</b>	<b>116.1</b>	<b>100.0</b>	<b>101.1</b>	<b>100.0</b>	<b>15.0</b>	<b>14.8</b>

### 5. Commitments and contingent liabilities

Please refer to Note 54 to the Consolidated Financial Statements as set out in this report.



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### (II) Access to and ability of financing

Currently the Company meets its operating capital requirement through equity financing and debt financing. As a company listed on both domestic and overseas markets, the Company can obtain equity financing through channels such as further issuance of shares as approved by relevant authorities and according to market conditions and its own needs. Debt financing of the Company primarily consists of long-term financing through the public issuance of corporate bonds, subordinated bonds and private bonds. In addition, the Company obtains short-term funds from investors such as commercial banks through platforms including the Shanghai Stock Exchange, Shenzhen Stock Exchange and the national interbank funding center, and by way of bond repurchases, interbank borrowing and lending, transfer financing and the issuance of beneficiary certificates.

To maintain the liquidity and profitability of its assets, the Company's proprietary capital is centrally managed by its Treasury Department, with comprehensive management systems and corresponding business processes in place. In addition, the Company has been granted comprehensive credit lines with relatively large limit by several banks. The existing financing channels of the Company are effective and sufficient to meet its business development funding needs.

### (III) Analysis of investments

#### Overall analysis on external equity investments

As of the end of the Reporting Period, the Group has investments in associates of RMB1,104.7 million, representing an increase of RMB165.4 million or 17.6%, as compared to the end of last year. For details of investments in subsidiaries, please refer to Note 24 to the Consolidated Financial Statements as set out in this report.

#### (1) Material equity investments

Please refer to Note 23 to the Consolidated Financial Statements as set out in this report.

#### (2) Material non-equity investments

There were no material non-equity investments during the Reporting Period.

### (IV) Material disposal of assets and equity interest

#### 1. Disposal of the Company's idle property

On 30 October 2018, the 2nd meeting of the Sixth Session of the Board of the Company considered and approved the Resolution on the Disposal of the Company's Idle Property and the Transfer Plan, pursuant to which, it was approved that the 11 properties of the Company shall be realized. As of the end of the Reporting Period, the Company has disposed 4 idle properties.

For the above details, please refer to the related announcements disclosed by the Company on 30 October 2018 and 27 June 2019.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### 2. Disposal of the equity in Taiping Fund

On 25 September 2017, the 42nd meeting of the Fifth Session of the Board of the Company considered and approved the Resolution on the Transfer of 8.5% Equity in Taiping Fund Management Co., Ltd. Held by Central China Securities Co., Ltd., pursuant to which, it was approved to transfer 8.5% equity in Taiping Fund Management Co., Ltd. by the Company in the form of public listing and authorize the management of the Company to handle all issues in the process of transferring equity. On July 2018, the Company entered into Equity Transaction Contract with Taiping Asset Management Company Limited. On 22 January 2020, the Company received all payments from Taiping Asset Management Company Limited for this transaction.

For the above details, please refer to the related announcements disclosed by the Company on 26 September 2017 and 22 January 2020.

### (V) Analysis of major subsidiaries and companies in which the Company has invested

#### **Central China Futures Co., Ltd.**

Registered address: 4F, Zhongyuan Guangfa Finance Building, 10 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province

Date of incorporation: 18 April 1993

Registered capital: RMB330 million

Shareholding proportion: 51.357%

Legal representative: Xie Xuezhu

Contact No.: 0371-68599199

Financial position: As of 31 December 2019, the total assets and net assets of Central China Futures amounted to RMB1,447 million and RMB411 million respectively. In 2019, Central China Futures recorded operating income of RMB686 million and net profit of RMB15.416 million.

#### **Zhongding Kaiyuan Venture Capital Management Co., Ltd.**

Registered address: Rooms 501-11, Building 1, No.18 Courtyard, Lize Road, Fengtai District, Beijing

Date of incorporation: 8 February 2012

Registered capital: RMB800 million

Shareholding proportion: 100%

Legal representative: Li Zhaoxin

Contact No.: 0371-69177108

Financial position: As of 31 December 2019, the total assets and net assets of ZDKY Venture Capital amounted to RMB1.104 billion and RMB759 million respectively. In 2019, ZDKY Venture Capital recorded operating income of RMB42.7127 million and net profit of RMB22.0746 million.



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### **Central China International Financial Holdings Company Limited**

Registered address: Suites 1505 and 1508, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

Date of incorporation: 29 October 2014

Registered capital: HK\$1.0 billion

Shareholding proportion: 100%

Contact No.: 00852-25001375

Financial position: As of 31 December 2019, the total assets and net assets of Central China International amounted to HK\$2,276 million and HK\$413 million respectively. In 2019, Central China International recorded operating income of HK\$-202 million and net profit of HK\$-331 million.

There were sharp fluctuations: 1. Economic adjustment and financial deleveraging led to a significant increase in the debt defaults. The industry entered the stage of concentrated outbreak of credit risks. Some investment projects of Central China International were overdue, leading to a large amount of impairment provision. 2. Central China International completed the structure restructuring and equity change in accordance with the regulatory spirit of the CSRC, such as the Measures for the Regulations on the Management of Overseas Establishment, Acquisition and Shareholding Operating Institutions of Securities Companies and Securities Investment Fund Management Companies, and the adjustment of management mode and operation mode had a temporary impact on the operation.

### **Central China Blue Ocean Investment Management Company Limited**

Registered address: West to Laodong Road and north to Hongteng Road, Weidu Industry Cluster Area, Xuchang City, Henan Province

Date of incorporation: 25 March 2015

Registered capital: RMB3,000 million

Shareholding proportion: 100%

Legal representative: Xu Haijun

Contact No.: 0371-86503971

Financial position: As of 31 December 2019, the total assets and net assets of Central China Blue Ocean amounted to RMB3.341 billion and RMB2.419 billion respectively. In 2019, Central China Blue Ocean recorded operating income of RMB161 million and net profit of RMB59.9703 million.

### **Central China Equity Exchange Co., Ltd.**

Registered address: No.23 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan Province

Date of incorporation: 29 June 2015

Registered capital: RMB350 million

Shareholding proportion: 35%

Legal representative: Zhao Jizeng

Contact No.: 0371-61775086

Financial position: As of 31 December 2019, the total assets and net assets of Equity Exchange Co. amounted to RMB365 million and RMB336 million respectively. In 2019, Equity Exchange Co. recorded operating income of RMB38.4961 million and net profit of RMB9.6813 million.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### (VI) Structured entities controlled by the Company

As at the end of the Reporting Period, the Group consolidated 7 structured entities, which included asset management schemes and partnerships. Please refer to Note 24 to the Consolidated Financial Statements as set out in this report. After taking into account the factors such as investment decision rights owned by the company, variable return exposure and the use of investment decision rights to influence variable returns, the Company included the structured entities controlled by the Company in the scope of consolidated statements in respect of the structured entity who act as a manager or investment adviser and the structured entity that holds a product share.

### (VII) Others

#### 1. Newly establishment and disposal of securities branches, branch offices and subsidiaries of the Company and impact on results during the Reporting Period

During the Reporting Period, the Company completed the relocation of 2 securities branch offices and 8 securities branches within the same city at home, and the capital increase, disposal and change of 3 subsidiaries. All of these changes will facilitate the optimization of the Group's network as well as the enhancement of the Company's customer service capability and the comprehensive strength of its subsidiaries.

##### (1) Establishment of and changes in branch offices and securities branches

The Company is constantly adjusting and optimizing its securities branch network. During the Reporting Period, the Company established 3 new securities branches, relocated 2 securities branch offices and 8 securities operation branches within the same city. For details, please refer to the paragraph headed I. (I) "Administrative licensing of branch offices and securities branches during the Reporting Period" under Section 12 of this report.

##### (2) Establishment and changes of branch offices

###### Central China International:

According to the Measures for the Administration of Establishing, Acquiring and Investing in Operation Institutions Overseas Securities Companies and Securities Investment Fund Management Companies issued by the CSRC, on 4 June 2019, the 8th meeting of the Sixth Session of the Board considered and approved the Resolution on the Optimization and Adjustment of the Equity Structure of the Hong Kong Subsidiaries, pursuant to which, it was approved to optimize the equity structure of the subsidiaries of Central China International by means of purchasing equity interest from other shareholders and asset transfer, and to streamline its organization structure. The Board at the same time granted the management of the Company all necessary and appropriate authorization to carry out the foregoing matters.

On 4 July 2019, the 9th meeting of the Sixth Session of the Board considered and approved Resolution on Equity Structure Adjustment and Asset Transfer of Central China International Financial Group, pursuant to which, it was approved to purchase 52% of the equity interest held by other shareholders of Central China International Financial Group Co., Ltd., and transfer the equity interest of Central China Finance Holdings Co., Ltd. and its wholly-owned subsidiaries, Central China International Asset Management Co., Ltd. and Central China International Finance Co., Ltd. in accordance with laws and regulations.



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

As at the end of the Reporting Period, Central China International had completed the equity structure adjustment and asset transfer, and the Company continued to hold 100% equity interest in Central China International and its subsidiaries.

On 27 December 2019, according to the business development arrangement, the Company made an additional capital contribution of HK\$240 million to Central China International, whose registered capital was hence changed to HK\$1.0 billion.

### **Central China Blue Ocean:**

On 19 December 2019, the Company issued the Shareholders' Resolution of Central China Blue Ocean Investment Management Company Limited, which approved the change of the registered capital of Central China Blue Ocean to RMB2.256 billion. As of the end of the Reporting Period, Central China Blue Ocean was in the process of industrial and commercial registration of the change.

### **ZDKY Venture Capital:**

On 4 June 2019, the 8th meeting of the Sixth Session of the Board considered and approved the Resolution on the Capital Reduction of the Wholly-owned Subsidiary Zhongding Kaiyuan Venture Capital Management Co., Ltd., pursuant to which, it was approved to reduce the registered capital of ZDKY Venture Capital from RMB2.0 billion to RMB800 million. On 8 August 2019, ZDKY Venture Capital completed the relevant industrial and commercial registration of the change.

On 19 December 2019, the Company issued the Shareholders' Resolution of Zhongding Kaiyuan Venture Capital Management Co., Ltd., approving the change of the registered capital of ZDKY Venture Capital to RMB680 million. As of the end of the Reporting Period, ZDKY Venture Capital was in the process of industrial and commercial registration of the change.

## **2. Standardization of accounts and specific explanation**

Taking standardized management of customer accounts as an important foundation, the Company focused on the normalization, standardization and systematism of customer account management and kept perfecting the long-term effective mechanism of standardized management of customer accounts. In 2019, according to the requirements of relevant regulations of China Securities Depository and Clearing Corporation Limited and the Company, the Company effectively implemented various measures for standardized management of customer accounts, conscientiously carried out work such as mobile phone number verification, institutional account information verification, OnePassword account specification, and continued to carry out foundation work such as standardization of stock customer account information, completion of customer information, dormant account activation and formulating specifications for non-conforming account so as to ensure that the customer account information is true, accurate, complete and valid.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

During the Reporting Period, the Company activated 1,299 dormant cash accounts and 2,324 dormant securities accounts (as of the end of the period, there were 394,302 dormant cash accounts and 663,825 dormant securities accounts); the Company standardized 11 unqualified cash accounts and 14 unqualified securities accounts (as of the end of the period, there were 1,149 unqualified cash accounts and 1,212 unqualified securities accounts); as of the end of the period, the Company had 7 cash accounts and 14 securities accounts frozen by the court; the Company had no risky disposal account. See the following table for details:

Type of account: RMB account

Type of account		2019	2018	YoY Change
Dormant accounts	Cash account	394,302	395,601	-1,299
	Securities account	663,825	666,149	-2,324
Unqualified accounts	Cash account	1,149	1,160	-11
	Securities account	1,212	1,226	-14
Judicially frozen accounts	Cash account	7	6	1
	Securities account	14	12	2
Risk disposal accounts	Cash account	0	0	0
	Securities account	0	0	0

### 3. Business innovation

In 2019, with the end of Internet traffic bonus, the development of network finance in the securities industry changed from incremental competition to stock game. Through the application of financial technology, the Company actively explored new business models, improved its online operation and service capabilities, and promoted the integrated development of online and offline brokerage business.

In terms of financial technology, the Company continued to improve its Internet financial service system centering on "Three Apps and One WeChat Public Account" (三端一微), launched the Central China Caishengbao (財升寶) application with new structure and user interface, developed intelligent service robot, optimized online financial product sales platform, provided personalized active newsletter service, created a content distribution tool of "Central China Fortune Store" (中原財富小店), and enriched credit service activities, in order to gradually meet the general financial needs of customers through cloud computing, big data, artificial intelligence and other financial technology applications.

The Company's online operations and business achieved preliminary results. During the Reporting Period, new Internet customers increased by 201.5% compared with the same period the previous year. As of the end of the Reporting Period, the registered users of the newly released Caishengbao APP3.0 platform increased by 208.6% compared with the end of the previous year, and the industry ranking of Caishengbao in terms of number of monthly active customers and the WCI index of average monthly influence of official WeChat was significantly improved. [Source: qianfan.analysys.cn and gsdata.cn]



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

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

#### (I) Industry landscape and development trend

The report of the 19th CPC National Congress pointed out, “We will deepen reform of the financial system, enhance the ability of the financial sector to serve the real economy, increase the proportion of direct financing, and promote the healthy development of a multi-tiered capital market.”. During the Reporting Period, as various policies and measures entered the concrete implementation stage, the capital market will not only play a more active role in stabilizing the economy, finance and expectations, but also bring major strategic opportunities to market participants.

As a special industry rooted in the capital market, the securities industry in recent years is facing challenges such as homogenized competition, intensified industrial differentiation, accelerated comprehensive opening up, and unsustainable traditional industrial model. It is in urgent need to deepen the understanding of the nature and law of finance, return to the source, and achieve high-quality development. As the most important intermediary in the capital market, securities companies should actively grasp the historic opportunity brought by the new round of capital market reform and opening up, focus on providing financial services with better quality and efficiency to the real economy, build differentiated core competitiveness, and actively promote high-quality development. The three aspects have become the basic path for securities companies to practice high-quality development: adhering to the concept of differentiation and formulating the corresponding company strategy to clearly define the development positioning; identifying development path and expansion mode based on its strategic positioning; optimizing the top-level system and innovating the service content and mode.

In 2019, the transformation of brokerage business to wealth management became an industry consensus under the background of the normalization of the use of Internet and mobile internet as the business development's carrier, and cultivating investment advisory team was the focus of the transformation from brokerage business to wealth management at the current stage. The successful implementation of the registration system of the science and technology innovation board and a number of institutional innovations forced securities companies to truly realize the deep integration and collaboration of investment banking, research, alternative investment, credit innovation and other businesses, and promoted securities companies to gradually become a “one-stop” comprehensive financial service provider in a real sense. The restrictions on the proportion of foreign capital stocks were released in advance, the opening up of the industry was further accelerated, and the business advantages of international investment banks would be gradually reflected in the medium and long term, thus impacting the existing competitive pattern of China's securities industry and the existing business model of securities companies. The industry status quo of “the strong are always strong” increased the urgency for securities companies to achieve differentiated operation. On the whole, the overall competitive pattern of the securities industry will be more complex, and the competition will be intensified.

In 2020, the vitality of the capital market will be further stimulated to attract more OTC funds, and the industry brokerage business is expected to continue to contribute positive marginal revenue. The industry investment banking business will keep growing and the growth rate is expected to expand. The credit business will operate in a relatively smooth way, and the industry's net interest income is expected to maintain positive year-on-year growth. On the whole, with the unprecedented improvement of the status of the capital market and the gradual implementation of supporting policies and measures for the key tasks in 12 aspects of comprehensively deepening the reform of the capital market, the securities industry will welcome historic development opportunities.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### (II) Development strategy of the Company

Focusing on strengthening the investment banking business and optimizing investments, the Company will continue to deepen the internal reform of the Company, build core competitiveness, improve the professional service level in an all-round way so as to accelerate the transition to wealth management. Therefore, the Company will vigorously raise the level of compliance risk control and significantly improve the professional ability of cadres and employees, thereby bringing the Company's capital strengths and profitability to top the list of securities companies across China and moving the rank of some important business areas significantly forward, to achieve a "Second Take-off".

### (III) Operating plan

In 2020, the Company will take the opportunity of the implementation of the professional manager system, fully implement the rank management, continuously improve the professional ability, accelerate the development of its main business, and strive to achieve a new level of business results.

The Company will focus on improving the overall management efficiency. We will actively carry out the management reform of all ranks, establish a more reasonable assessment mechanism, enhance the attraction of talents, mobilize the enthusiasm of employees, and achieve a "win-win" result for the Company development and employee growth. We will strengthen the Company's risk management ability, conscientiously implement the sound risk preference, strengthen the management and control of business operation process, and realize the full coverage of the parent company's risk management over its subsidiaries. We will actively promote digital transformation and the in-depth integration of financial technology and business management, so as to further improve the Company's operation and management efficiency through technology.

The Company will spare no efforts to promote the development of various businesses. We will vigorously improve the service support ability and accelerate the transformation of wealth management to depth; continue to strengthen internal control management to ensure the steady development of proprietary business; seize the opportunity of a new round of capital market reform and opening up, and promote the overall achievements of investment banking business; accelerate the transformation and development of the asset management business, focusing on the improvement of the active management ability; promote the steady development of stock pledge financing business, enhance the ability to serve institutional clients; continue to revitalize assets, adjust the structure and return to the source for the market-making business. Equity Exchange Co. will take the quality improvement as the goal of transformation, promote the excellent enterprises in Henan province to enter the main board and science and technology innovation board, and help the development of small, medium and micro enterprises. Central China Blue Ocean and ZDKY Venture Capital will strengthen comprehensive cooperation with investment banking teams, increase investment in high-quality equity projects, and continue to improve the capacity to serve the real economy. Central China Futures will focus on the transformation of brokerage business, develop core competitiveness for asset management, and steadily operate risk management business so as to comprehensively improve the development quality. Central China Micro-lending will continue to improve the new operation mode, and gradually form the market positioning and unique advantages centering on personal loan and group interaction. Central China International will strengthen domestic and overseas business interaction and achieve stable development on the basis of properly mitigating risks and the orientation of investment banking business.



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### (IV) Potential risks

In 2019, the Company continued to optimize and improve the construction of comprehensive risk management system, constantly improved the risk management mechanism and system, perfected the risk management organization structure, enhanced the construction of risk management information technology system, optimized the risk control index system, enhanced the construction of professional talent teams, and strengthened risk response mechanism. The Company has formulated the risk preference and tolerance system, which was organically combined with the Company's development strategy, evaluated the extreme risks through regular and irregular stress tests, and covered the whole company with a multilevel risk management system. The Company continuously promoted the construction of risk management information system, establish special budget for risk management information system, constructed centralized, time-effective and quantitative risk management technical pillars, effectively improved the informationalization level of risk management of the Company, and further enhanced the ability of the Company in risk identification, quantitative evaluation and control. The Company will include all subsidiaries into the comprehensive risk management system, and explore the establishment of an effective subsidiary risk management model, so as to ensure that the comprehensive risk management system is compatible with the Company's development strategy and provides guarantee for the sound and sustainable development of the Company's businesses.

The key risks faced by the Company include credit risk, market risk, liquidity risk, operation risk, compliance risk and information technology risk. The Company measured the risk through duration analysis, sensitivity analysis, scenario analysis, and internal modeling method, and differentiated, prevented and managed all kinds of risks through screening, classification, analysis and other measures, with an aim to fully reveal the Company's operating risks and control them within a bearable range, in order to ensure the realization of the Company development strategy goals and maximize the interests of shareholders. Specific details are set out as follows:

#### 1. Credit risk and policies

Credit risks refer to risks of losses arising from a borrower, counterparty or issuer's failure to perform an agreement as agreed. Currently the Company's credit risk mainly comes from bond investment, margin financing and securities lending, and securities-backed lending, specifically in the following aspects: (1) default or ratings downgrade of investment targets; (2) a counterparty's default; (3) risk of failure to duly repay loans or securities upon expiry of product or customer contracts or when the maintenance guarantee ratio or performance guarantee ratio falls under the closing positions; and (4) receivables' becoming bad debts.

To deal with credit risks, the Company adopted the methods of collecting deposit, qualified collaterals and net settlement to mitigate the credit risks. The Company implemented access management on credit risk. Before carrying out credit risk-related business, it would conduct credit rating on customers, and only extend credit to and carry out business with those whose credit rating is within the access rating. Each business department would carry out due diligence investigation before credit rating and credit extension. For customers whose credit rating meets the access criteria, the credit line would be determined according to the specific situation. The Company regularly rechecked the access standard and discount rate, and carried out irregular rechecks in case of major changes in the market or policy or major credit events among relevant credit subjects. The detailed actions are as follows: (1) We set access criteria for bond investment business, conducted whitelist management and concentration control, carried out categorized review, and continuously tracked and evaluated the credit risk of bond holdings. (2) For margin financing and securities lending as well as the securities-backed lending, we established strict standards on collateral scope and conversion rate, deposit ratio, maintenance guarantee ratio standards according to the business characteristics, carried out front-end control from credit investigation, credit granting, marking to market, closing positions and other aspects, and conducted dynamic monitoring in the duration on the risk conditions such as concentration degree, contract expiration, maintenance guarantee ratio or

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

performance guarantee ratio, and significant events. (3) For the credit risk of the receivables, the Company made full provision for the bad debt according to the operating conditions, cash flow conditions and bad debt reserve policies of the debtor. Provision for credit impairment has been made for margin financing and securities lending, securities-backed lending and securities repurchases. (4) The Company analyzed credit risk factors in various businesses, identified potential credit risks therein, and calculated the expected and unexpected losses through default probability, default loss rate, and credit risk exposure, measured, evaluated and analyzed the credit risks of its businesses, and reduced the net risk exposure and expected loss assumed by the Company through various risk mitigation measures.

The subsidiaries are also exposed to credit risks when carrying out financing business, investment business, over-the-counter derivatives business and other businesses. The Company has incorporated the risk management of the subsidiaries into the comprehensive risk management system, and manages and controls the risks of the subsidiaries by appointing persons in charge of risk control and establishing the regular and irregular risk reporting system. Under the Company's unified risk preference, the relevant subsidiaries have formulated supporting credit risk management and control measures and processes according to their market environment and business characteristics, and continuously improve such measures and processes, including but not limited to the due diligence and investment decision-making processes. The Company will continue to strengthen the risk tolerance of the subsidiaries in such aspects as system construction, quota system, monitoring mechanism, information system and risk report in accordance with the overall plan of the Group's comprehensive risk management, in order to improve the credit risk management and reduce credit risk exposure at the Group level.

### 2. Market risk and policies

Market risk refers to the risk that the fair value of the financial instruments held is adversely affected by changes in the market prices. It consists of risk of price fluctuations of equity assets, interest rate risk, exchange rate risk, etc. Price risk mainly refers to the risk of losses of the Company's on-balance and off-balance businesses due to unfavorable changes in the price of securities products such as stocks caused by fluctuations in the securities market. Quantitatively, market price fluctuations of financial instruments held for trading will proportionately impact the Company's profit; and the market price fluctuations of available-for-sale financial instruments will proportionately impact shareholders' equity of the Company. Interest rate fluctuation risk refers to the risk of fluctuations in the Company's financial position and cash flow due to interest rate changes in the market. In particular, the interest-bearing assets susceptible to market interest rate changes are mainly bank deposits, settlement reserves, refundable deposits and bond investments. Exchange rate risk refers to the possibilities that the Company may suffer losses from operating activities which involve holding or using foreign exchange due to change in exchange rate. The exchange rate fluctuation will bring some extent of exchange risks. The Company has had relatively few foreign currency assets susceptible to exchange rate fluctuations. The Company continuously strengthens the mechanism development and internal management as well as hedges and slowly releases the exchange rate risk through a series of measures to support the expansion of overseas business of the Company.

To prevent market risks, the Company took the following measures: (1) implemented a strict investment authorization system. The management of the Company is responsible for breaking down and allocating business size and risk limits for stock proprietary trading and bond proprietary trading during the year within the authorization granted by the Board, while the Risk Management Headquarters is responsible for monitoring relevant indexes and warning of risks; (2) established a multi-index risk monitoring and evaluation system. A quantitative index system was established to measure and evaluate risks in proprietary businesses by such means or tools as restriction on concentrated investment, stress test, sensitivity analysis, etc.; (3) controlled trading procedures in an all-round way. The Company monitored various indexes via the investment management system, controlled the quota, bond rating and concentration ratio of proprietary bond trading in advance and responsively evaluated and reported business risks brought by market changes; For the equity securities investment, the Company applied strict measures such as profit or loss control and position control in the daily investment; as for the derivatives business, the Company ensured that market risks were controllable and affordable by way of OTC options hedging transactions.



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### 3. Liquidity risk and policies

Liquidity risk refers to the risk which the Company is unable to obtain sufficient funds in time at reasonable costs in order to repay maturing debts, comply with other payment obligations and satisfy the funding needs for carrying on normal business. In view of the liquidity risk, the Company controls investment size of its proprietary business in a rational manner by diversifying share investments, paying attention to liquidity risk management, keeping a low percentage ratio of positions held against all marketable securities within the same type of investments. Based on conditions such as business development, financing ability and control index of liquidity risks, the Company has rationally determined the scale and term of its debt financing, strengthened its real time monitoring and management of significant amount of funds so as to achieve centralised allocation and coordination of capital and avoid liquidity risks resulting from centralised maturity of debts. The Company also made use of various financing methods and channels in a comprehensive manner to timely satisfy the Company's liquidity needs. Moreover, the Company used net capital and liquidity-based monitoring system for monitoring risk control indicators, and used stress tests to assess the impact of business activities on net capital and liquidity.

### 4. Operational risk and policies

Operational risk refers to risk of loss resulting from flaws or error of internal procedures, systems and external events. With respect to operational risk management, (1) The Company has formulated operational risk management methods to standardize the whole process of operational risk identification, assessment, monitoring, control and reporting; (2) Each unit is required to develop effective operational risk identification and assessment procedures to proactively identify operational risks existing in the business, process and system, and ensure that the internal operational risks of new products, business, process and system are fully assessed before they are launched; (3) The Company has established a real-time risk monitoring system for brokerage, self-management, asset management, financing and other businesses, and formed a risk management manual and other business risk control system; (4) A reporting mechanism for operational risk events has been established, which requires each unit to establish an effective operational risk reporting process and report operational risk events regularly and irregularly; (5) we improved the assessment, measurement, monitoring and reporting of operational risks through the construction of risk management system.

### 5. Compliance risk and policies

Compliance risk refers to the risk of the Company being legally held accountable, subjected to supervisory measures, given self-discipline penalty or suffering from loss of property or reputation arising from violation of laws, regulations or rules by the operation and management or licensed practices of the Company or its personnel. The Company established and continuously improved a scientific and efficient compliance management system to effectively identify, evaluate and manage compliance risks. The compliance department of the Company continuously organized and tracked the changes of laws, regulations and regulatory rules, timely revised and improved the relevant systems of compliance management, and supervised relevant departments to timely evaluate, revise and improve the relevant systems and business processes. In addition, we strengthened information barriers and conflict of interest management, carried out in-depth anti-money laundering and other work, and earnestly performed the duties of compliance review and consultation, monitoring and inspection, publicity and training, compliance effectiveness assessment, compliance assessment and accountability, integrating compliance management into the whole process of the Company's decision-making, execution, supervision and feedback. The Company has actively cultivated the compliance culture and improved the self-restraint mechanism, laying a solid foundation for the sustained healthy development of the Company.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### 6. Information technology risk, policies and investment

The Company is in an industry which highly relies on information technology. Information technology risk has become one of the main risks faced by securities companies. Information technology capability has become an important aspect of the core competitiveness of securities companies. Any hardware and software failure and security loopholes in the information technology systems and communication systems and insufficient emergency management capability of disaster recovery systems may severely affect the Company's ordinary business. Any failure to improve the information systems in a prompt, effective and steady way would adversely affect the Company's competitiveness, business operations and working efficiency, etc.

As for potential information system risk, the Company has continuously invested in and improved its level of IT operation and management, information security control methods, emergency management capability of information systems and all-round risk management, etc., so as to ensure the safe operation of information systems.

- (1) The Company actively promotes the normalization, standardization, streamlining and refinement development, proactively conducts self-inspection rectification, continuously improves and optimizes the IT operation systems, so as to ensure full safe operation of information systems.
- (2) By investments in updating the core network equipment, integrating the communication lines, expanding the cloud computing capacity, applying new monitoring platform, accelerating and optimizing exchange quotations, strengthening data security and updating infrastructure, the Company has laid a solid foundation for IT system operation & maintenance, further improving the robustness of the IT system.
- (3) With regard to security and emergency response, the Company has improved the security, effectiveness and stability of the IT system through regular penetration test and vulnerability scanning, real time safe early-warning, host security strengthening, regular safety self-examination and regular emergency drill.
- (4) The Company actively implemented the Standards of Comprehensive Risk Management of Securities Companies, and continued to promote the construction of comprehensive risk management system and compliance management platform system, thus greatly improving the overall compliance and risk control capacity of the Company.

In 2019, the Company constantly improved and optimized the IT operation & maintenance system, actively and quickly responded to the business demand, enhanced the investment in new technology application, safety strengthening and infrastructure update, and adopted stable and efficient technical architecture, in order to lay a solid foundation for guaranteeing the IT operation & maintenance, and effectively support the business development of the Company.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### V. PROFIT DISTRIBUTION AND PROFIT DISTRIBUTION PROPOSAL

Please refer to I. "PROPOSAL OF PROFIT DISTRIBUTION TO HOLDERS OF ORDINARY SHARES OR CAPITALISATION ISSUE" under Section 5 of this report.

### VI. DIRECTORS

Please refer to Section 7 "DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES" of this report.

### VII. DIRECTORS' INTERESTS IN THE BUSINESS COMPETING WITH THE COMPANY

During the Reporting Period, none of the Directors of the Company has any interest in business that competes or may compete, either directly or indirectly, with the Company.

### VIII. PERMITTED INDEMNITY PROVISION

Please see the paragraph headed I. (II) 1. "Composition of the Board" under Section 8 of this report.

### IX. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As of 31 December 2019, based on the information acquired by the Company and the knowledge of the Directors, the Directors, Supervisors and chief executive of the Company have the following (i) interests and short positions (including the interests or short positions considered or deemed to have according to such provisions of the SFO) which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with Divisions 7 and 8 of Part XV under the SFO, or (ii) interests or short positions which shall be recorded in the interests register in accordance with section 352 of the SFO, or (iii) interests or short positions which shall be notified to the Company and the Hong Kong Stock Exchange in accordance with the requirements of the Model Code in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO):

Name	Class of shares	Nature of interest	Number of shares held (shares)	Percentage of total number of issued shares (%)	Percentage of the Company's total issued H shares (%)	Long position/ short position/ lending pool
JIAN Mingjun	H Shares	Beneficial owner	750,000	0.019	0.063	Long position
		Beneficiary of a trust	539,754	0.014	0.045	Long position

Save as disclosed above, as of 31 December 2019, no Directors, Supervisors or their respective spouse or children under the age of 18 have been given the right to purchase the shares or debentures of the Company to obtain benefit, or such persons exercise any such right; or no arrangements have been made by the Company or any of its subsidiaries to entitle such right to the Directors, Supervisors or their respective spouse or children under the age of 18 in any other body corporate.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### X. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As of 31 December 2019, pursuant to the knowledge of the Directors of the Company after making reasonable inquiries, the following persons (other than Directors, Supervisors or chief executive of the Company) have the following interests or short positions in shares or underlying shares required to be disclosed to the Company in accordance with Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be maintained by the Company under Section 336 of the SFO:

Name	Class of shares	Nature of interest	Number of shares held (shares)	Percentage of the Company's total issued shares (%)	Percentage of the Company's total issued A shares/H shares (%)	Long position/ short position/ lending pool
Henan Investment Group	A Share	Beneficial owner	822,983,847	21.271	30.781	Long position
	H Shares	Beneficial owner/ Interest of corporation controlled by the substantial shareholder	72,034,000 <sup>Note 1</sup>	1.862	6.026	Long position
Bohai Industrial Investment Fund	A Share	Beneficial owner	534,309,767	13.810	19.984	Long position
Bohai Industrial Investment Fund Management Co., Ltd. (on behalf of the Bohai Industrial Investment Fund)	A Share	Investment manager	534,309,767	13.810	19.984	Long position
Anyang Iron & Steel Group	A Share	Beneficial owner	177,514,015	4.588	6.639	Long position

Notes:

- As known to the Directors, as at the end of the Reporting Period, Dahe Paper (Hong Kong) Co., Limited, a wholly-owned subsidiary of Henan Investment Group, directly held 46,733,000 H Shares of the Company, Henan Investment Group held 25,301,000 H Shares of the Company through Stock Connect; Henan Investment Group directly and indirectly held a total of 72,034,000 H Shares of the Company, accounting for approximately 6.026% of the Company's issued H shares as at the end of the Reporting Period.

Save as disclosed above, as of 31 December 2019, the Company was not aware of any other persons (excluding the Directors, Supervisors and chief executive of the Company) having the interests or short positions required to be recorded in the register in the shares or underlying shares of the Company under Section 336 of the SFO.

### XI. PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or repurchased any securities of the Company during the Reporting Period.



## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### **XII. NON-COMPETITION UNDERTAKING OF CONTROLLING SHAREHOLDERS**

Please refer to the paragraph headed VI. “EXPLANATION ON LACK OF INDEPENDENCE OR INDEPENDENT OPERATING ABILITY IN TERMS OF BUSINESS, PERSONNEL, ASSETS, ORGANIZATIONS, AND FINANCE BY THE COMPANY FROM ITS CONTROLLING SHAREHOLDER” under Section 8 of this report.

### **XIII. OTHER DISCLOSURES**

#### **(I) Share capital**

Please refer to the Consolidated Statement of Financial Position and Note 39 to the Consolidated Financial Statements as set out in this report.

#### **(II) Pre-emptive rights arrangement**

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

#### **(III) Sufficiency of public float**

From the date on which the Company’s H shares were listed to the date of this report, according to the information obtained by the Company and the knowledge of the Directors, the public float of the Company has been in compliance with the relevant regulations of Rule 8.08 and Rule 13.32 of the Hong Kong Listing Rules.

#### **(IV) Management contract**

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

#### **(V) Director and Supervisor service contract**

No Director or Supervisor of the Company has entered into any service contract with the Company or its subsidiaries which is not terminable within one year or is not terminable without payment of compensation (other than statutory compensation).

#### **(VI) Material interests of Directors and Supervisors in transactions, arrangements or contracts**

The Company or its subsidiaries have not entered into any significant transactions, arrangements or contracts entitling substantial interests to the Directors or Supervisors of the Company or their related entities directly or indirectly in the Reporting Period.

## SECTION 4 REPORT OF THE BOARD OF DIRECTORS

### **(VII) Rights of Directors and Supervisors to acquire shares or debentures**

During the Reporting Period, no arrangements to which the Company, any of its subsidiaries, its holding company or any subsidiaries of its holding company is or was a party enabling the Directors or Supervisors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or other body corporate.

### **(VIII) Donations**

During the Reporting Period, the Group's charitable and other donations amounted to approximately RMB6 million.

### **(IX) Employees**

Please refer to VI. "EMPLOYEES OF THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES" under Section 7 of this report.

### **(X) Property, plants, equipment and investment properties**

As at the end of the Reporting Period, for details of the Group's property, plants, equipment and investment properties, please refer to the Consolidated Statement of Financial Position and Note 18 and Note 20 to the Consolidated Financial Statements as set out in this report.

### **(XI) Reserves**

For changes of the Group's reserves and distributable reserves during the Reporting Period, please refer to the Consolidated Statement of Changes in Equity and Note 40 to the Consolidated Financial Statements as set out in this report.

All references in this section to other parts, sections or notes in this report form part of the Report of the Board of Directors.



## SECTION 5 SIGNIFICANT EVENTS

### I. PROPOSAL OF PROFIT DISTRIBUTION TO HOLDERS OF ORDINARY SHARES OR CAPITALISATION ISSUE

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

According to the Articles of Association, the Company may distribute dividends in cash or in shares. The Company shall emphasize on the reasonable investment returns to investors in its profit distribution and shall keep its profit distribution policies consistent and stable. The Company shall fully consider and listen to the opinions of shareholders (especially minority shareholders) and independent Directors, and shall adhere to cash dividend as its primary method of profit distribution. In the absence of significant investment plan or significant cash outlay, or any other events occurred that prohibit profit distribution in accordance with relevant laws, regulations and regulatory documents, the profit distributed by cash dividend each year shall be no less than 20% of the distributable profit realized for that year.

The Board shall, comprehensively taking into consideration factors such as industry characteristics, the Company's development stage, business operation model, profitability level and whether there are significant capital expenditure arrangements, develop differentiated cash dividend policies to be applicable in the different situations. The cash dividend payout ratio in every profit distribution shall reach a minimum of 20%. In addition to cash dividend distribution, the Company may also distribute its profits by way of stock dividend. However, in the event that no cash dividend is made by the Company during that year, profits shall not be distributed by way of stock dividend alone.

The Board shall, in the light of specific operating data of the Company, the profit margin, the cash flow position, the development stage and the current capital requirements, take into consideration the opinions of shareholders (especially minority shareholders) and independent Directors, while conducting careful research into and deliberation on the timing, conditions, minimum percentage, conditions of adjustment as well as decision-making procedures of cash dividends, to propose the annual or interim profit distribution plan. Independent Directors shall express specific opinions on these matters.

On 7 November 2019, the Profit Distribution Plan for the first half of 2019 was considered and approved by the 2019 First Extraordinary General Meeting of the Company to distribute a cash dividend of RMB0.20 (tax inclusive) for every 10 shares.

As audited by ShineWing Certified Public Accountants (Special General Partnership) and PricewaterhouseCoopers, the net profit attributable to owners of the parent in the consolidated financial statements of the Company for 2019 is RMB58,222,745.44. The accumulated profits of the Company distributable to shareholders as at the end of 2019 is RMB170,879,423.10.

Given that the Company had distributed a cash dividend of RMB0.20 (tax inclusive) for every ten shares for the first half of 2019, the total cash dividend amounted to RMB77,381,414.00 (tax inclusive), representing 132.91% of the net profits attributable to shareholders of the parent in 2019 and 207.67% of the distributable profits in 2019, which is in compliance with the Company's requirements for shareholder return planning from 2019 to 2021. Since the Company has greater demand for funds to develop its various businesses in 2020, in order to maintain the sustainability of the Company and the smooth issuance of additional shares, the Company's proposed profit distribution plan for the second half of 2019 is not to distribute a cash dividend, nor capitalize capital reserve into share capital.

The proposed profit distribution plan as mentioned above is subject to the consideration and approval of the annual general meeting of the Company for the year of 2019.

The formation of the aforesaid profit distribution plan is of highly transparency and in compliance with regulations and the Articles of Association and approval procedures that the criteria and proportion of dividends are definite and clear, the relevant decision-making procedures and mechanisms are complete, the independent Directors have fulfilled their responsibilities and duties and expressed their independent opinions so as to fully protect the legitimate rights and interests of minority shareholders.

## SECTION 5 SIGNIFICANT EVENTS

### (II) Profit distribution plans or proposals for ordinary shares for the past three years (including the Reporting Period)

Unit: Yuan Currency: RMB

Year of distribution	Number of bonus shares for every 10 shares (share)	Amount of dividend for every 10 shares (tax inclusive)	Capitalisation shares for every 10 shares (share)	Amount of cash dividends (tax inclusive)	Net profit attributable to owners of ordinary shares of the Company as shown in the consolidated financial statements during the year of distribution	Percentage of net profit attributable to owners of ordinary shares of the Company as shown in the consolidated financial statements (%)
2019	0	0.20	0	77,381,414.00	58,222,745.44	132.91
2018	0	0.10	0	38,690,707.00	65,787,558.62	58.81
2017	0	1.08	0	421,850,107.60	441,982,592.67	95.44

## SECTION 5 SIGNIFICANT EVENTS

### II. PERFORMANCE OF UNDERTAKINGS

**Undertakings by undertaking related parties including de facto controller, shareholders, related parties, acquirer and the Company made or subsisting during the Reporting Period**

Background	Type of undertakings	Undertaking party	Contents of undertakings	Date and duration of undertakings	Any deadline for performance	Whether timely and strictly performed	In case of failure to perform in time, the specific reasons for the incomplete performance shall be stated	In case of failure to perform in time, future plans shall be described.
Undertaking in relation to the initial public offering	Shares subject to trading moratorium	Henan Investment Group	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	36 months since the date of initial offering of A shares by Central China Securities and listing on the stock exchange	Yes	Yes		
	Shares subject to trading moratorium	Henan Investment Group	Undertakings by shareholders in relation to voluntary moratorium on trading of shares	Within 12 months from the date of listing and circulation of initial public offering of the restricted A-shares of Central China Securities held by Henan Investment Group, the shares held by Central China Securities shall not be reduced in any way	Yes	Yes		
	Non-competition	Henan Investment Group	Undertaking in relation to non-competition	Regarded as long-term since entering into of the non-competition agreement with Central China Securities on 10 March 2014	Yes	Yes		
	Non-competition	The Company	Undertaking in relation to non-competition	Regarded as long-term since entering into non-competition agreement with Henan Investment Group on 10 March 2014	Yes	Yes		
Undertaking in relation to refinancing	Others	The Company	Undertaking in relation to increasing resource investment in compliance risk control and information technology	Note 1	Yes	Yes		

Note 1: (1) For the three consecutive years from 2020 to 2022, the Company's investment in compliance risk control of each year shall not be less than 3% of the Company's operating income in the previous year; (2) for the three consecutive years from 2020 to 2022, the Company's investment in information technology of each year shall not be less than 6% of the Company's operating income in the previous year; (3) according to the plan for use of proceeds from the proposed non-public issuance of A shares, the Company intends to use no more than RMB100 million for the continuous construction and improvement of information systems and increased investment in compliance management and comprehensive risk management system construction; (4) from 2020 to 2022, the Company shall disclose in its Annual Report the actual investment in compliance risk control and information technology; and (5) on the premise of the use of proceeds from the proposed non-public issuance of A shares complying with relevant laws and regulations, the Company shall take into full account the capital investment in both compliance risk control and information technology.

## SECTION 5 SIGNIFICANT EVENTS

### III. ANALYSIS AND EXPLANATION BY THE COMPANY ON THE REASON AND INFLUENCE OF CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group has adopted IFRS 16 Leases from 1 January 2019, but 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 recognised in the opening balance sheet on 1 January 2019. The adoption of the standard did not have a material impact on financial statements of the Company.

For details of the changes in accounting policies, please refer to Note 3.2 to the Consolidated Financial Statements.

### IV. APPOINTMENT OR TERMINATION OF SERVICE OF ACCOUNTING FIRMS

Unit: 0'000 Currency: RMB

	Currently engaged
Name of the domestic accounting firm	ShineWing Certified Public Accountants (Special General Partnership)
Remuneration of the domestic accounting firm	125
Term of the audit services provided by domestic accounting firm	8 years
Name of the overseas accounting firm	PricewaterhouseCoopers
Remuneration of the overseas accounting firm	428
Term of the audit services provided by overseas accounting firm	6 years

	Name	Remuneration
Accounting firm engaged for internal control audit	ShineWing Certified Public Accountants (Special General Partnership)	30.00

#### Explanation of appointment or termination of service of accounting firms

During the Reporting Period, the Company re-appointed ShineWing Certified Public Accountants (Special General Partnership) as its external auditors for 2019 for providing domestic audit services in accordance with the China's Accounting Standards for Business Enterprises, with a service term of 1 year. The total fees for audit and review services (including internal control audit) for the year of 2019 were RMB1.55 million, including RMB1.25 million of audit fees for financial and special supervision report and RMB300,000 of internal control audit fees.

During the Reporting Period, the Company re-appointed PricewaterhouseCoopers as its overseas auditors for 2019 for providing audit and review services in accordance with the International Financial Reporting Standards, with a service term of 1 year. The total audit and review fees for the year of 2019 were RMB4.28 million, including RMB3.18 million of annual audit fees and RMB1.10 million of interim review fees.

## SECTION 5 SIGNIFICANT EVENTS

### V. MATERIAL LITIGATION AND ARBITRATION

Unit: 0'000 Currency: RMB

During the Reporting Period:

Prosecution (petitioner)	Defendant (respondent)	Party bearing joint liability	Type of litigation or arbitration	Background of litigation (arbitration)	Amount involved in litigation (arbitration)	Any estimated liabilities incurred in litigation (arbitration) and the amount	Development of litigation (arbitration)	Trial outcome of litigation (arbitration) and the influence	Enforcement of the judgment on litigation (arbitration)
Central China Securities	Shenwu Technology Group Corporation Limited* (神霧科技集團股份有限公司)	None	Contract dispute	Note 1	20,000.00	None	Note 1	A judgment has been issued and was in force.	Note 1
Central China Securities	Neoglorry Holdings Group Co. Ltd.*(新光控股集團有限公司)	None	Contract dispute	Note 2	20,000.00	None	Note 2	A first-instance judgment has been obtained, but it was not yet effective.	Note 2
Central China Securities	Shihezi Ruichen Equity Investment Partnership Enterprise (Limited Partnership)* (石河子市瑞晨股權投資合夥企業(有限合夥)), Tan Songbin (譚頌斌), Zhou Juan (周娟)	None	Contract dispute	Note 3	18,799.98	None	Note 3	The second instance judgment has not been issued.	Note 3
Central China Securities	Great Wall Film & Culture Company Group Limited*(長城影視文化企業集團有限公司)	None	Contract dispute	Note 4	20,000.00	None	Note 4	A judgment has been issued and was in force.	Note 4
Central China Securities	Kedi Food Group Co., Ltd	None	Contract dispute	Note 5	43,165.83	None	Note 5	No judgment issued	Note 5
Central China Blue Ocean Investment Management Company Limited	Henan Zhongyi Real Estate Co., Ltd.* (河南中益置業有限公司), Ge Hongtao (葛洪濤), Xu Xianghong (徐香紅), Xu Zengcai (徐增才), Henan Zhongyi Heavy Industry Machinery and Technology Co., Ltd.* (河南中益重工機械科技股份有限公司), Henan Zhongyi Engineering Survey Co., Ltd.* (河南中益工程勘察有限公司), Henan Zhongyi Industrial Group Co., Ltd.* (河南中益實業集團有限公司), Henan Zhongyi Property Services Co., Ltd.* (河南中益物業服務有限公司), Zhengzhou Shengzhifeng Industrial Co., Ltd.* (鄭州盛之隆實業有限公司)	None	Contract dispute	Note 6	10,580.88	None	Note 6	A judgment has been issued and was in force.	Note 6
Central China International Financial Holdings Company Limited	Ke Wentuo (柯文托), Ke Jinzhi (柯金治), Shi Kaihua (施凱華), Fujian Grace Environmental Wall paper CO., LTD	None	Contract dispute	Note 7	17,210.92	None	Note 7	No judgment issued	Note 7
Central China International Investments Limited	Ke Wentuo (柯文托), Ke Jinzhen (柯金珍)	None	Contract dispute	Note 8	24,688.40	None	Note 8	No judgment issued	Note 8

Note 1: The Company filed a lawsuit against Shenwu Technology Group Corporation Limited (hereinafter referred to as "Shenwu Group"), asserting the defendant's breach of securities-backed lending contract. After the first-instance judgment issued by the Henan Provincial High Court, the defendant Shenwu Group filed an appeal. On 22 August 2019, the Company received the (2019) Supreme Court No. 706 civil judgment issued by the Supreme People's Court, which rejected the appeal and upheld the original judgment. The Henan Provincial High Court accepted the case for compulsory enforcement on 23 September 2019. As at the end of the Reporting Period, the case was under the process of compulsory enforcement. The Company has made provisions for impairment of the transaction.

## SECTION 5 SIGNIFICANT EVENTS

- Note 2: The Company filed a lawsuit against Neoglory Holdings Group Co. Ltd. (hereinafter referred to as “Neoglory Holdings”), asserting the defendant’s breach of securities-backed lending contract. The Henan Provincial High Court accepted and then transferred the case to the Jinhua Intermediate People’s Court since Neoglory Holdings applied for bankruptcy and reorganization. The Jinhua Intermediate People’s Court accepted the bankruptcy and reorganization application on 25 April 2019, for which the Company has declared its credits. On 30 December 2019, the Company received the (2019) Zhe 07 Minchu No. 198 Civil Judgment issued by the Jinhua Intermediate People’s Court of Zhejiang Province, which supported the Company’s claims including payment to be made by Neoglory Holdings for the amount of RMB200 million in financing principal and interest, liquidated damages, and attorney’s fees. It is confirmed that the Company has a preferential right of compensation for the 31,850,000 shares of Neoglory Prosperity Inc. (stock code: 002147) pledged by Neoglory Holdings within the scope of the creditor’s rights determined by the above judgment. As of the end of the Reporting Period, the judgment has not yet been effective. The Company has made provisions for impairment of the transaction.
- Note 3: The Company filed a lawsuit against Shihezi Ruichen Equity Investment Partnership Enterprise (Limited Partnership) (hereinafter referred to as “Ruichen Investment”), Tan Songbin and Zhou Juan, asserting the defendants’ breach of contract in the securities-backed lending business. On 23 September 2019, the Company received the (2019) Yuminchu No. 8 civil judgment issued by the Henan Province Higher People’s Court, which supported the Company’s claims including the payment to be made by Ruichen Investment for the amount of approximately RMB188 million in financing principal and interest, liquidated damages, attorney’s fees and insurance premiums. It is confirmed that the Company has a preferential right of compensation for the discount, auction, or sale proceeds of the 24,529,900 shares of Guangdong Silver Age Sci &Tech Co., Ltd. (stock code: 300221) pledged by the defendant Ruichen Investment to the Company. It is confirmed that Tan Songbin bears unlimited joint and several liability for the above payment obligation, and Zhou Juan bears the liability for the above payment obligation within the limit of RMB6 million that Zhou Juan invested into Ruichen Investment. On 5 October 2019, the defendants Ruichen Investment, Tan Songbin and Zhou Juan filed an appeal. As of the end of the Reporting Period, no judgment has been made in the second-instance process of the case. The Company has made provisions for impairment of the transaction.
- Note 4: The Company filed a lawsuit against Great Wall Film & Culture Company Group Limited (hereinafter referred to as “Great Wall Film”), asserting the defendant’s breach of securities-backed lending contract. On 10 December 2019, the Company received the (2019) Yuminchu No. 11 civil judgment issued by Henan Province Higher People’s Court, which supported the Company’s claims including the payment to be made by Great Wall Film for the amount of RMB200 million in financing principal and interest, liquidated damages, attorney’s fees and litigation property preservation insurance premiums. It is confirmed that if Great Wall Film fails to fulfill the above-mentioned payment obligation, the Company has the preferential right of compensation for the discount, auction, or sale proceeds of the 50,400,000 shares of Great Wall Film held by the Company. As of the end of the Reporting Period, the judgment has been effective and has been submitted for compulsory enforcement. The Company has made provisions for impairment of the transaction.
- Note 5: The Company filed a lawsuit against Kedi Food Group Co., Ltd., asserting the defendant’s breach of securities-backed lending contract and requesting payment of financing principal, interest, liquidated damages and attorney’s fees amounted to RMB431,658,300 in total. On 29 November 2019, the Intermediate People’s Court of Zhengzhou City accepted the case. The case was heard on 20 December 2019. As of the end of the Reporting Period, no judgment has been issued for this case. The Company has made provisions for impairment of the transaction.
- Note 6: Central China Blue Ocean filed a lawsuit against Henan Zhongyi Real Estate Co., Ltd. (hereinafter referred to as “Zhongyi Real Estate”), asserting the defendant’s breach of financial entrusted wealth management contract. On 31 October 2019, the Company received the (2019) Yu 01 Minchu No. 1407 civil judgment issued by the Intermediate People’s Court of Zhengzhou City, which supported Central China Blue Ocean’s claims including the payment to be made by Zhongyi Real Estate for the amount of RMB99.69 million in the trust loan principal and interest, penalty interest, compound interest, liquidated damages and attorney’s fees. It is confirmed that Central China Blue Ocean is the mortgagee of the in-process construction that located in the east side of Yinping Road and the south side of Dongqing street (real estate unit number: 410102103004GB00071W00000000), together with the apportioned land-use rights; the Company has the preferential right of compensation for the discount, auction, or sale proceeds within the scope of its creditor’s right; and eight defendants, including Henan Zhongyi Heavy Industry Machinery and Technology Co., Ltd., bear joint and several liability for the aforesaid payment obligation determined in this judgment, and have the right to claim compensation from Zhongyi Real Estate after they undertook the guarantee liability. As of the end of the Reporting Period, the judgment has become effective and has been submitted for compulsory enforcement. The Company has made provisions for impairment of the transaction.



## SECTION 5 SIGNIFICANT EVENTS

Note 7: Central China International filed a lawsuit against Ke Wentuo, Ke Jinzhi, Shi Kaihua and Fujian Grace Environmental Wall Paper Co., Ltd., asserting the defendants' breach of guarantee contract. The Intermediate People's Court of Quanzhou City, Fujian Province accepted the case on 21 October 2019, and heard this case on 17 January 2020. As of the end of the Reporting Period, the case has not been heard. The Company has made provisions for impairment of the transaction.

Note 8: Central China International Investment Co., Ltd. filed a lawsuit against Ke Wentuo and Ke Jinzhi, asserting the defendants' breach of guarantee contract. The Intermediate People's Court of Quanzhou City, Fujian Province accepted the case on 21 October 2019. As of the end of the Reporting Period, the case has not been heard. The Company has adjusted the valuation of the transaction downward.

### VI. CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER DURING THE REPORTING PERIOD

During the Reporting Period, none of the Group, its controlling shareholder or de facto controller had unperformed enforceable court judgments, unpaid debts with larger sum at maturity or bad credibility record.

### VII. CONNECTED TRANSACTIONS

Non-exempt continuing connected transactions and connected transactions conducted by the Group during the Reporting Period are listed below:

#### (I) Non-exempt continuing connected transactions

##### ***Entering into the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group***

The Group has been, in the ordinary and usual course of its business, engaged in continuing transactions with Henan Investment Group and its associates including securities and financial product transactions and provision of securities and financial services. According to the Hong Kong Listing Rules, Henan Investment Group, a substantial shareholder of the Company, together with its associates, are connected persons of the Company. Transactions between the Group and Henan Investment Group and its associates constitute continuing connected transactions of the Group. The Group and Henan Investment Group entered into a securities and financial products transactions and services framework agreement on 27 March 2019 (the "Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group") for a term of three years from 1 January 2019 to 31 December 2021, and respectively set the annual caps (for the three financial years ending 31 December 2021, (1) the annual caps of the total net cash outflow from the Group in respect of the securities and financial products transactions are RMB123.00 million, RMB123.00 million and RMB123.00 million, respectively, and the total net cash inflow to the Group are RMB12.43 million, RMB12.43 million and RMB12.43 million, respectively; and (2) the annual caps for revenue from provision of securities and financial services to Henan Investment Group and its associates in respect of the securities and financial services are RMB33.81 million, RMB33.81million and RMB33.81million, respectively), in order to regulate such continuing connected transactions of the Company more effectively.

## SECTION 5 SIGNIFICANT EVENTS

According to the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group, the Group enters into various securities and financial products transactions with Henan Investment Group and its associates in the ordinary and usual course of the Group's business. Meanwhile, the Group also provides various securities and financial services to Henan Investment Group and its associates. The Company and Henan Investment Group agreed that:

- (1) Securities and financial products transactions: Securities and financial product transactions will be conducted at the prevailing market prices in the ordinary and usual course of the Group's business; inter-financial institutions loans will be conducted upon normal commercial terms or better at interest rates and terms, as applicable to similar loans provided by independent third party institutions.
- (2) Securities and financial services: The general pricing principles for service fee or commission or brokerage fee charged by the Group shall be based on negotiations between the parties with reference to the prevailing market rates and in accordance with the requirements of the applicable laws and regulations of the PRC.

At the meeting held on 27 August 2019, the Board of Directors resolved to revise the annual caps for the total net cash inflow to the Group in respect of the securities and financial products transactions between the Group and Henan Investment Group and its associates under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group for the three financial years ending 31 December 2021 to RMB34.00 million, RMB18.00 million and RMB15.00 million, respectively.

The provision of loans by Henan Investment Group and its associates to the Group under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group are exempted from the reporting, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules. As such transactions constitute financial assistance provided by a connected person for the benefit of the Group upon normal commercial terms with no security given for such financial assistance.

In 2019, the annual caps and actual amounts of securities and financial products transactions between the Group and Henan Investment Group and its associates, and the annual caps and actual amounts of securities and financial services provided by the Group to Henan Investment Group and its associates are set out as follows:

	<b>Annual caps for 2019</b> <i>(in millions of RMB)</i>	<b>Actual amounts in 2019</b> <i>(in millions of RMB)</i>
<b>Securities and financial products transactions</b>		
Total net cash outflow from the Group	123.00	11.00
Total net cash inflow to the Group*	34.00	23.50
<b>Securities and financial services</b>		
Revenue from provision of securities and financial services to Henan Investment Group and its associates	33.81	3.54

\* The figure represents gains derived from subscriptions by the Group of financial products set up by Henan Investment Group and its associates.

For details of the continuous connected transactions mentioned above, please refer to the announcements of the Company dated 27 March 2019 and 27 August 2019, respectively published on the HKExnews website of the Hong Kong Stock Exchange.

## SECTION 5 SIGNIFICANT EVENTS

### ***Entering into the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co.***

The Group has been, in the ordinary and usual course of its business, engaged in continuing transactions with Equity Exchange Co. including, securities and financial products transactions and mutual provision of securities and financial services. According to the Hong Kong Listing Rules, Equity Exchange Co. is a connected subsidiary of the Company (Henan Investment Group, the substantial shareholder of the Company, holds 10% of its equity). Transactions between the Group and Equity Exchange Co. constitute continuing connected transactions of the Group. Therefore, the Company and Equity Exchange Co. entered into a securities and financial products transactions and services framework agreement on 27 March 2019 (the "Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co.") for a term of three years from 1 January 2019 to 31 December 2021, and respectively set the annual caps (for the three financial years ending 31 December 2021, (1) the annual caps of the total net cash inflow into the Group for transactions in respect of the securities and financial products transactions are RMB75.00 million, RMB75.00 million and RMB75.00 million, respectively, and the annual caps of the total net cash outflow from the Group are RMB2.40 million, RMB2.40 million and RMB2.40 million, respectively; and (2) the annual caps for revenue from provision of securities and financial services to Equity Exchange Co. in respect of securities and financial services are RMB1.95 million, RMB1.95 million and RMB1.95 million, respectively, and the annual caps for expenses to be incurred by provision of securities and financial services to the Group are RMB10.10 million, RMB10.10 million and RMB10.10 million, respectively), in order to regulate such continuing connected transactions of the Company more effectively.

According to the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co., the Group enters into various securities and financial products transactions with Equity Exchange Co. in the ordinary and usual course of its business, and mutually provides various securities and financial services to each other. The Company and Equity Exchange Co. agreed that:

- (1) Securities and financial products transactions: The securities and financial products transactions will be conducted at the prevailing market prices in the ordinary and usual course of the Group's business.
- (2) Securities and financial services: The general pricing principle of the service fees charged by the Group shall be based on negotiations between the parties with reference to the prevailing market rates and in accordance with the requirements of the applicable laws and regulations of the PRC.

In 2019, the annual caps and actual amounts of securities and financial products transactions between the Group and Equity Exchange Co., and the annual caps and actual amounts of securities and financial services mutually provided between the Group and Equity Exchange Co. are set out as follows:

	<b>Annual caps for 2019</b> <i>(in millions of RMB)</i>	<b>Actual amounts in 2019</b> <i>(in millions of RMB)</i>
<b>Securities and financial products transactions</b>		
Total net cash inflow to the Group	75.00	20.00
Total net cash outflow from the Group*	2.40	0.00
<b>Securities and financial services</b>		
Revenue from provision of securities and financial services to Equity Exchange Co.	1.95	0.00
Expenses incurred by provision of securities and financial services to the Group	10.10	0.10

\* The figure represents net cash outflow arising from payment to Equity Exchange Co. of the gains derived from the subscriptions by Equity Exchange Co. of financial products set up by the Group.

## SECTION 5 SIGNIFICANT EVENTS

For details of the continuous connected transactions mentioned above, please refer to the announcement of the Company dated 27 March 2019 on the HKExnews website of the Hong Kong Stock Exchange.

During the Reporting Period, the above continuous connected transactions were executed in accordance with the relevant framework agreements signed by the Company with Henan Investment Group and the Equity Exchange Co., respectively, and the pricing principles of the connected transactions were strictly observed.

The auditor engaged by the Company has reviewed the above-mentioned non-exempt continuing connected transactions and has sent a letter to the Board of Directors, stating that:

- Nothing has come to the auditor's attention that causes them to believe that the continuing connected transactions have not been approved by the Board of Directors of the Company;
- If the transactions involve the provision of goods or services by the Group, nothing has come to the auditor's attention that causes them to believe that the continuing connected transactions have not been conducted in accordance with the Group's pricing policy in all material respects;
- Nothing has come to the auditor's attention that causes them to believe that the continuing connected transactions in all material respects were not carried out in accordance with the relevant agreement governing the transactions;
- Regarding the total amount of each continuing connected transaction listed in the appendix of the continuing connected transaction letter, nothing has come to the auditor's attention that causes them to believe the disclosed continuing connected transactions have exceeded the annual caps set by the Company.

The independent non-executive Directors of the Company have confirmed to the Board of Directors that they have reviewed the above non-exempt continuing connected transactions and considered that the transactions were:

- conducted in the ordinary course of business of the Group;
- on normal commercial terms, or if there is no comparable transaction to determine whether the terms of the transaction are on normal commercial terms, on terms no less favorable to the Group than those available from or to (as the case may be) independent third parties; and
- conducted in accordance with the terms set out in relevant transactions agreement, which were fair and reasonable and in the interests of the shareholders of the Company as a whole.



## SECTION 5 SIGNIFICANT EVENTS

### (II) Non-exempt connected transactions

#### **Entering Into the Deed of Reorganization regarding the Reorganization of Central China International Financial Group and Its Subsidiaries**

On 4 July 2019, Central China International and Central China International Holdings (both wholly-owned subsidiaries of the Company) entered into a deed of reorganization (“the Deed of Reorganization”) with Success Plan Management Co., Ltd., Sino Oriental International Limited, Leap Success International Co., Ltd., Access King Global Co., Ltd., and Central China International Financial Group, Central China Finance Holdings Limited, Central China International Finance Co., Ltd. and Central China International Asset Management Co., Ltd. regarding the reorganization of Central China International Financial Group and its subsidiaries. Pursuant to the Deed of Reorganization:

Central China International Holdings, an indirect wholly-owned subsidiary of the Company which held 48% equity interest in and actually controlled Central China International Financial Group on the date of the Deed of Reorganization, agreed to purchase and the selling shareholders of Central China International Financial Group (namely, Success Plan Management Co., Ltd., Sino Oriental International Limited, Leap Success International Co., Ltd., and Access King Global Co., Ltd.) agreed to sell the 52% equity interest they held in aggregate in Central China International Financial Group in a total consideration of HK\$847,080,000, which shall be paid in installment by Central China International Holdings in cash. Upon completion of the transaction, Central China International Financial Group will become a direct wholly-owned subsidiary of Central China International Holdings and an indirect wholly-owned subsidiary of the Company.

After the relevant transaction in relation to the acquisition of 52% equity interest from the selling shareholdings of Central China International Financial Group as mentioned above is completed, Central China Finance Holdings Limited agreed to sell and Central China International agreed to purchase 100% equity interest in the retaining subsidiaries of Central China International, namely Central China International Securities Co., Ltd., Central China International Investment Co., Ltd., Central China International Futures Co., Ltd., and Central China International Capital Limited (collectively referred to as “Central China International Retaining Subsidiaries”), in a total consideration of HK\$664,416,272, which shall be offset against relevant inter-Group receivables.

After both the acquisition of 52% equity interest from the selling shareholders of Central China International Financial Group and the internal transfer of the Retaining Subsidiaries of Central China International are completed, Central China International Finance Group agreed to sell and Success Plan Management Co., Ltd. agreed to purchase 100% equity interest in Central China Finance Holdings Limited. (together with its wholly-owned subsidiaries Central China International Finance Co., Ltd., and Central China International Asset Management Co., Ltd.) in a total consideration of HK\$40,200,000, which shall be paid by Success Plan Management Co., Ltd. in cash in one lump sum.

As at the date of the Deed of Reorganization, Central China International Financial Group is a significant subsidiary of the Company under the Hong Kong Listing Rules. Pursuant to Rule 14A.07 of the Hong Kong Listing Rules, Success Plan Management Co., Ltd., as a substantial shareholder of Central China International Financial Group (holding 34% equity interest in Central China International Financial Group as at the date of the Deed of Reorganization), is a connected person of the Company. Therefore, each of the acquisition and disposal transactions to be conducted between the Company and Success Plan Management Co., Ltd. under the Deed of Reorganization constitutes a connected transaction of the Company.



## SECTION 5 SIGNIFICANT EVENTS

Since the sales of the relevant equity interest by Success Plan Management Co., Ltd. and other selling shareholders of Central China International Financial Group under the Deed of Reorganization shall be simultaneously conducted and completed and are inter-related, the Company has deemed the acquisition from other selling shareholders of Central China International Financial Group contemplated under the Deed of Reorganization as connected transactions of the Company, and has aggregated such transactions with the acquisition from Success Plan Management Co., Ltd. contemplated under the Deed of Reorganization.

For details of the connected transactions mentioned above, please refer to the announcements of the Company dated 04 July 2019 and 10 July 2019, respectively on the HKExnews website of the Hong Kong Stock Exchange.

Save as disclosed above, there is no related party transaction or continuing related party transaction as set out in Note 55 to the Consolidated Financial Statements of this report that falls into the category of connected transaction or continuing connected transaction that need to be disclosed under the Hong Kong Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules with respect to the connected transaction and continuing connected transactions of the Company.

## SECTION 5 SIGNIFICANT EVENTS

### VIII. MATERIAL CONTRACTS AND CONTRACT PERFORMANCE

#### Guarantees

Unit: Yuan Currency: RMB

Guarantees provided by the Company (excluding the guarantees to subsidiaries)

Guarantor	Relationship between guarantor and the listed company	Guarantee	Guarantee amount	Commencement date of guarantee (date of the agreement)	Guarantee starting date	Guarantee expiration date	Type of guarantee	Guarantee fully performed	Guarantee overdue	Overdue amount	Counter-guarantee available	Guarantee provided to related parties	Related party relationship
Total amount of guarantees incurred during the Reporting Period (excluding the guarantees provided to subsidiaries)													0
Total balance of guarantees as at the end of the Reporting Period (A) (excluding the guarantees provided to subsidiaries)													0

Guarantees provided by the Company and its subsidiaries to subsidiaries

Total amount of guarantees provided to subsidiaries during the Reporting Period	421,016,600.00
Total balance of guarantees provided to subsidiaries at the end of the Reporting Period (B)	421,016,600.00

Total amount of guarantees provided by the Company (including the guarantees to subsidiaries)

Total amount of guarantees (A+B)	421,016,600.00
Percentage of total guarantees over the net assets of the Group (%)	4.35

Including:

Amount of guarantees provided to shareholders, de facto controller and their related parties (C)

Amount of debt guarantees directly or indirectly provided to the parties with the gearing ratio exceeding 70% (D)

Total amount of guarantees exceeding 50% of net assets (E)

Total amount of the above three types of guarantees (C+D+E)

Explanations on outstanding guarantee which may assume joint and several liability for repayment

Explanations on guarantees

As at the end of the Reporting Period, the Company provided counter-guarantee for Central China International's offshore loans, the balance of which amounted to RMB421,016,600.00 in total (equivalent to HK\$470,000,000.00)

## SECTION 5 SIGNIFICANT EVENTS

### IX. EXPLANATION ON OTHER SIGNIFICANT EVENTS

#### Plan for non-public issuance of A shares

On 11 June 2019, the Company convened the 2018 Annual General Meeting, the 2019 First Class Meeting for Holders of A Shares and the 2019 First Class Meeting for Holders of H Shares to consider and approve the relevant resolutions on the plan of the non-public issuance of A shares. In order to supplement the capital and working capital to expand the business scale, optimize the business structure, enhance the Company's market competitiveness and risk resistance, the Company intended to non-publicly issue no more than 773,814,000 (inclusive) new A shares to no more than ten specific investors under special mandate with par value of RMB1.00 per share and the proceeds not exceeding RMB5.5 billion (inclusive) (the "Non-Public Issuance").

The final number of the A shares to be issued under the Non-Public Issuance shall be determined by the Board and its authorized persons, under the authorization granted by the shareholders' general meeting of the Company, through negotiation with the sponsor (the lead underwriter) based on the maximum number and issue price approved by the CSRC.

The final target subscribers under the Non-Public Issuance shall be determined based on the principle of price priority by the Board and its authorized persons, under the authorization granted by the shareholders' general meeting of the Company, with the sponsor (the lead underwriter) according to the subscription quotation of the target subscribers in compliance with relevant regulations, upon obtaining of the approval of the CSRC on the Non-Public Issuance.

The pricing benchmark date of the Non-Public Issuance shall be the first day of the issuance period of the Non-Public Issuance. The issue price shall not be lower than any of (i) 90% of the average trading price of the A shares of the Company for the 20 trading days preceding the pricing benchmark date (exclusive); and (ii) the net asset per share as shown in the latest audited annual accounts before the Non-Public Issuance. The final issue price under the Non-Public Issuance shall be determined according to the principle of price priority by the Board and its authorized persons, under the authorization granted by the shareholders' general meeting of the Company, with the sponsor (the lead underwriter) according to the subscription quotation of the target subscribers in compliance with relevant regulations, upon obtaining of the approval of the CSRC on the Non-Public Issuance. If the issue price and pricing principles are otherwise provided by regulatory authorities, such provisions shall be followed.

The proceeds from the Non-Public Issuance, after deducting the issuance expenses, will be completely used to supplement the Company's capital and working capital, so as to enhance the Company's market competitiveness and risk tolerance. The proceeds will be mainly used for the following purposes: (1) developing flow-based business; (2) developing investment and trading businesses; (3) increasing the capital of the domestic and overseas wholly-owned subsidiaries; (4) investing in the information system construction and compliance and risk control; and (5) replenishing the working capital.



## SECTION 5 SIGNIFICANT EVENTS

On 21 October 2019, the Company received the “Receipt of Application for Administrative License from CSRC” issued by the CSRC (Serial No.: 192628). The application materials for administrative license of “Approval of Non-Public Issuance of New Shares by Listed Companies” submitted by the Company were reviewed, and it was considered that the Company’s application materials for non-public issuance of A shares were complete, and it was decided to accept the administrative license application.

On 21 November 2019, the Company received the “Notice of Feedback for the Review of Administrative License Projects of the CSRC” issued by the CSRC. On 19 December 2019, the Company and relevant agencies, in line with the principle of diligence, responsibility and good faith, carefully checked and discussed the issues raised in the feedback, made written descriptions and explanations, and made public disclosure of the reply to the feedback as required.

In accordance with the authorization granted under the Resolution on the Grant of Authorization to the Board and Its Authorized Persons by the Shareholders’ General Meeting to Deal with the Relevant Matters relating to the Non-public Issuance of A Shares considered and approved at the annual general meeting for the year 2018, the first A share class meeting in 2019 and the first H share class meeting in 2019 of the Company, the authorized persons of the Board have made adjustment to the contents in relation to “amount and use of the proceeds” of the Non-public Issuance on 29 March 2020, reducing the proceeds invested to supplement working capital by RMB0.25 billion, after taking into account the Company’s future development, its own strategy-related planning, implementation conditions and other factors prudently. After such adjustment, the proceeds raised from the Non-public Issuance for working capital arrangement shall not exceed RMB0.15 billion, and the total proceeds shall not exceed RMB5.25 billion (originally not exceeding RMB5.5 billion).

Pursuant to the Decision on Revising the Administrative Measures for the Issuance of Securities by Listed Companies (《關於修改<上市公司證券發行管理辦法>的決定》), the Decision to Amend the Implementation Rules for Non-public Issuance of Shares by Listed Companies (《關於修改<上市公司非公開發行股票實施細則>的決定》) and the Issuance Regulation Questions and Answers — Regulatory Requirements regarding Guiding and Regulating Financing Activities of Listed Companies (Revision) (《發行監管問答 — 關於引導規範上市公司融資行為的監管要求 (修訂版)》) issued by the CSRC on 14 February 2020 in relation to the amendments to the rules on non-public issuance by listed companies, in order to ensure the smooth progress of the Non-public Issuance and safeguard the legitimate rights and interests of the Company and its shareholders, the Board considered and approved the proposed adjustments to relevant terms of the plan of the Non-public Issuance, including target subscribers and subscription method, issue price and pricing principles, arrangements for lock-up period and extension of the validity period of the resolution on the Non-public Issuance, and the proposed extension of the validity period of the authorization to the Board and its authorized persons to deal with the relevant matters relating to the Non-public Issuance at the meeting held on 30 March 2020 according to the aforesaid amendments to the rules and the actual situation of the Company. The aforesaid proposed adjustments to relevant terms of the plan of the Non-public Issuance and the proposed extension of the validity period of the authorization to the Board and its authorized persons to deal with the relevant matters relating to the Non-public Issuance are still subject to the approval by the shareholders’ general meeting, the class meeting for holders of A shares and the class meeting for holders of H shares of the Company, respectively as well as the approval by the CSRC.

For details of the above information, please refer to the announcements of the Company dated 18 April 2019, 11 June 2019 and 30 March 2020, respectively on the HKExnews website of the Hong Kong Stock Exchange, as well as the Company’s Circular dated 21 May 2019, and the Company’s relevant announcements on the SSE website dated 19 April 2019, 12 June 2019, 22 October 2019 and 19 December 2019 (Announcement No.: 2019-024, 2019-041, 2019-060, and 2019-073).

## SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

### I. CHANGES IN ORDINARY SHARE CAPITAL

During the Reporting Period, the total number of ordinary shares and the share capital structure have not changed.

### II. ISSUANCE AND LISTING OF SECURITIES

Particulars about issuances of securities during the Reporting Period:

Type of shares and derivative securities	Date of issuance	Issue price (or interest rate)	Issue size	Date of listing	Amount approved for listing and trading	Date of termination of trading
2019 Corporate Bonds Publicly Issued to Qualified Investors (Tranche 1) of Central China Securities Co., Ltd.	2019/3/25	3.9%	2,000.00	2019/4/3	2,000.00	2022/3/26
2019 Non-publicly-issued Corporate Bonds (Tranche 1) of Central China Securities Co., Ltd.	2019/4/15	3.8%	1,500.00	2019/4/25	1,500.00	2020/4/16
2019 Non-publicly-issued Subordinated Bonds (Tranche 1) of Central China Securities Co., Ltd.	2019/10/29	4.9%	1,000.00	2019/11/11	1,000.00	2020/10/30

During the Reporting Period, the Company issued three bonds, namely "19 Central China 01", with an amount of RMB2 billion, an interest rate of 3.9%, and a term of 3 years; "19 Central China F1", with an amount of RMB1.5 billion, an interest rate of 3.8%, and a term of 1 year; and "19 Central China C1", with an amount of RMB1 billion, an interest rate of 4.9%, and a term of 3 years.

## SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

### III. SHAREHOLDERS AND DE FACTO CONTROLLER

#### (I) Total number of shareholders

Total number of holders of ordinary shares as at the end of the Reporting Period	124,247 (of which 124,203 were holders of A shares and 44 were registered holders of H shares)
Total number of holders of ordinary shares as at the end of last month prior to the date of disclosure of this report	124,842 (of which 124,799 were holders of A shares and 43 were registered holders of H shares)

#### (II) Shareholdings of the top ten shareholders, the top ten holders of tradable shares (or shareholders not subject to trading moratorium) as at the end of the Reporting Period

Unit: Share

##### Shareholdings of the top ten shareholders

Name of shareholders (Full name)	Changes during the Reporting Period	Number of shares held as at the end of the Reporting Period	Percentage (%)	Number of shares held subject to trading moratorium	Shares pledged or frozen Status	Number of shares	Nature of shareholders
HKSCC Nominees Limited	-12,000	1,195,137,900	30.89		Nil		Overseas legal person
Henan Investment Group Co., Ltd.		822,983,847	21.27	822,983,847	Nil		State-owned legal person
Bohai Industrial Investment Fund Management Co., Ltd. — Bohai Industrial Investment Fund (Tranche 1)	-73,690,233	534,309,767	13.81		Nil		Others
Anyang Iron & Steel Group Co., Ltd.		177,514,015	4.59		Pledged	42,287,900	State-owned legal person
China Pingmei Shenma Energy & Chemical Group Co., Ltd.		75,046,245	1.94		Nil		State-owned legal person
Anyang Economic Development Group Co., Ltd.		48,824,693	1.26		Pledged	24,412,346	State-owned legal person
National Council for Social Security Fund (Transfer Account No.1)	-22,020,825	47,979,175	1.24	47,979,175	Nil		Others
Jiangsu SOHO Holdings Group Co., Ltd.	-1,000,000	26,073,089	0.67		Nil		State-owned legal person
Guangzhou Liby Investment Co., Ltd.		20,000,000	0.52		Nil		Domestic non state-owned legal person
Henan Shenhua Group Co., Ltd.		17,749,930	0.46		Pledged	17,749,900	State-owned legal person

## SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

### Shareholdings of the top ten shareholders not subject to trading moratorium

Name of shareholders	Number of tradable shares not subject to trading moratorium	Type and number of shares	
		Type	Number
HKSCC Nominees Limited	1,195,137,900	Overseas-listed foreign shares	1,195,137,900
Bohai Industrial Investment Fund Management Co., Ltd. — Bohai Industrial Investment Fund (Tranche 1)	534,309,767	RMB-denominated ordinary shares	534,309,767
Anyang Iron & Steel Group Co., Ltd.	177,514,015	RMB-denominated ordinary shares	177,514,015
China Pingmei Shenma Energy & Chemical Group Co., Ltd.	75,046,245	RMB-denominated ordinary shares	75,046,245
Anyang Economic Development Group Co., Ltd.	48,824,693	RMB-denominated ordinary shares	48,824,693
Jiangsu SOHO Holdings Group Co., Ltd.	26,073,089	RMB-denominated ordinary shares	26,073,089
Guangzhou Liby Investment Co., Ltd.	20,000,000	RMB-denominated ordinary shares	20,000,000
Henan Shenhua Group Co., Ltd.	17,749,930	RMB-denominated ordinary shares	17,749,930
Henan Jinlong Industrial Co., Ltd.	16,000,000	RMB-denominated ordinary shares	16,000,000
Shandong Weihai Huanqiu Fishing Tackle Industrial Co., Ltd.	15,000,000	RMB-denominated ordinary shares	15,000,000

Explanation on related party or concert party relationship among the above shareholders

The Company is not aware of any related party relationship among the above-mentioned shareholders or whether they are parties acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies (《上市公司收購管理辦法》).

## SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

Shareholdings of the top ten holders of tradable shares subject to trading moratorium and the trading moratorium conditions

Unit: Share

No.	Name of shareholders subject to trading moratorium	Number of shares held subject to trading moratorium	Listing and trading of shares subject to trading moratorium		Trading moratorium conditions
			Date eligible for listing and trading	Number of shares newly eligible for listing and trading	
1	Henan Investment Group Co., Ltd.	822,983,847	3 January 2020	822,983,847	Not transferable within 36 months commencing from the listing date
2	National Council for Social Security Fund (Transfer Account No.1)	47,979,175	3 January 2020	47,979,175	Not transferable within 36 months commencing from the listing date
Explanation on related party or concert party relationship among the above shareholders		The Company is not aware of any related party relationship among the abovementioned shareholders or whether they are parties acting in concert as defined in the Measures for the Administration of the Takeover of Listed Companies (《上市公司收購管理辦法》).			

## SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

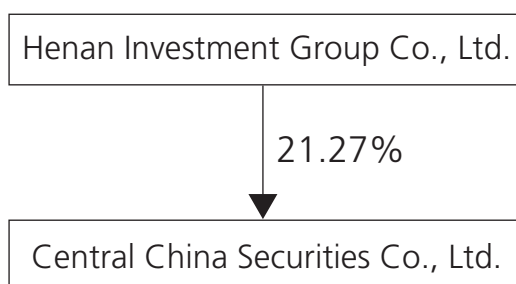
### IV. CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

#### (I) Controlling shareholder

Name	Henan Investment Group Co., Ltd.
Person in charge of the entity or legal representative	Liu Xinyong
Date of incorporation	18 December 1991
Principal business	Investment management, investment in construction projects, industrial production information and machinery and equipment required for construction projects, sale of raw materials of products for investment projects (other than those subject to national specific regulations); housing lease (For those subject to approval among the abovementioned, the company is not allowed to operate such business before obtaining approvals.)
Details of controlling interests and investments in other domestic and foreign-listed companies during the Reporting Period	<p>The controlling interests in domestic listed companies are: 738,700,684 shares in YUNENG Holdings (the shares of which are listed on Shenzhen Stock Exchange, stock code: 001896) which accounts for 64.20% of its total share capital; 278,907,035 shares in City Development Environment (the shares of which are listed on Shenzhen Stock Exchange, stock code: 000885) which accounts for 56.19% of its total share capital; and 407,835,649 shares in Ancai Hi-Tech (the shares of which are listed on SSE, stock code: 600207) which accounts for 47.26% of its total share capital.</p> <p>The investments in domestic listed companies include those in China Aviation Optical (the shares of which are listed on Shenzhen Stock Exchange, stock code: 002179) and Zhengzhou Bank (the shares of which are listed on Shenzhen Stock Exchange, stock code: 002936).</p> <p>The investments in overseas listed companies include those in Zhongyuan Bank Co., Ltd. (the shares of which are listed on Hong Kong Stock Exchange, stock code: 01216) and Bank of Zhengzhou Co., Ltd. (the shares of which are listed on Hong Kong Stock Exchange, stock code: 06196).</p>
Other description	None

## SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

### (II) De facto controller



#### 1. Legal person

Name	Finance Department of Henan Province
Person in charge of the entity or legal representative	Wang Dongwei
Other description	Henan Investment Group is under the People's Government of Henan Province. Responsibilities of investor are performed by Finance Department of Henan Province while regulatory responsibilities are performed by Finance Department of Henan Province authorized by the government of Henan Province. Finance Department of Henan Province is the de facto controller of the Company.

#### Information on changes in de facto controller during the Reporting Period and the publication date

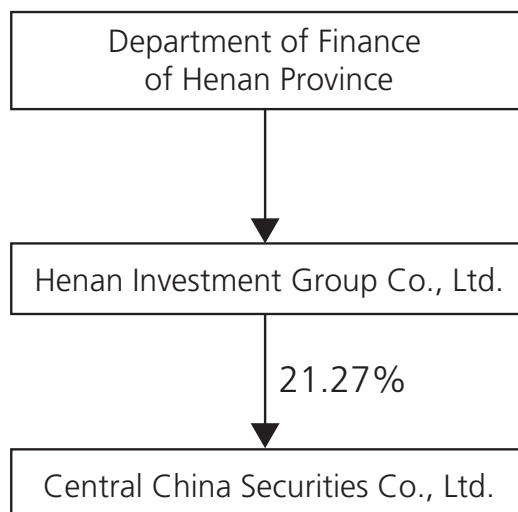
According to the "Reply of the People's Government of Henan Province on Changing Henan Investment Group Co., Ltd. for Performing Responsibilities of Investor" (YZW [2019] No.128), (《河南省人民政府關於變更河南投資集團有限公司履行出資人職責機構的批覆》(豫政文[2019]128號)) the People's Government of Henan Province authorized the Finance Department of Henan Province to perform the responsibilities of investor to Henan Investment Group. Henan Province Development and Reform Commission will no longer perform the relevant responsibilities. On 10 January 2020, Henan Investment Group completed the registration of changes with the administrative department for industry and commerce, and the institution performing the responsibilities of investor has been changed from Henan Province Development and Reform Commission to the Finance Department of Henan Province.

This change was an overall adjustment of the supervision and administration of state-owned assets. The controlling shareholder of the Company is still Henan Investment Group, while the de facto controller has been changed from Henan Province Development and Reform Commission to the Finance Department of Henan Province. The final investor of Henan Investment Group, the controlling shareholder of the Company, has always been the People's Government of Henan Province. The ultimate actual controlling of the Company by the People's Government of Henan Province has not changed.

For details of the above information, please refer to the relevant announcements (Announcement No.: 2017-054, 2019-065, 2020-001 and 2020-005) of the Company on the website of SSE dated 29 June 2017, 6 November 2019, 4 January 2020 and 14 January 2020.

## SECTION 6 CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

### 2. Chart of the ownership and controlling relationships among the Company, the de facto controller and the controlling shareholder



### (III) Other description on controlling shareholder and de facto controller

Henan Investment Group is under the People's Government of Henan Province. Responsibilities of promoter as well as supervision function are performed by Department of Finance of Henan Province as authorized by the government of Henan Province. The Department of Finance of Henan Province is the de facto controller of the Company.

## V. OTHER INSTITUTIONAL SHAREHOLDER WITH SHAREHOLDING OVER 10%

Unit: hundred million Yuan      Currency: RMB

Name of legal person shareholders	Person in charge of the entity or legal representative	Date of establishment	Enterprise code	Registered capital	Principal business or management events
Bohai Industrial Investment Fund Management Co., Ltd. (holds the equity interest in the Company on behalf of the Bohai Industrial Investment Fund)	Lin Jingzhen	28 December 2006	911200007178678241	2	Promotion for the establishment and management of industrial investment fund; principal entrusted management of Bohai Industrial Investment Fund; provision of related investment and consultation services and engagement in other asset management business approved by relevant government authorities. (For projects subject to approval, the operating activities can only be commenced with approvals from relevant authorities.)

Description

As at the end of the Reporting Period, there was no other shareholder directly holding more than 10% shares in the Company. The shares held by HKSCC Nominees Limited are for the non-registered holders of H shares.

## I. CHANGES IN THE SHAREHOLDING AND REMUNERATION

Changes in the shareholding and remuneration of incumbent Directors, Supervisors and senior management and those leaving office during the Reporting Period

Name	Positions <sup>(Wee)</sup>	Gender	Age	Date of taking office	Date of leaving office	Number of A shares held at the beginning of the year	Number of A shares held at the end of the year	Changes in shares held during the year	Reason for changes	Total pre-tax remuneration received from the Company during the Reporting Period (RMB'0,000)	Total after-tax remuneration received from the Company during the Reporting Period (RMB'0,000)	Whether received remuneration from related parties of the Company
Jian Mingjun	Chairman and Executive Director	Male	57	10 September 2015	16 October 2021				N/A	97.66	73.58	No
Chang Junsheng	Vice Chairman Executive Director	Male	49	16 October 2018 17 May 2018	16 October 2021 16 October 2021				N/A	160.03	112.51	No
Li Xingjia	President	Male	55	25 April 2018	16 October 2021				N/A	0	0	Yes
Wang Lin	Non-executive Director	Male	53	12 October 2015	16 October 2021				N/A	3.60	3.07	Yes
Tian Shengchun	Non-executive Director	Male	45	10 September 2015	16 October 2021				N/A	0	0	No
Zhang Xiaoj	Non-executive Director	Male	34	16 October 2018	16 October 2021				N/A	3.60	3.07	No
Lu Benson Cheng	Non-executive Director	Male	38	10 September 2015	16 October 2021				N/A	3.60	3.51	No
Yuen Chi Wai	Independent Non-executive Director	Male	44	1 November 2018 10 September 2015	16 October 2021 16 October 2021				N/A	25.00	22.69	No
Ning Jincheng	Independent Non-executive Director	Male	63	10 September 2015	16 October 2021				N/A	25.00	21.00	No
Yu Xugang	Independent Non-executive Director	Male	51	7 December 2015	16 October 2021				N/A	25.00	21.00	No
Zhang Dongming	Independent Non-executive Director	Female	67	16 October 2018	16 October 2021				N/A	25.00	21.00	No
Lu Zhili	Chairman of the Supervisory Committee	Male	53	10 September 2015	16 October 2021				N/A	84.47	64.52	No
Cao Zongyuan	Shareholder Representative Supervisor	Male	53	17 May 2018	16 October 2021				N/A	0	0	Yes
Zhang Xiansheng	Shareholder Representative Supervisor	Male	54	17 May 2018	16 October 2021				N/A	0	0	No
Xie Junsheng	Shareholder Representative Supervisor	Male	53	13 October 2016	16 October 2021				N/A	0	0	No

## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Positions <sup>(Wea)</sup>	Gender	Age	Date of taking office	Date of leaving office	Number of A shares held at the beginning of the year	Number of A shares held at the end of the year	Changes in shares held during the year	Reason for changes	Total pre-tax remuneration received from the Company during the Reporting Period (RMB'0,000)	Total after-tax remuneration received from the Company during the Reporting Period (RMB'0,000)	Whether received remuneration from related parties of the Company
Xiang Siying	Independent Supervisor	Female	56	10 September 2015	16 October 2021			N/A	N/A	12.00	10.08	No
Xia Xiaoning	Independent Supervisor	Male	59	9 May 2016	16 October 2021			N/A	N/A	12.00	11.29	No
Han Junyang	Employee Representative Supervisor	Male	50	10 September 2015	2 June 2019			N/A	N/A	61.74	47.90	No
Zhang Lu	Chief Information Officer	Female	51	29 October 2019	16 October 2021			N/A	N/A	67.78	52.59	No
Xiao Yichen	Employee Representative Supervisor	Female	35	12 January 2018	16 October 2021			N/A	N/A	37.39	29.07	No
Zhang Huamin	Employee Representative Supervisor	Male	48	3 June 2019	16 October 2021			N/A	N/A	53.77	42.28	No
Zhu Jianmin	Executive Vice President	Male	56	10 September 2015	16 October 2021			N/A	N/A	84.19	63.77	No
Zhu Junhong	Vice President	Female	50	10 September 2015	16 October 2021			N/A	N/A	71.14	54.01	No
Xu Haijun	Vice President	Male	49	3 September 2016	16 October 2021			N/A	N/A	68.91	52.35	No
Li Zhaoxin	Chief Accountant, Person in-Charge of Finance Department	Male	50	29 January 2018	16 October 2021			N/A	N/A	65.72	50.73	No
Hua Jinzhong	Chief Compliance Officer	Male	47	12 April 2018	16 October 2021			N/A	N/A	73.49	56.88	No
Xie Xuezhu	Vice President	Female	49	25 February 2019	16 October 2021			N/A	N/A	34.24	27.32	No
Zhao Huiwen	Vice President	Female	43	3 September 2016	25 February 2019			N/A	N/A	126.21	91.81	No
Zhu Qiben	Secretary to the Board	Male	55	9 January 2019	16 October 2021			N/A	N/A	65.72	50.62	No
Li Feng	Chief Risk Officer	Male	49	18 January 2018	16 October 2021			N/A	N/A	65.19	50.26	No
Total	/	/	/	/	/			/	/	1,352.45	1,036.91	/

## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Notes:

1. Jian Mingjun: the remuneration before tax is temporarily fixed at RMB976,600, which is subject to the approval of the Board, the general meeting and relevant authorities;
2. Chang Junsheng: the remuneration before tax is temporarily fixed at RMB1,600,300, which is subject to the approval of the Board, the general meeting and relevant authorities;
3. Lu Zhili: the remuneration before tax is temporarily fixed at RMB844,700, which is subject to the approval of the Supervisory Committee, the general meeting and relevant authorities;
4. Zhu Jianmin, Zhu Junhong, Xu Haijun, Li Zhaoxin and Zhao Huiwen: the remuneration before tax listed in the above table is temporarily-fixed amount, which is subject to the approval of the Board and relevant authorities.

Name	Major working experience
Jian Mingjun	Born in 1963, Mr. Jian Mingjun is an alternate member of the Commission of Communist Party of Henan Province and a standing committee member of Henan Provincial People's Congress. He holds a doctoral degree in economics. He is a senior accountant. He has been an officer in Comprehensive Plan Office of Ministry of Finance of the PRC, the deputy director of General Office of Finance Department of Henan Province, the standing vice president of ASIA (group) Accounting Firm, the director of General Office of Finance Department of Henan Province and the chairman of State-owned Enterprises Supervisory Committee of the Henan Government. Currently, he also served as the president of the Securities and Futures Association of Henan. He served as the president of the Company from October 2008 to August 2012, and has been the chairman of the Board of the Company since August 2012 and the secretary of the Party Committee of the Company since November 2014.
Chang Junsheng	Born in 1971, Mr. Chang Junsheng holds a master's degree in management and obtains the qualification of a certified public accountant. He is deputy secretary of the Party Committee, vice chairman and president of the Company. He began to work in July 1993, and has successively worked at Beijing Construction Engineering Group Corporation and Zhonghaiheng Industry Development Co., Ltd.. He worked at the CSRC from March 1998 to February 2018, and successively served as the assistant managing officer and managing officer of the Department of Public Offering Supervision, the assistant researcher, deputy division head, researcher and head of audit division II of the Department of Public Offering Supervision, division head of regulatory division I of the Department of Unlisted Public Company Supervision, and the deputy director of the Department of Public Offering Supervision.
Li Xingjia	Born in 1964, Mr. Li Xingjia holds a master's degree. He serves as a director of the Company and a director and deputy general manager of Henan Investment Group. Mr. Li has worked in the Henan Planned Economy Committee, Henan Planning Commission and Henan Development and Reform Commission as officer, managing officer and deputy division head. He has served in Henan Construction and Investment Corporation as the chief economist and deputy general manager, while serving as the chairman of the board of Yuneng Holdings Company Limited. He has also worked in Henan Investment Group as the temporary officer responsible for asset management department I, the chief technology officer and deputy general manager.



## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Major working experience
Wang Lixin	Born in 1966, Mr. Wang Lixin holds a master's degree. He is a director and the deputy general manager of Bohai Industrial Investment Fund Management Co., Ltd.. He served as the assistant manager of the overseas banking department of the head office of Bank of China, vice president of Beijing Representative Office at BOC International Holdings Limited, executive director and managing director of BOCI Securities Limited, managing director of the investment banking department of Credit Suisse Founder Securities Limited, director of the investment banking department of UBS Securities Co. Limited, and managing director of the direct investment department of BOC International Holdings Limited.
Tian Shengchun	Born in 1975, Mr. Tian Shengchun is a senior engineer with an on-the-job master's degree of University of Science and Technology Beijing. He is currently the deputy head of the planning and development department of Anyang Iron & Steel Group. He began to work in 1998, and successively served as the assistant engineer, engineer, officer and deputy director of the general office of Anyang Iron & Steel Group No.4 Steel Mill, the investment administrator of the investment management division of the planning department of Anyang Iron & Steel Group, the director of external investment management office of the strategic investment division of Anyang Iron & Steel Group, the director of the policy research office of the planning and development department of Anyang Iron & Steel Group, the chief Level II management expert of Anyang Iron & Steel Group.
Zhang Xiaoqi	Born in 1985, Mr. Zhang Xiaoqi holds a bachelor's degree in commerce. He is a director and the deputy general manager of Beijing Maoyuan Capital Investment Management Co., Ltd., and a director and general manager of Central China International Investment. He served as a staff of the index division of Shenzhen Securities Information Co., Ltd. at the Shenzhen Stock Exchange, and a project manager of Beijing Maoyuan Capital Investment Management Co., Ltd..
Lu Benson Cheng	Born in 1982, Mr. Lu Benson Cheng holds an executive master's degree in business administration of Tsinghua PBC School of Finance. He is currently the managing director of Zhuhai Rongze Tongyuan Investment Management Partnership (Limited Partnership). He served as an analyst in the Investment Banking Department of Morgan Stanley Asia, the executive director in the investment department of Goldman Sachs (Asia) Special Situations Group, managing director of ICBC International Holdings Co., Ltd., and the managing director of Tianjin ICBC International Investment Advisory Partnership (Limited Partnership).

## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Major working experience
Yuen Chi Wai	Born in 1975, Mr. Yuen Chi Wai holds a bachelor's degree in commerce. He is the senior member of Hong Kong Institute of Certified Public Accountants, and the senior member of Australia Institute of Certified Public Accountants. He has rich financial, corporate governance and risk management experience. He has successively served as an auditor in Charles Mar Fan & Co., Arthur Andersen, PricewaterhouseCoopers (Hong Kong), and Beijing and Shenzhen Branch of PricewaterhouseCoopers, the chief financial officer, company secretary and assistant president of Bolina Holding Co., Ltd. (the shares of which are listed on Hong Kong Stock Exchange, stock code: 01190). He now serves as the managing director of Venture Executive Services Limited.
Ning Jincheng	Born in 1956, Mr. Ning Jincheng holds a doctoral degree in law and possesses the title of professor. He is a professor of the law faculty and a doctoral tutor of Zhengzhou University. Currently he concurrently serves as an arbitrator of Zhengzhou Arbitration Commission, and a lawyer of Henan Shidao Law Firm. He has been a lecturer, professor and vice chancellor of Zhengzhou University, a professor, doctoral tutor, dean and secretary of the Party committee of Henan Administrative Institute of Politics and Law. He has been an independent director of Xi'an Hongsheng Science & Technology Development Co., Ltd. (the shares of which are listed on SSE, stock code: 600817) since January 2019.
Yu Xugang	Born in 1968, Mr. Yu Xugang holds a doctoral degree of law in Peking University. He was a partner at Beijing Dacheng Law Offices, LLP and a senior partner at Beijing Dacheng Law Offices, LLP. He has been an independent director of Dafeng Port Heshun Technology Company Limited (the shares of which are listed on Hong Kong Stock Exchange, stock code: 08310) since May 2016, and an independent director of Huachuang Yang'an Co., Ltd. (the shares of which are listed on SSE, stock code: 600155) since December 2016.
Zhang Dongming	Born in 1953, Ms. Zhang Dongming holds a doctoral degree of economics. She is currently a retired researcher of Chinese Academy of Fiscal Sciences (formerly known as the Institute of Fiscal Sciences of the Ministry of Finance). She began to work in September 1969, and successively served as the worker of Mudanjiang Air Force May Seventh Cadre School, an officer of the Industrial Transport Department of Dongcheng District, Beijing City, the section chief of the Graduate Faculty of the Institute and the deputy division head and division head of the Academic Affairs Office of Fiscal Sciences of the Ministry of Finance, senior economist and researcher, the researcher of the Foreign Financial Research Center.



## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Major working experience
Lu Zhili	Born in 1966, Mr. Lu Zhili holds a master degree of economics. He is a senior economist. He served as the manager and assistant to general manager of the securities issuance department and chairman and assistant to general manager of the research department of Henan Securities from September 1992 to October 2002. He joined the Company since its registration in November 2002, served as the vice president of the Company from November 2002 to March 2013 and the standing vice president of the Company from March 2013 to September 2015. He has served as the Chairman of the Supervisory Committee of the Company since September 2015.
Cao Zongyuan	Born in 1966, Mr. Cao Zongyuan is a senior accountant with a master's degree of economics. He served as a credit loan administrator of the Financial Development Company of the Department of Finance of Henan Province from June 1989 to January 1992, the credit officer, deputy director and director of the credit department of Henan Economic Technology Development Company from January 1992 to July 2001, the assistant to general manager and deputy general manager of Henan Economic Technology Development Company from July 2001 to October 2007, temporary person in charge and director of the asset management department VIII of Henan Investment Group from October 2007 to September 2008, the general manager of Xupingnan Expressway Co., Ltd. from September 2008 to July 2013, the director of the asset management department II and I of Henan Investment Group from July 2013 to June 2016. He has been the director of the financial management department of Henan Investment Group from June 2016 to June 2019. He has been the director of the asset management department of Henan Investment Group since June 2019.
Zhang Xiansheng	Born in 1965, Mr. Zhang Xiansheng holds an on-the-job master's degree of CPC School of Henan Province. He is a senior accountant and certified public accountant. He served as an officer of the financial section of the Coking Plant of Anyang Iron & Steel Group from August 1983 to April 1990, an officer, vice section chief, section chief, assistant to division head and deputy division head of the financial division of Anyang Iron & Steel Group from April 1990 to April 2006, the secretary to the Board, person in charge of finance and head of the finance division of Anyang Iron & Steel Co., Ltd. (the shares of which are listed on SSE, stock code: 600569) from April 2006 to July 2015, the head of the audit department of Anyang Iron & Steel Group from July 2015 to December 2016, and the head of the audit and legal affairs department of Anyang Iron & Steel Group from December 2016 to November 2017. He has been the head of the financial department of Anyang Iron & Steel Group since November 2017. He has been the supervisor of Anyang Iron & Steel Co., Ltd. since November 2015.
Xie Junsheng	Born in 1967, Mr. Xie Junsheng holds a bachelor's degree of economics. He is a senior accountant. He engaged in financial economy works in the inspection section of the Bureau of Finance of Anyang Municipality from September 1989 to June 1994, served as the deputy general manager of Anyang City Treasury and Security Company from July 1994 to December 2002, and the deputy general manager in Anyang Economic Technology Development Co., Ltd. from December 2002 to October 2010. He has been the deputy general manager of Anyang Economic Development since October 2010.

## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Major working experience
Xiang Siying	<p>Born in 1963, Ms. Xiang Siying holds a master's degree of economics and a master's degree in business administration. She served as an officer of the foreign economic office and the general office of the rural management and administration in the Ministry of Agriculture of China from September 1988 to July 1991, an investment analyst of the Chinese representative division of International Finance Corporation from May 1993 to August 1996, an investment officer in the East Asia and Pacific Branch and Global Manufacturing and Consumer Service Branch Washington District of International Finance Corporation from August 1996 to March 2004, the executive general manager of the investment banking division and direct investment division of China International Capital Corporation Limited from March 2004 to June 2010, the executive director of CDH Investments Fund Management Company from June 2010 to March 2016, an advisor of CDH Investments Fund Management Company from March 2016 to March 2018, an independent director of China Ocean Industry Group Limited (the shares of which are listed on the Hong Kong Stock Exchange, stock code: 00651) since May 2008, and an independent director of Huili Resources (Group) Limited (the shares of which are listed on the Hong Kong Stock Exchange, stock code: 01303) since September 2017.</p>
Xia Xiaoning	<p>Born in 1960, Mr. Xia Xiaoning holds a bachelor's degree in engineering. He served as the investment officer of Asian Development Bank from March 1989 to March 1995. He worked at AIF Capital Limited from April 1995 to September 2008 and his last position held was senior partner and managing director. He served as the chief executive officer of CITP Advisors (Hong Kong) Limited from December 2008 to September 2012. He has been the senior consultant to Vision Finance Group Limited since September 2012, and an independent non-executive director of China Medical &amp; HealthCare Group Limited (the shares of which are listed on the Hong Kong Stock Exchange, stock code: 00383) since December 2016.</p>
Zhang Lu	<p>Born in 1969, Ms. Zhang Lu holds a master's degree in law, and obtains the national legal professional qualification. She served as the staff member and deputy general manager at Jingliu Road securities branch of Henan Securities from May 1993 to October 2002. She joined the Company since its registration in November 2002, served as a staff member and deputy general manager of the Compliance Management (Legal Affairs) Headquarter from November 2002 to December 2013, the deputy director and director of the office of the Board of the Company from December 2013 to March 2017. She has been the general manager of the Investment Banking Operation Management Headquarter since March 2017.</p>



## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Major working experience
Zhang Huamin	Born in 1972, Mr. Zhang Huamin holds a bachelor's degree of economics. He is a senior accountant. He was the director of the planning and finance department of Henan Securities from June 1995 to October 2002. He joined the Company since its registration in November 2002. He successively served as the head of accounting of the Planning and Finance Headquarter, the financial manager of the Shanghai Branch Office, and the audit manager of the Audit Department from November 2002 to January 2009. He was the deputy general manager of the Planning and Finance Headquarter from January 2009 to March 2013, the deputy general manager of the Asset Management Headquarter from March 2013 to July 2013. Mr. Zhang was the general manager of the Risk Management Headquarter from July 2013 to December 2019. He has been the standing deputy general manager of Central China International since December 2019. Mr. Zhang has served as the supervisor of Central China Micro-lending since October 2018.
Xiao Yichen	Born in 1984, Ms. Xiao Yichen holds a master's degree in accounting. She worked at the Investment Banking Headquarter and Capital Market Headquarter of the Company from March 2010 to January 2014, and served as the principal officer of quality control division I of the investment banking comprehensive management department of the Company from December 2014 to January 2018, the assistant to general manager of the investment banking comprehensive management department from January 2018 to April 2018. She has been the business director of the Quality Control Headquarter since May 2018.
Zhu Jianmin	Born in 1963, Mr. Zhu Jianmin holds an executive master's degree in business administration. He is a senior economist. He served as the deputy manager of the issuance department, manager of the operation department of Funiu Road branch, director of Beijing office, manager of the brokerage management department, and manager of the operation department of Shangqiu branch of Henan Securities, and the director of president's office, general manager of the Brokerage Business Headquarter, and assistant to the president of the Company, etc. He has been the vice president of the Company from August 2007 to September 2015, the standing vice president of the Company since September 2015 and the deputy secretary of the Party Committee of the Company since September 2018. He is currently a member of the Professional Committee of Securities Brokerage of Securities Association of China and the vice president of the Henan Securities and Futures Association.

## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Major working experience
Zhu Junhong	Born in 1969, Ms. Zhu Junhong holds an executive master's degree in business administration. She is a senior accountant and an academic and technology leader of Henan province. She served as the chief accounting officer, deputy manager and manager of planning and finance department, and the general accountant of Henan Finance and Securities Company. She has been the principal officer of finance department, assistant to president and general manager of the planning and finance department of the Company from November 2002 to September 2009, and the principal officer of finance department, general accountant and general manager of the planning and finance department of the Company from September 2009 to August 2012. From August 2012 to January 2018, she served as the principal officer of finance department and chief accountant of the Company. She has been the vice president of the Company since August 2012.
Xu Haijun	Born in 1970, Mr. Xu Haijun holds a master's degree. He served as the manager of the computer department of the Shanghai branch, the deputy manager of the Huayuan Road branch, the manager and assistant to general manager of the Zijingshan branch, the manager of Shenzhen branch, and the assistant to general manager of Shanghai Huierdun Investment Company. From January 2004 to January 2018, he has held various positions in the Company, including the general manager of IT Headquarter, the general manager of Compliance Management Headquarter, the chief compliance officer and the secretary to the Board. Since September 2016, he has been the vice president of the Company.
Li Zhaoxin	Born in 1969, Mr. Li Zhaoxin holds a master's degree in accounting. He is a senior accountant, a certified public accountant, a certified tax adviser and an economist. He handled financial work at the Bureau of Corrections of Henan Province (河南省勞改局) and Bureau of Prison Management of Henan Province (河南省監獄管理局) from July 1991 to October 2004. He worked at the Henan SASAC from October 2004 to November 2017 and held various positions such as the deputy division head of the property rights administration division, a researcher at the planning and development division and the division head of the general division (Research Office). He has been a member of the Party Committee of the Company since November 2017. He has been the chief accountant and principal officer of finance department of the Company since January 2018. He is concurrently a committee member of the Financial Accounting Professional Committee of the Securities Association of China.
Hua Jinzhong	Born in 1972, Mr. Hua Jinzhong is a senior accountant, certified public accountant, certified public assets estimator, and certified public tax agent with a master's degree in management. He worked at Henan Laien (Group) Co., Ltd. from November 1993 to April 2001, and China Great Wall Asset Management Company Zhengzhou Representative Office from April 2001 to October 2004. He worked at Henan regulatory bureau of the CSRC from October 2004 to March 2018, and successively served as the managing officer, deputy division head and deputy office director of the supervision division of the listed company, the deputy division head of the new business supervision division, division head of the company inspection division, and the director of office (Party affairs office). He has been the chief compliance officer of the Company since April 2018, and the vice president of the Company since February 2019.



## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Major working experience
Zhao Huiwen	Born in 1977, Ms. Zhao Huiwen holds a master's degree. She is a certified public accountant and asset appraiser. She once served as the managing officer of the Investigation Bureau I of the CSRC, deputy division head and division head of the comprehensive division of the Enforcement Bureau of the CSRC, the head of the audit division V of the Department of Public Offering Supervision of the CSRC, and the division head of the supervision division VI of the Institution Department of the CSRC. She joined the Company in October 2018, and has been the vice president of the Company since January 2019.
Zhu Qiben	Born in 1964, Mr. Zhu Qiben holds a master degree of economics. He was the project manager of the investment banking department and the assistant to director of general office of Henan Securities. He has been the vice general manager and general manager of the Company's Human Resources Management Department, assistant to the president and general manager of Human Resources Management Department, director of the Supervision Office and auditor-in-charge of the Company from November 2002 to December 2015. He served as the chief risk officer of the Company from December 2015 to January 2018. He has been the secretary to the Board of the Company since January 2018.
Li Feng	Born in 1971, Mr. Li Feng holds a master's degree. He began to work in July 1996. He successively served as the deputy general manager and general manager of Sanmenxia operation branch of Henan Securities. From 2002 to 2015, he acted as the general manager of Sanmenxia operation branch, the general manager of Xinxiang operation branch, the general manager of Shanghai operation branch, the general manager of Brokerage Business Headquarter, the general manager of Innovation Business Headquarter and assistant to the president of the Company, etc. He was the president of Equity Exchange Co. from 2015 to 2017, the assistant to the president of the Company from 2017 to 2019, and the chief risk officer of the Company since 2019.
Han Junyang	Born in 1970, Mr. Han Junyang holds a master's degree. He began to work in July 1993. He worked in the Henan Securities and successively served as the manager of the Computer Division of Shenzhen operation branch, the deputy manager of the administrative region operation branch and the department head of Computer Centre. From 2002 to 2019, he successively served as the deputy general manager of IT Department of the Company, the general manager of Hangzhou operation branch, the general manager of the IT Department, the general manager of the Brokerage Business Headquarter and the general manager of the Internet Finance Headquarter of the Company, etc. He was the employee representative supervisor of the Company from 2015 to 2019, and the chief information officer of the Company since 2019.

## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

### II. POSITION OF CURRENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THOSE LEAVING OFFICE DURING THE REPORTING PERIOD

#### (I) Positions held in shareholders

Name	Name of shareholder	Positions held in shareholder	Date of taking office	Date of leaving office
Li Xingjia	Henan Investment Group	Director and deputy general manager	June 2010	
Tian Shengchun	Anyang Iron & Steel Group	Deputy division director	December 2016	
Wang Lixin	Bohai Industrial Investment Fund Management Co., Ltd.	Deputy general manager	June 2013	
Cao Zongyuan	Henan Investment Group	Director of the assets management department	June 2019	
Zhang Xiansheng	Anyang Iron & Steel Group	Head of financial department	November 2017	
Xie Junsheng	Anyang Economic Development	Deputy general manager	October 2010	
Explanations	Nil			

## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

### (II) Positions held in other entities

Name	Name of other institutions	Position held in other institutions	Date of taking office	Date of leaving office
Jian Mingjun	Henan Securities and Futures Association	Director	June 2013	
	Central China International	Director	January 2015	
Chang Junsheng	Central China International	Director	March 2018	
	Policy Advisory Committee of the Fourth Board of Director of the Shanghai Stock Exchange	Committee member	March 2018	
	Securities Association of China	Director	June 2018	
	Institute of Financial Law of Henan Law Society	Vice president	August 2018	
	Listing Cultivation Committee under the Board of Directors of Shenzhen Stock Exchange	Committee member	November 2018	
Li Xingjia	Henan Natural Gas Storage and Transportation Co., Ltd.	Chairman	August 2018	
Zhang Xiaoqi	Central China International Investment Company Limited	Director	July 2016	
	Central China International Investment Company Limited	General manager	September 2017	
	Beijing Maoyuan Capital Investment Management Co., Ltd.	Deputy general manager	March 2014	
Tian Shengchun	Anyang Iron & Steel Automation Software Co., Ltd.	Director	September 2018	
Lu Benson	Zhuhai Rongze Tongyuan Investment Management LP	Managing director	January 2014	
Cheng	Venture Executive Services Limited	Managing director	August 2014	
Yuen Chi Wai	Law Faculty of Zhengzhou University	Professor, doctoral tutor	November 2010	
Ning Jincheng	Zhengzhou Arbitration Commission	Arbitrator	May 2009	
	Henan Shi Dao Law Firm	Lawyer	November 2016	
	Xi'an Hongsheng Technology Co., Ltd	Independent director	January 2019	
Yu Xugang	Beijing Dacheng Law Offices	Senior partner	January 2004	
	Dafeng Port Heshun Technology Company Limited	Independent director	May 2016	
	Hua Chuang Yang'an Co., Ltd.	Independent director	December 2016	

## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Name of other institutions	Position held in other institutions	Date of taking office	Date of leaving office
Lu Zhili	Central China Futures	Director	March 2008	May 2019
Cao Zongyuan	Central China Trust Co., Ltd.	Director	April 2016	
	Henan Investment Group Guarantee Co., Ltd.	Executive director	November 2015	
	Henan Asset Management Company Limited	Director	April 2018	December 2019
	Zhongyuan Yuze Financial Leasing (Shanghai) Co., Ltd.	Chairman	December 2015	
	Zhongyuan Capital International Holdings Co., Ltd.	Director	November 2018	September 2019
	Zhongfu Payment Service Co., Ltd.	Executive director	December 2015	July 2019
Zhang Xiansheng	Anyang Iron & Steel Co., Ltd.	Supervisor	November 2015	
Xie Junsheng	Angang Group Yongtong Ductile Iron Pipe Co., Ltd.	Director	December 2017	
Xiang Siying	China Ocean Industry Group Limited (the shares of which are listed on Hong Kong Stock Exchange, stock code: 0651)	Independent director	May 2008	
	Huili Resources (Group) Limited (the shares of which are listed on Hong Kong Stock Exchange, stock code: 01303)	Independent director	September 2017	
Xia Xiaoning	Vision Finance Group Limited	Senior consultant	September 2012	
	China Medical & HealthCare Group Limited (the shares of which are listed on Hong Kong Stock Exchange, stock code: 00383)	Independent director	December 2016	
Zhang Huamin	Central China Micro-lending	Supervisor	October 2018	
Zhu Jianmin	Brokerage Business Commission of Securities Association of China	Committee member	April 2018	
	Henan Securities and Futures Fund Association	Vice president	November 2019	
Xu Haijun	Institute of Commercial Law of Henan Law Society	Vice president	July 2017	
	Henan Asset Management Company Limited	Director	August 2017	
	Central China International	Director, chairman	September 2019	
	Central China Blue Ocean	Executive director (legal representative)	September 2019	
Li Zhaoxin	Financial Accounting Committee of the Securities Association of China	Committee member	March 2019	
	ZDKY Venture Capital	Executive director (legal representative)	September 2019	
Zhao Huiwen	Investment Banking Committee of the Securities Association of China	Committee member	March 2019	
Explanations	Nil			



## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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

#### **Decision-making procedures of remuneration of Directors, Supervisors and senior management**

The remuneration and assessment of the Company's Directors shall be proposed by the Remuneration and Nomination Committee under the Board and considered and determined by the general meeting; the remuneration and assessment plans of the Supervisors shall be proposed by the board of supervisors, which shall be considered and determined by the general meeting; and the remuneration and assessment of the senior management shall be proposed by the Remuneration and Nomination Committee under the Board and determined by the Board.

#### **Basis for determining the remuneration of Directors, Supervisors and senior management**

The remuneration of the internal Directors and Supervisors of the Company shall be determined according to the resolutions of the general meetings on remuneration of the Directors and Supervisors and such factors as the Company's operating results, job responsibilities, work performance and market environment. The remuneration of the external Directors and Supervisors shall be proposed by the Remuneration and Nomination Committee under the Board according to the industry and market conditions, subject to the approval by the general meeting. The remuneration, rewards and punishments of the senior management of the Company shall be determined according to the resolutions of the Board and the assessment and incentive & restriction mechanism of the Company. The remuneration of senior management shall be distributed in strict compliance with relevant state provisions on deferred payment of remuneration.

#### **Payment of remuneration of Directors, Supervisors and senior management**

For details about the payment of remuneration of Directors, Supervisors and senior management, please refer to I. "CHANGES IN THE SHAREHOLDING AND REMUNERATION" in this section in this report.

According to relevant state provisions and with reference to personal will, the Director, namely Mr. Li Xingjia waived his allowance since July 2016, and the Director, namely Mr. Tian Shengchun and the Supervisors, namely Mr. Cao Zongyuan, Mr. Zhang Xiansheng and Mr. Xie Junsheng, waived their allowance since their appointment while they would continue to perform their relevant duties.

At the end of the Reporting Period, the total remuneration received by all Directors, Supervisors and senior management was RMB13,524,500 (before tax).

## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

### IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position	Change	Reason for the change
Zhang Huamin	Employee Representative Supervisor	Elected	
Han Junyang	Employee Representative Supervisor	Resigned	Work change
Hua Jinzhong	Vice President	Appointed	
Xie Xuezhu	Vice President	Removed	Work adjustment
Zhao Huiwen	Vice President	Appointed	
Li Feng	Chief Risk Officer	Appointed	
Han Junyang	Chief Information Officer	Appointed	

### V. PUNISHMENT BY SECURITIES REGULATORY AUTHORITIES IN THE PAST THREE YEARS

On 24 May 2017, the Company received the "Decision Letter on Administrative Regulatory Measures of the Henan Branch of the CSRC ([2017] No.10)" titled "Decision on the Order of Rectification against Central China Securities Co., Ltd." (《河南證監局行政監管措施決定書([2017]10號)《關於中原證券股份有限公司實施責令改正等措施的決定》》). The Company attaches great importance to self-examination and self-correction and arranges rectification measures to continue the rectification and improvement work. In accordance with the requirements of the regulatory authorities, the Company submitted a special written rectification report to the Henan Branch of the CSRC in a timely manner, and implemented two internal compliance inspections in August and November 2017, and submitted a compliance inspection report to the Henan Branch of the CSRC. For details, please refer to the relevant announcement disclosed on the website of Hong Kong Stock Exchange on 24 May 2017 and the announcement (Announcement No.: 2017-041) disclosed on the website of SSE on 25 May 2017 by the Company.

In December 2017, Henan Branch of the CSRC carried out a special inspection on the investment banking business of the Company, and issued the "Decision Letter on Administrative Regulatory Measures of the Henan Branch of the CSRC ([2018] No.1)" titled "Decision on the Supervisory and Regulatory Measures including Order of Rectification against Central China Securities Co., Ltd." (《河南證監局行政監管措施決定書([2018]1號)《關於對中原證券股份有限公司實施責令改正等監督管理措施的決定》》) to the Company on 9 February 2018. Upon the receipt of relevant letter, the Company attached great importance, forthwith organised the rectification and submitted the rectification report to the Henan Branch of the CSRC. For details, please refer to the relevant announcement (Announcement No.: 2018-010) disclosed by the Company on the website of SSE on 13 February 2018.

On 2 August 2018, the Company received the "Decision Letter on the Administrative Penalty of the CSRC ([2018] No.76)" (《中國證監會《行政處罰決定書》([2018]76號)》). For details, please refer to the relevant announcement disclosed on the website of Hong Kong Stock Exchange on 2 August 2018 and the announcement (Announcement No.: 2018-050) disclosed on the website of SSE on 3 August 2018 by the Company.

Save as disclosed above, the Company has no other punishment by the securities regulatory authorities in the past three years.

## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

### VI. EMPLOYEES OF THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES

#### (I) Employees

Number of in-service employees of the parent company	2,478
Number of in-service employees of the major subsidiaries	357
Total number of in-service employees	2,835

#### Composition of professions

Type of professions	Number of staff
Brokerage business personnel	1,639
Investment banking personnel	317
Asset management business personnel	60
Securities investment business personnel	51
Researcher	36
International business personnel	54
Legal compliance, risk control and audit personnel	96
IT personnel	114
Financial personnel	121
Administration and management personnel	276
Others	71
<b>Total</b>	<b>2,835</b>

#### Education level

Type of education level	Number of persons
Doctorate	15
Master	671
University graduates	1,927
College graduates and below	222
<b>Total</b>	<b>2,835</b>

## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

### (II) Remuneration policies

The remuneration of the Company's employees is composed of basic salaries, allowances, performance bonus and welfare. Basic salary is a relatively fixed part of remuneration and is the basic income of employees. As a supplement to basic salary, allowance includes allowance for special posts and allowance for professional and technical personnel. Performance bonus is withdrawn from annual profits and distributed according to the results of performance evaluation in favor of the front-line employees with outstanding performance.

The Company provided employees with statutory welfare such as social insurance and housing provident fund according to relevant state provisions. Moreover, to improve the level of welfare and security of employees, it offered employees enterprise annuity plan.

The Company actively explored and worked out an employee equity incentive scheme and studied and designed a plan for employee equity incentive, and will initiate employee equity incentive at an appropriate time under the circumstances permitted by external laws and policies.

### (III) Training plans

The Company made various training plans for employees at all levels in order to constantly improve their professional ability and quality. The Company provided operation and management personnel with trainings centered on enhancing their understanding of the development of the securities industry, management theory and skills, strategic thinking ability, operation management ability, etc.; and offered trainings focused on improving business knowledge, product development and service abilities and marketing skills for employees of various business lines and departments. Moreover, it encouraged employees to study by themselves, take professional qualification certificates exams, etc. in order to educate themselves and update their professional knowledge in a timely manner. Especially, it rewarded employees who have obtained qualifications for CIIA, CFA, FRM, etc..

During the Reporting Period, the Company provided employee training at all levels, diversified business and compliance training and innovative training program by means of face-to-face teaching or mobile online training, in order to enhance their professional skills and quality and facilitate the strategic development of the Company. The headquarters successively organized 15 internal training classes, which were attended by 1,457 employees in total; the Company participated in trainings organized by superior and external training institutions, including 115 training classes organized by the CSRC, the Securities Association of China, the Organization Department of Henan provincial party committee, the Department of Finance of Henan Province, the SASAC of Henan province, the stock exchanges, etc. which were attended by 232 employees in total; subsequent online occupational training programs were also organized with the per capita courses of 15 hours. The Company incurred training expenditure amounting to RMB3.5 million. The Company organized and implemented a series of pertinent and foresighted occupational and business training programs, and built a platform for further study, in order to enhance the comprehensive quality and business skills of employees, and realized the mutual benefits of both the Company and employees. In 2020, the Company will, on the basis of its business needs, strengthen and expand the employee training, focus on the practicality of the training, continuously provide human resources and cultivate more excellent employees for the sustainable development of the Company.



## SECTION 7 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

### (IV) Labour outsourcing

Total working hours on labor outsourcing

436,800 hours

Total payment for labor outsourcing

RMB5,183,900

### VII. OTHERS

#### Information about customer solicitation and customer service of commission brokers

Securities brokers are natural persons other than employees of the Company and authorized by the Company to engage in brokerage-related activities such as customer solicitation and customer service as an agent within the scope of authorization of the Company. The Company has signed an agency contract with securities brokers. The Company established a complete management system for securities brokers, covering qualification management of securities brokers, agency contract management, pre-job training and follow-up vocational training, certificate management and information inquiry, code of practice, risk control, performance evaluation and remuneration payment, and achieved the centralized and unified management of securities brokers. The securities branches were responsible for the daily management of securities brokers.

During the Reporting Period, while maintaining effective operation of the basic management system of securities brokers, the Company kept on reinforcing the management of securities broker business of our branches, gained insight into the developing situation of securities broker team in each branch, and optimized relevant daily management procedure of securities brokers. As at the end of 2019, the number of securities brokers of the Company amounted to 363.

## SECTION 8 CORPORATE GOVERNANCE REPORT

### I. OVERVIEW OF THE CORPORATE GOVERNANCE

Being a public company listed in both Mainland China and Hong Kong, the Company operates in strict compliance with laws, regulations, and normative documents at the domestic and overseas listing place, and is committed to maintaining and improving its good social image. Strictly complying with the Company Law, Securities Law, and other laws, regulations, and regulatory provisions, the Company has completed and improved its corporate governance and formed a corporate governance structure under which the general meeting, the Board, the Supervisory Committee, and the management have their powers separated for checks and balances and perform their respective duties, so as to ensure the regulated operation of the Company. The Company strictly complied with all code provisions of the Corporate Governance Code and met requirements for most recommended best practices specified in the Corporate Governance Code during the Reporting Period.

#### (I) Shareholders and general meeting

The general meeting shall be the supreme authority of the Company. All shareholders exercise their power through the general meeting. The Company strictly complied with the relevant requirements of the Articles of Association and Rules of Procedure for General Meetings to ensure that the calling, proposing, notice giving, convening, and voting procedures for general meetings are legal and valid, and all shareholders, especially minority shareholders, could enjoy equal status and fully exercise their rights as shareholders.

The general meeting exercises the following functions and powers in accordance with the laws:

1. to decide on the business operation policies and investment plan for the Company;
2. to elect and change Directors and Supervisors who are not employees' representatives, and resolve on the remunerations of Directors and Supervisors;
3. to consider and approve reports of the Board;
4. to consider and approve reports of the Supervisory Committee;
5. to consider and approve the annual financial budgets and final accounting plans of the Company;
6. to consider and approve the Company's profit distribution plan and loss recovery plan;
7. to resolve on increase or decrease of the registered capital of the Company;
8. to resolve on issuance of bonds of the Company;
9. to resolve on the merger, division, dissolution, liquidation, or change of nature of organization of the Company;
10. to amend the Articles of Association;
11. to appoint, dismiss, or cease to re-appoint of the accounting firms;
12. to consider and approve the external guarantees of the Company that require the approval by the general meetings;



## SECTION 8 CORPORATE GOVERNANCE REPORT

13. to consider the Company's purchase or disposal of material assets within one year of an aggregate value exceeding 30% of the latest audited total assets of the Company;
14. to consider and approve matters relating to the changes in the use of proceeds;
15. to consider share incentive scheme;
16. to consider and approve shareholding schemes of Directors, Supervisors, senior management, or employees of the Company;
17. to consider proposals proposed by shareholders holding no less than 3% (inclusive) in aggregate of the Company's shares; and
18. to consider other matters which, in accordance with laws, administrative regulations, regulatory requirements regarding securities of the place(s) where the Company's shares are listed, and the Articles of Association, shall be resolved at a general meeting. The matters resolved at a general meeting which are subject to approval by national regulatory and management authorities of securities shall take effect upon such approval. For those matters involving with change of registration, formalities on change of registration shall be gone through in accordance with laws.

### (II) Directors and the Board

The Board of the Company is the decision-making body of the Company and is responsible to the general meeting. The Company strictly follows the Articles of Association and related laws and regulations to formulate the Rules of Procedure for Board Meetings. The calling, convening, transacting, and voting procedures for Board meetings are strictly in compliance with the Rules of Procedure for Board Meetings, ensuring the standard operation of the Board.

#### 1. Composition of the Board

Four specialized committees, namely the Development and Strategy Committee, Risk Control Committee, Remuneration and Nomination Committee, and Audit Committee have been established under the Board of the Company. The Company appoints and changes directors in strict accordance with the provisions of the Articles of Association. The number of Directors and the composition of the Board are in compliance with the requirements of laws and regulations. Pursuant to the requirements of the Articles of Association, the Company's Board comprises 11 Directors. The Directors shall be elected at general meetings. The term of office of each session of the Board shall be three years, and the Directors may seek re-election upon expiry of the term of office. As at the end of the Reporting Period, the Company's Board comprises 11 Directors, including 2 executive Directors (Mr. Jian Mingjun and Mr. Chang Junsheng), 5 non-executive Directors (Mr. Li Xingjia, Mr. Wang Lixin, Mr. Tian Shengchun, Mr. Zhang Xiaoqi, and Mr. Lu Benson Cheng), and 4 independent non-executive Directors (Mr. Yuen Chi Wai, Mr. Ning Jincheng, Mr. Yu Xugang, and Ms. Zhang Dongming). Mr. Jian Mingjun is the chairman of the Company, and Mr. Chang Junsheng is the Vice Chairman of the Company. There is no relationship among the Directors, Supervisors and senior management including relationships in terms of financial, business, family, or other significant or related relations. All Directors are qualified to serve as directors of securities companies and listed companies.

## SECTION 8 CORPORATE GOVERNANCE REPORT

During the Reporting Period, to further encourage Directors, Supervisors, and senior management to fully and diligently fulfill their duties, the Company purchased liability insurance for Directors, Supervisors, and senior management to control potential legal and regulatory risks that may arise in their performance of duties.

Since the listing of the Company, the Board has always complied with the requirement of the Hong Kong Listing Rules in terms of appointment of at least three independent non-executive Directors, who shall jointly account for at least one third in the number of members of the Board. Four independent non-executive Directors of the Company are fully qualified as specified in the requirements of the Hong Kong Listing Rules. Besides, the Company has received annual confirmations issued by each independent non-executive Director in respect of their independence according to Rule 3.13 of the Hong Kong Listing Rules. Therefore, the Company believes that each independent non-executive Director is independent as specified in the Hong Kong Listing Rules.

### 2. Responsibilities of the Board

1. to convene general meetings and report to general meetings;
2. to report at the annual general meetings and disclose in the annual reports the performance of Directors, including, among other things, the number of attendances of Directors at Board meetings and voting;
3. to execute resolutions of general meetings;
4. to resolve on the Company's business plans and investment plans;
5. to prepare the annual financial budgets and financial statements of the Company;
6. to prepare the profit distribution plan and loss recovery plan of the Company;
7. to prepare plans for the increase or reduction of the registered capital and the issuance of corporate bonds of the Company;
8. to formulate plans for material acquisitions, purchase of shares of the Company, or merger, division, dissolution, and change of the nature of incorporation of the Company;
9. to resolve on the establishment of internal management organizations and branches of the Company;
10. to appoint or dismiss the Company's president, chief compliance officer, secretary to the Board, and chief auditing officer as nominated by the chairman and determine their remunerations; to decide to appoint or dismiss the Company's vice president, chief financial officer, and other senior management as nominated by the president and determine their remunerations;
11. to set up the basic management system of the Company;
12. to formulate the proposals for any amendment to the Articles of Association;
13. to formulate proposals for appointment and dismissal of an accounting firm;



## SECTION 8 CORPORATE GOVERNANCE REPORT

14. to decide on external investment, acquisition and disposal of assets, asset mortgage, external guarantee, consigned financial management, related party transactions, etc. of the Company within the authority granted by the general meeting;
15. to listen to the work report of the president of the Company and examine the president's work;
16. to listen to the report of the chief compliance officer on the compliance status of the Company;
17. to determine Directors' remunerations and distribution plan thereof, and submit special reports to the general meeting on the performance evaluation and remunerations of Directors;
18. to evaluate and determine the nature and extent of the risks the Company is willing to take in achieving its strategic objectives, ensure that the company establishes and maintains appropriate and effective risk management and internal control systems, oversee the Company's risk management and internal control systems on an ongoing basis, oversee management in the design, implementation and monitoring of the risk management and internal control systems, and ensure that a review of the effectiveness of the Company's and its subsidiaries' risk management and internal control systems has been conducted at least annually;
19. to exercise other functions and powers as stipulated by laws and regulations, departmental rules, regulatory documents, or the Articles of Association.

The Board may resolve on the issues specified in the above paragraphs by approval of more than half of the Directors save for the issues specified in 7, 8, and 12, in which approval of two-thirds of the Directors is required.

### 3. Chairman and president

The positions of the chairman of the Board and the president of the Company are held by different persons, so as to ensure the independence of their duties and balance of authorization. Mr. Jian Mingjun served as the chairman of the Board, and Mr. Chang Junsheng served as the president. The respective duties and authorities of the chairman of the Board and president of the Company are clearly divided and specified in the Articles of Association.

The chairman of the Board is also the legal representative of the Company. The chairman of the Board leads the Board in determining the Company's development strategy to guarantee the effective operation and duty fulfillment of the Board, and fully discuss the issues within the scope of the Board's duties, so as to ensure that the Directors can acquire true, accurate, and complete information for making decisions in time, the Company can comply with well-established corporate governance procedures, and the decisions of the Board are in the best interest of the Company and all its Shareholders. The president manages the business operations of the Company, organizes execution of the Board's resolutions, and reports relevant work to the Board.

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### 4. The Board and the management

The powers and duties of the Board and the management are clearly set out in the Articles of Association, which provides for an adequate check and balance mechanism to ensure good corporate governance and internal control. The duties of the Board includes convening general meetings, executing the resolutions passed at general meetings, determining the business and investment plans of the Company, formulating plans for profit distribution and making up losses of the Company, formulating proposals for increase or reduction of the registered capital and issue of corporate bonds of the Company, formulating plans for material acquisition, repurchase of the shares of the Company or the merger, division, dissolution or change of the nature of incorporation of the Company, deciding on the establishment of internal management organizations or branches of the Company, appointing or dismissing the president, secretary to the Board, chief compliance officer, chief auditing officer and deciding on their remuneration, appointing or dismissing the senior management, such as the vice president and chief financial officer, of the Company pursuant to the nominations of the president and deciding on their remunerations, and formulating basic management system of the Company. The management of the Company is responsible for organizing the implementation of resolutions of the Board and the annual business and investment plans of the Company, consistently executing the financial budget of the Company, formulating specific rules of the Company, and deciding on the employment and dismissal of employees.

### (III) Supervisors and the Supervisory Committee

The Company's Supervisory Committee is responsible to all shareholders, and responsible for supervising the legal compliance of the Company's financial operations and the Company's directors, presidents, and other senior management in performing their duties, and safeguarding the lawful rights and interests of the Company and its shareholders. The calling, convening, transacting, and voting procedures for Supervisory Committee meetings are strictly in compliance with the Rules of Procedure for Supervisory Committee Meetings, ensuring the standard operation of the Supervisory Committee.

#### 1. Composition of the Supervisory Committee

The Company's Supervisory Committee has two specialized committees, namely the Financial Supervision Committee and the Performance Supervision and Evaluation Committee. The Company appoints and changes Supervisors in strict accordance with the provisions of the Articles of Association. The number and composition of Supervisors are in compliance with the requirements of laws and regulations. Pursuant to the requirements of the Articles of Association, the Company's Supervisory Committee comprises 9 Supervisors. The term of office of each session of the Supervisory Committee shall be three years, and the Supervisors may seek re-election upon expiry of the term of office. On 22 April 2019, Mr. Han Junyang, an employee representative Supervisor, resigned as a Supervisor of the Company due to change of works. On 23 April 2019, the Company convened the Labour Union Committee meeting and the employee representative meeting, at which Mr. Zhang Huamin was elected and appointed as the employee representative Supervisor of the sixth session of the Supervisory Committee; on 3 June 2019, Mr. Zhang Huamin was approved as a supervisor, and he has officially performed his duties as an employee representative Supervisor of the Company until the expiry of the term of the sixth session of the Supervisory Committee of the Company. As at the end of the Reporting Period, the Company's Supervisory Committee comprises 9 Supervisors, including the chairman of the Supervisory Committee (Mr. Lu Zhili), 3 shareholder representative Supervisors (Mr. Cao Zongyuan, Mr. Zhang Xiansheng, and Mr. Xie Junsheng), 2 independent Supervisors (Ms. Xiang Siying and Mr. Xia Xiaoning), and 3 employee representative Supervisors (Ms. Zhang Lu, Mr. Zhang Huamin, and Ms. Xiao Yichen). All Supervisors are qualified to serve as supervisors of securities companies and listed companies.

## SECTION 8 CORPORATE GOVERNANCE REPORT

### 2. Responsibilities of the Supervisory Committee

1. to examine financial operations of the Company;
2. to supervise the work performance of the Directors and senior management, and propose dismissal of Directors and senior management who have violated laws, regulations, the Articles of Association, or the resolutions of general meetings;
3. to require Directors and senior management to make corrections if their conduct has damaged the interests of the Company;
4. to require the Board to make corrections when any resolution of the Board runs against the laws and administrative regulations or regulations of China Securities Regulatory Commission;
5. to review the financial reports and profit distribution plans to be submitted by the Board to the general meetings; to conduct investigation if there is any doubt or any unusual circumstances in the Company's operations; and if necessary, to engage an accounting firm, law firm, or other professional institutions to assist in their work at the expenses of the Company;
6. to propose the convening of extraordinary general meetings and, in case the Board does not perform the obligations to convene and preside over the general meetings in accordance with Company Law, to convene and preside over the general meetings;
7. to propose proposals to the general meeting;
8. to coordinate with Directors on behalf of the Company or initiate legal proceedings against Directors and senior management in accordance with the laws;
9. to formulate remuneration plan and distribution plan for Supervisors and submit specific reports on performance evaluation and remuneration of Supervisors to the general meeting;
10. to exercise other functions and powers specified in the laws and regulations, departmental rules, regulatory documents, or the Articles of Association.

The Supervisors shall attend the Board meeting as observers and raise inquiries or suggestions on matters required to be resolved by the Board.

### II. SUMMARY OF GENERAL MEETING

General meeting	Date of convention	Directory to the designated website of publication of the resolution	Date of disclosure of the publication of resolution
2018 Annual General Meeting	11 June 2019	<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> <a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a>	12 June 2019 11 June 2019
2019 First Class Meeting for Holders of A Shares	11 June 2019	<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> <a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a>	12 June 2019 11 June 2019
2019 First Class Meeting for Holders of H Shares	11 June 2019	<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> <a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a>	12 June 2019 11 June 2019
2019 First Extraordinary General Meeting	7 November 2019	<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> <a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a>	8 November 2019 7 November 2019

## SECTION 8 CORPORATE GOVERNANCE REPORT

### Particulars of general meetings

During the Reporting Period, the Company convened four general meetings in total, including one annual general meeting, one extraordinary general meeting, one A share class meeting, and one H share class meeting, with the information about the meetings and resolutions set out as follows:

1. The Company convened the 2018 Annual General Meeting on 11 June 2019, and considered and approved the Work Report of the Board for the Year of 2018, the Work Report of the Supervisory Committee for the Year of 2018, the Annual Report for the Year of 2018, the Profit Distribution Plan for the Second Half of 2018, the Final Accounts Report for the Year of 2018, the Resolution on the Re-appointment of Domestic and Overseas Auditing Firms for the Year of 2019, the Evaluation and remuneration of the Directors of the Company for the Year of 2018, the Evaluation and Remuneration of the Supervisors of the Company for the Year of 2018, the Resolution on the Provision of Guarantee for Central China International Financial Holdings Company Limited, the Resolution on the Provision for Credit Impairment, the Resolution on the Business Scale and Affordable Risk Limits of Securities Proprietary Trading for the Year of 2019, the Resolution on Fulfillment of the Conditions for Non-public Issuance of A Shares by the Company, the Resolution on the Plan of the Non-public Issuance of A Shares by the Company, the Resolution on the Feasibility Report on the Use of Proceeds Raised from the Non-public Issuance of A Shares by the Company, the Resolution on the Report on the Use of Proceeds Raised from Previous Fund Raising Activities of the Company, the Resolution on the Dilution of Immediate Return Resulting from the Non-public Issuance of A Shares by the Company and the Remedial Measures, the Resolution on Shareholders' Return Plan for the Next Three Years (2019–2021), and the Resolution on the Grant of Authorization to the Board and its Authorized Persons by the Shareholders' General Meeting to Deal with the Relevant Matters Relating to the Non-public Issuance of A Shares;
2. The Company convened the 2019 First Class Meeting for Holders of A Shares on 11 June 2019, and considered and approved the Resolution on the Plan of the Non-public Issuance of A Shares by the Company and the Resolution on the Grant of Authorization to the Board and its Authorized Persons by the Shareholders' General Meeting to Deal with the Relevant Matters Relating to the Non-public Issuance of A Shares;
3. The Company convened the 2019 First Class Meeting for Holders of H Shares on 11 June 2019, and considered and approved the Resolution on the Plan of the Non-public Issuance of A Shares by the Company and the Resolution on the Grant of Authorization to the Board and its Authorized Persons by the Shareholders' General Meeting to Deal with the Relevant Matters Relating to the Non-public Issuance of A Shares;
4. The Company convened the 2019 First Extraordinary General Meeting on 7 November 2019, and considered and approved the Profit Distribution Plan for the First Half of 2019, the Resolution on the Provision for Credit Impairment, the Resolution of the General Mandate for the Issuance of Onshore and Offshore Debt Financing Instruments of the Company, and the Resolution on the Amendments to the Articles of Association.

## SECTION 8 CORPORATE GOVERNANCE REPORT

### III. PERFORMANCE OF DUTIES BY DIRECTORS

#### (I) Directors' attendance at Board meetings and general meetings

Name of Directors	Whether or not an independent Director	Number of attendances at board meetings	Attendance at Board meetings				Whether unable to attend in person for two consecutive meetings	Attendance at general meetings
			Number of attendance in person	Number of attendance through communication	Number of attendance by proxy	Number of absence		
Jian Mingjun	No	12	12	10	0	0	No	1
Chang Junsheng	No	12	12	10	0	0	No	4
Li Xingjia	No	12	12	10	0	0	No	4
Wang Lixin	No	12	12	10	0	0	No	0
Tian Shengchun	No	12	12	10	0	0	No	3
Zhang Xiaoqi	No	12	12	10	0	0	No	0
Lu Benson Cheng	No	12	12	10	0	0	No	0
Yuen Chi Wai	Yes	12	12	10	0	0	No	4
Ning Jincheng	Yes	12	12	10	0	0	No	4
Yu Xugang	Yes	12	12	10	0	0	No	1
Zhang Dongming	Yes	12	12	10	0	0	No	4
Number of Board meetings convened during the year								12
Among which: number of on-site meetings								0
Number of meetings held through communication								10
Number of meeting held by means of on-site combined with communication								2

## SECTION 8 CORPORATE GOVERNANCE REPORT

### (II) Particulars of meetings of the Board

During the Reporting Period, the Board convened a total of 12 meetings, and details of the meetings and resolutions are as follows:

1. The Company convened the third meeting of the sixth session of the Board on 9 January 2019, and considered and approved the Resolution on the Appointment of Senior Management Personnel, the Resolution on the Provision for Credit Impairment, the Resolution on Formulating the Administrative Measures for Integrity in Practice of Central China Securities Co., Ltd., and the Resolution on Proposed Amendments to the Administrative Measures for Compliance and Accountability (Provisional) of Central China Securities Co., Ltd.;
2. The Company convened the fourth meeting of the sixth session of the Board on 30 January 2019, and considered and approved the Resolution on the Establishment, Dissolution, and Adjustment of Function of Certain Headquarters Departments and the Resolution on Risk Preference and Tolerance for the Year of 2019;
3. The Company convened the fifth meeting of the sixth session of the Board on 25 February 2019, and considered and approved the Resolution on Appointment and Removal of Vice President, the Resolution on Changing Two Securities Exchanges into Branches, the Resolution on the Estimated Ordinary Related Party/Continuing Connected Transactions for the Year of 2019, the Resolution on Entering into of the Framework Agreement for Continuing Connected Transactions and Setting the Annual Transaction Caps, the Resolution on the Business Scale and Affordable Risk Limits of Securities Proprietary Trading for the Year of 2019, the Resolution on the Business Scale and Size of Investment by Funds at the Disposal of the Company and Affordable Risk Limits in Asset Management for the Year of 2019, the Resolution on the Determination of Business Scale of Margin Financing and Securities Lending, Stock Pledge, Agreed Repurchase, and Refinancing for the Year of 2019, and the Resolution on Determining Liquidity Management Risk Limits for the Company for the Year of 2019;
4. The Company convened the sixth meeting of the sixth session of the Board on 28 March 2019, and considered and approved the Work Report of the Board for the Year of 2018, the Work Report of the President for the Year of 2018, the Duty Report of Independent Directors for the Year of 2018, the Annual Report for the Year of 2018 (A Shares) and the Summary of the Report, the Annual Report for the Year of 2018 (H Shares) and the Results Announcement for the Year Ended 31 December 2018, the 2018 Social Responsibility Report, the Work Report of the Audit Committee of the Board for the Year of 2018, the Work Report of the Risk Control Committee of the Board for the Year of 2018, the Work Report of the Development and Strategy Committee of the Board for the Year of 2018, the Work Report of the Remuneration and Nomination Committee of the Board for the Year of 2018, the 2018 Compliance Report, the Profit Distribution Plan for the Second Half of 2018, the Resolution on the Changes in Accounting Policies, the Final Accounts Report for the Year of 2018, the Resolution on the Re-appointment of Domestic and Overseas Auditing Firms for the Year of 2019, the 2018 Internal Control Assessment Report, the Evaluation and remuneration of the Directors of the Company for the Year of 2018, the Resolution on the Provision of Guarantee for Central China International Financial Holdings Company Limited, and the Resolution on the Grant of Authorization to Convene the 2018 Annual General Meeting;



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5. The Company convened the seventh meeting of the sixth session of the Board on 18 April 2019, and considered and approved the 2019 First Quarterly Report, the Resolution on Fulfillment of the Conditions for Non-public Issuance of A Shares by the Company, the Resolution on the Plan of the Non-public Issuance of A Shares by the Company, the Resolution on the Proposal of the Non-public Issuance of A Shares by the Company, the Resolution on the Feasibility Report on the Use of Proceeds Raised from the Non-public Issuance of A Shares by the Company, the Resolution on the Report on the Use of Proceeds Raised from Previous Fund Raising Activities of the Company, the Resolution on the Dilution of Immediate Return Resulting from the Non-public Issuance of A Shares by the Company and the Remedial Measures, the Resolution on Shareholders' Return Plan for the Next Three Years (2019–2021), the Resolution on the Grant of Authorization to the Board and its Authorized Persons by the Shareholders' General Meeting to Deal with the Relevant Matters Relating to the Non-public Issuance of A Shares, and the Resolution on the Convening of the 2018 Annual General Meeting, 2019 First Class Meeting for Holders of A Shares, and 2019 First Class Meeting for Holders of H Shares;
6. The Company convened the eighth meeting of the sixth session of the Board on 4 June 2019, and considered and approved the Resolution to Optimize the Equity Structure of the Hong Kong Subsidiary and the Resolution on Capital Reduction of the Wholly-owned Subsidiary Zhongding Kaiyuan Venture Capital Management Co., Ltd.;
7. The Company convened the ninth meeting of the sixth session of the Board on 4 July 2019, and considered and approved the Resolution on Equity Structure Adjustment and Asset Transfer of Central China International Financial Group;
8. The Company convened the tenth meeting of the sixth session of the Board on 27 August 2019, and considered and approved the Resolution on Consideration of the Half Year Report of 2019 and the Summary of the Report, the Interim Results Announcement for the Six Months ended 30 June 2019 and the 2019 Interim Report, the Profit Distribution Plan for the First Half of 2019, the Resolution on the Provision for Credit Impairment, the Resolution on Changing Securities Branches into Branch Offices, the Resolution on Determining the 2019 External Donation Budget and on Donations to Henan Charity General Federation and the Henan Province Foundation for Poverty Alleviation, the Resolution of the General Mandate for the Issuance of Onshore and Offshore Debt Financing Instruments of the Company, the Resolution on Adjusting the Volume of Estimated Ordinary Related Party/Continuing Connected Transactions for the Year of 2019, the Resolution on Revising the Annual Transaction Cap of Continuing Connected Transactions, the Resolution on the Amendments to the Articles of Association, and the Resolution on the Grant of Authorization to Convene the 2019 First Extraordinary General Meeting;
9. The Company convened the eleventh meeting of the sixth session of the Board on 19 September 2019, and considered and approved the Resolution on Setting up the Posts for the Chief Information Officer, Chief Investment Officer and Senior Management, the Proposal on the Appointment of Senior Management Personnel of Managers of the Company, and the Resolution on Amendments to the Internal Control System of Anti-money Laundering and Anti-terrorist Financing of Central China Securities Co., Ltd.;
10. The Company convened the twelfth meeting of the sixth session of the Board on 30 October 2019, and considered and approved the 2019 Third Quarterly Report, the Resolution on Provision for Impairment on Assets, the Resolution on Optimizing and Adjusting Three Branches, and the Resolution on Amendments to the 'Internal Control Assessment System of Central China Securities Co., Ltd.';

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11. The Company convened the thirteenth meeting of the sixth session of the Board on 15 November 2019, and considered and approved the Resolution on Donations to the Henan Province Foundation for Poverty Alleviation and Henan Provincial Samaritan Foundation;
12. The Company convened the fourteenth meeting of the sixth session of the Board on 11 December 2019, and considered and approved the Resolution on Additional External Donation Budgets and the Resolution on the Grant of Authorization to Establish Branches of Brokerage Businesses.

### (III) Particulars of Directors' trainings

The Company attaches great importance to the continuous training for Directors to ensure that Directors have adequate knowledge of the Company's operations and businesses and their duties imposed by CSRC, SSE, Hong Kong Stock Exchange, the Articles of Association, and other relevant laws and regulations.

During the Reporting Period, the Company arranged a special training for all Directors and Supervisors and sent Monthly Performance Report to the Directors and Supervisors each month to keep them informed of the latest business development of the Company in a timely manner. Details of the trainings for Directors are specified as follows:

1. In June 2019, Mr. Lu Benson Cheng, being a Director, participated in the First Training Session for Directors, Supervisor and Senior Management of Listed Companies in Henan in 2019;
2. In July 2019, Mr. Yuen Chi Wai, Mr. Ning Jincheng and Mr. Yu Xugang, all being independent Directors, participated in the Third Follow-up Training Session for Independent Directors of Listed Companies organized by the SSE in 2019;
3. In September 2019, Mr. Jian Mingjun and Mr. Chang Junsheng, all being Directors, participated in the Follow-up Training for Securities Practitioners organized by the Securities Association of China.



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### IV. THE SPECIALIZED COMMITTEES UNDER THE BOARD

#### (I) Composition of Specialized Committees under the Board

The Development and Strategy Committee, Risk Control Committee, Remuneration and Nomination Committee and Audit Committee have been established under the sixth session of the Board of the Company. The committees shall, within their terms of reference specified in the rules of procedure, assist the Board in work, be accountable to the Board, and report their work to the Board.

As at the date of this report, the composition of specialized committees under the Board of the Company is as follow:

##### 1. Development and Strategy Committee

Chairperson: Jian Mingjun (executive Director)  
Members: Chang Junsheng (executive Director), Li Xingjia (non-executive Director), Wang Lixin (non-executive Director), Tian Shengchun (non-executive Director)

##### 2. Risk Control Committee

Chairperson: Jian Mingjun (executive Director)  
Members: Zhang Xiaoqi (non-executive Director), Ning Jincheng (independent non-executive Director)

##### 3. Remuneration and Nomination Committee

Chairperson: Yuen Chi Wai (independent non-executive Director)  
Members: Chang Junsheng (executive Director), Lu Benson Cheng (non-executive Director), Ning Jincheng (independent non-executive Director), Yu Xugang (independent non-executive Director)

##### 4. Audit Committee

Chairperson: Zhang Dongming (independent non-executive Director)  
Members: Yuen Chi Wai (independent non-executive Director), Tian Shengchun (non-executive Director)

## SECTION 8 CORPORATE GOVERNANCE REPORT

### (II) Responsibilities of and meetings held by the specialized committees under the Board

#### 1. Duty performance of the Development and Strategy Committee:

The main duties of the Development and Strategy Committee are: studying the Company's medium and long-term development strategy plans and proposing suggestions; studying major investment financing programs which are required to be approved by the Board as stated in the Articles of Association and proposing suggestion; studying material capital operation and assets operation projects which are required to be approved by the Board as stated in the Articles of Association and proposing suggestion; studying other important matters affecting the Company's development and making recommendation; and performing other duties authorized by the Board.

During the Reporting Period, the Development and Strategy Committee held three meetings with attendance by all members of the Development and Strategy Committee, and considered and approved the Resolution on the Establishment, Dissolution, and Adjustment of Function of Some Headquarters Departments, the Work Report of the Board for the Year of 2018, the Work Report of the President for the Year of 2018, the Work Report of the Development and Strategy Committee of the Board for the Year of 2018, the 2018 Social Responsibility Report, the Resolution on Fulfillment of the Conditions for Non-public Issuance of A Shares by the Company, the Resolution on the Plan of the Non-public Issuance of A Shares by the Company, the Resolution on the Proposal of the Non-public Issuance of A Shares by the Company, the Resolution on the Feasibility Report on the Use of Proceeds Raised from the Non-public Issuance of A Shares by the Company, the Resolution on the Report on the Use of Proceeds Raised from Previous Fund Raising Activities of the Company, the Resolution on the Dilution of Immediate Return Resulting from the Non-public Issuance of A Shares by the Company and the Remedial Measures, the Resolution on Shareholders' Return Plan for the Next Three Years (2019–2021), and the Resolution on the Grant of Authorization to the Board and its Authorized Persons by the Shareholders' General Meeting to Deal with the Relevant Matters Relating to the Non-public Issuance of A Shares, which were submitted to the Board for consideration.

#### 2. Duty performance of the Risk Control Committee:

The main duties of the Risk Control Committee are: reviewing and opining on overall objectives and basic policies of compliance management and risk management; reviewing and opining on establishment of specific departments and duties of compliance management and risk management; evaluating and opining on the risk of major decisions to be approved by the Board and solutions to eliminating such major risk; reviewing and opining on compliance reports and risk evaluation reports to be approved by the Board; reviewing the Company's risk management and internal control system; formulating the Company's corporate governance policies, reviewing the implementation, and making suggestion to the Board; reviewing and supervising Directors and senior management's training and their continuing professional development; reviewing and supervising whether Company's policies are in compliance with laws and supervisory regulations and the implementation; formulating, examining, and supervising the code of professional conduct and compliance manual (if applicable) of the employees and Directors; and other duties as specified in the Articles of Association. The Risk Control Committee actively fulfilled its duties and focused on studying the Company's compliance management and risk management matters, which supported the Board in decision makings.

During the Reporting Period, the Risk Control Committee held two meetings with attendance by all members of the Risk Control Committee, and considered and approved the Resolution on Risk Preference and Tolerance for the Year of 2019, the Work Report of the Risk Control Committee of the Board for the Year of 2018, the 2018 Internal Control Assessment Report, and the 2018 Compliance Report, which were submitted to the Board for consideration.



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### 3. Duty performance of the Remuneration and Nomination Committee:

The main duties of the Remuneration and Nomination Committee are: studying and determining selection criteria and procedure of Directors and senior management; recommending candidates for independent Director and principal operation and management officers; and examining the qualification of candidates of other Directors and senior management and giving suggestions; investigating and examining the performance appraisal and remuneration management systems for Directors and senior management and supervising the implementation; conducting appraisal of the Directors and senior management; and other duties specified by the Articles of Association.

During the Reporting Period, the Remuneration and Nomination Committee held four meetings with attendance by all members, focusing mainly on matters in relation to the remuneration of the chairman of the Board and president of the Company, and the concurrent holding of the position of president by the chairman of the Board, the details of which are as follows: the Remuneration and Nomination Committee considered and approved the Resolution on the Appointment of Senior Management Personnel, the Resolution on Appointment and Removal of Vice President, the Work Report of the Remuneration and Nomination Committee of the Board for the Year of 2018, the Evaluation and remuneration of the Directors of the Company for the Year of 2018, and the Proposal on the Appointment of Senior Management Personnel of Managers of the Company, which were submitted to the Board for consideration.

The candidates for Director shall be nominated by the Board, or the shareholders individually or jointly holding no less than 3% of the total of the Company's shares according to the Articles of Association. The nomination methods and procedures of independent non-executive Directors shall be performed in accordance with the laws, regulations, relevant provisions of the securities regulatory authorities of the place where the Company's shares are listed, and relevant rules in relation to independent non-executive directors. The name list of candidates for Directors and Supervisors shall be included in a proposal to be submitted to general meetings for approval. The qualifications of Directors, Supervisors, and independent non-executive Directors shall be filed or approved according to the relevant provisions of the securities regulatory authorities of the place where the Company's shares are listed.

Before the name list of candidates for Directors is presented to the Board, the Remuneration and Nomination Committee must examine the name list and make suggestions to the Board and shareholders. The Remuneration and Nomination Committee will review the candidates' curriculum vitae, conduct due diligence on the candidates, and evaluate the candidates' education background, professional qualifications, and industry-related experience, characters, and integrity with reference to the diversity policy of the Board.

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### 4. Duty performance of the Audit Committee:

The main duties of the Audit Committee are: supervising and evaluating the Company's internal auditing; making recommendation to the appointment, re-appointment, or replacement of the external auditing firm; examining and supervising the independence and objectiveness of the external auditing firm as well as the effectiveness of auditing process in accordance with the applicable standards; being responsible for the communication between internal and external auditing; conducting auditing of the Company's financial information and disclosure; supervising the Company's financial reporting system, risk management, and internal control system; and other duties specified by the Articles of Association.

During the Reporting Period, the Audit Committee had convened a total of seven meetings with attendance by all members, focusing mainly on discussing the Company's results announcement for the year ended 31 December 2018, 2018 annual report, profit distribution for 2018, re-appointment of domestic and overseas auditing firms, and the work report of the Audit Committee of the Board for the year of 2018 and giving suggestions to the Board. During the Reporting Period, the Audit Committee considered and approved the Resolution on the Provision for Credit Impairment, the Resolution on the Estimated Ordinary Related Party/Continuing Connected Transactions for the Year of 2019, the Resolution on Entering into of the Framework Agreement for Continuing Connected Transactions and Setting the Annual Transaction Caps, the Annual Report for the Year of 2018 (A Shares), the Annual Report for the Year of 2018 (H Shares) and the Results Announcement for the Year Ended 31 December 2018, the Work Report of the Audit Committee of the Board for the Year of 2018, the 2018 Compliance Report, the Profit Distribution Plan for the Second Half of 2018, the Final Accounts Report for the Year of 2018, the Resolution on the Re-appointment of Domestic and Overseas Auditing Firm for the Year of 2019, the Resolution on Changes in Accounting Policies, the 2018 Internal Control Assessment Report, the Resolution on the Provision of Guarantee or Counter-guarantee for Central China International Financial Holdings Company Limited and Its Subsidiaries, the 2019 First Quarterly Report, the Resolution on Equity Structure Adjustment and Asset Transfer of Central China International Financial Group, the Resolution on Consideration of the Half Year Report of 2019 and the Summary of the Report, the Interim Results Announcement for the Six Months ended 30 June 2019 and the 2019 Interim Report, the Profit Distribution Plan for the First Half of 2019, the Resolution on the Provision for Credit Impairment, the Resolution on Adjusting the Volume of Estimated Ordinary Related Party/Continuing Connected Transactions for the Year of 2019, the Resolution on Revising the Annual Transaction Caps for Continuing Connected Transactions, the 2019 Third Quarterly Report, the Resolution on Provision for Impairment on Assets, and the Resolution on Amendments to the Internal Control Assessment System of Central China Securities Co., Ltd.

During the Reporting Period, each of the members of specialized committees of the Board has attended all the meetings of their respective specialized committee.

## SECTION 8 CORPORATE GOVERNANCE REPORT

### V. PERFORMANCE OF DUTIES BY SUPERVISORS

#### (I) Supervisors' attendance at meetings of the Supervisory Committee and general meetings

Name of Supervisors	Whether or not an independent Supervisor	Attendance at meetings of the Supervisory Committee					Whether unable to attend in person for two consecutive meetings	Attendance at general meetings
		Number of required attendances at meetings of the Supervisory Committee	Number of attendance in person	Number of attendance through communication	Number of attendance by proxy	Number of absence		
Lu Zhili	No	7	7	5	0	0	No	4
Cao Zongyuan	No	7	7	5	0	0	No	0
Zhang Xiansheng	No	7	5	5	0	0	No	0
Xie Junsheng	No	7	7	5	0	0	No	3
Xiang Siying	Yes	7	7	5	0	0	No	3
Xia Xiaoning	Yes	7	7	5	0	0	No	3
Han Junyang	No	4	4	3	0	0	No	0
Zhang Lu	No	7	7	5	0	0	No	4
Xiao Yichen	No	7	7	5	0	0	No	3
Zhang Huamin	No	3	3	2	0	0	No	4
Number of meetings of the Supervisory Committee held during the year								7
Among all: number of on-site meetings								2
Number of meetings held through communication								5

#### (II) Particulars of meetings of the Supervisory Committee

The Supervisory Committee organized and convened 7 meetings in total during the Reporting Period, and details of the meetings and resolutions are as follows:

- On 9 January 2019, the Company convened the third meeting of the sixth session of the Supervisory Committee and considered and approved the Resolution on the Provision for Credit Impairment;
- On 25 February 2019, the Company convened the fourth meeting of the sixth session of the Supervisory Committee and considered and approved the Resolution on the Estimated Ordinary Related Party/Continuing Connected Transactions for the Year of 2019 and the Resolution on Entering into of the Framework Agreement for Continuing Connected Transactions and Setting the Annual Transaction Caps;

## SECTION 8 CORPORATE GOVERNANCE REPORT

3. On 28 March 2019, the Company convened the fifth meeting of the sixth session of the Supervisory Committee and considered and approved the Work Report of the Supervisory Committee for the year of 2018, the Profit Distribution Plan for the Second Half of 2018, the Resolution on Changes in Accounting Policies, the Final Accounts Report for the Year of 2018, the Annual Report for the Year of 2018 (A Shares) and the Summary of the Report, the Annual Report for the Year of 2018 (H Shares) and the Results Announcement for the Year Ended 31 December 2018, the 2018 Social Responsibility Report, the 2018 Compliance Report, the 2018 Internal Control Assessment Report, and the Evaluation and Remuneration of the Supervisors of the Company for the Year of 2018, and received the 2018 Annual Risk Management Report and the 2018 Audit Report;
4. On 18 April 2019, the Company convened the sixth meeting of the sixth session of the Supervisory Committee and considered and approved the 2019 First Quarterly Report;
5. On 4 July 2019, the Company convened the seventh meeting of the sixth session of the Supervisory Committee and considered and approved the Resolution on Equity Structure Adjustment and Asset Transfer of Central China International Financial Group;
6. On 27 August 2019, the Company convened the eighth meeting of the sixth session of the Supervisory Committee and considered and approved the Resolution on Consideration of the Half Year Report of 2019 and the Summary of the Report, the Interim Results Announcement for the Six Months ended 30 June 2019 and the 2019 Interim Report, the Profit Distribution Plan for the First Half of 2019, the Resolution on the Provision for Credit Impairment, the Resolution on Adjusting the Volume of Estimated Ordinary Related Party/Continuing Connected Transactions for the Year of 2019, and the Resolution on Revising the Annual Transaction Caps for Continuing Connected Transactions;
7. On 30 October 2019, the Company convened the ninth meeting of the sixth session of the Supervisory Committee and considered and approved the 2019 Third Quarterly Report and the Resolution on Provision for Impairment on Assets.



## SECTION 8 CORPORATE GOVERNANCE REPORT

### **VI. EXPLANATION ON LACK OF INDEPENDENCE OR INDEPENDENT OPERATING ABILITY IN TERMS OF BUSINESS, PERSONNEL, ASSETS, ORGANIZATIONS, AND FINANCE BY THE COMPANY FROM ITS CONTROLLING SHAREHOLDER**

The Company entered into a non-competition agreement (the “Non-Competition Agreement”) with Henan Investment Group on 10 March 2014, pursuant to which Henan Investment Group undertook that, except for completed or ongoing business transactions by the excluded business companies, neither itself nor its controlled entities (as defined under the Non-Competition Agreement) will, on its own account, or in conjunction with any third parties in or outside the PRC, in whatever manner, directly or indirectly, engage or participate in, or assist to engage or participate in, any business which competes or may compete with the Company’s principal business. Henan Investment Group has confirmed that it complied with the terms of Non-Competition Agreement during the Reporting Period. During the Reporting Period, independent non-executive Directors have, in relation to the decision on observing and performing the Non-competition Agreement, conducted annual review over the Non-Competition Agreement to confirm that Henan Investment Group has fully complied with the Non-Competition Agreement and does not have any such breach.

### **VII. ESTABLISHMENT AND IMPLEMENTATION OF PERFORMANCE APPRAISAL AND INCENTIVE MECHANISMS FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD**

The Company adheres to the principle of giving both encouragement and restraints for senior management and has strictly implemented the performance appraisal for senior management, as well as improved the performance appraisal system and enriched the content of appraisal for cadre, so as to ensure the competitiveness of its cadre team. It has carried out comprehensive appraisal for cadre in terms of conduct, capability, diligence, performance and integrity through various means, including performance appraisal, democratic assessment, and individual conversation. With reference to the results of performance appraisal, the Company will promote and make good use of outstanding cadre and strictly put the relevant system of the Company into execution regarding those not meeting the requirements of their positions, with a view to adopting an appropriate talent employment mechanism based on merits.

The Company will assess the achievement of performance goals by its senior management. For those failing to complete the operation goals and major work tasks, the Company will give comments and warnings, conduct conversations with admonition, assess and reduce bonus according to the completion progress of performance goals or propose for demotion to the Board and superior competent departments after assessment. The performance awards for senior management will be determined based on their completion progress of annual goals and results of performance appraisal, in accordance with the Implementation Plans for Awards Distribution of Central China Securities Co., Ltd., which was considered and approved by the Board. The Company will also strictly comply with relevant requirements regarding deferred payment of remuneration of senior management according to industry practice.

## SECTION 8 CORPORATE GOVERNANCE REPORT

### VIII. DESCRIPTION OF AUDIT REPORT ON INTERNAL CONTROL

The Company has engaged ShineWing Certified Public Accountants (Special General Partnership) as the auditors for internal control. ShineWing Certified Public Accountants (Special General Partnership) has issued the Audit Report on Internal Control of Central China Securities Co., Ltd.

For details of the Audit Report on Internal Control, please see the Audit Report on Internal Control of Central China Securities Co., Ltd. disclosed by the Company on the same date of 2019 Annual Results Announcement on the website of the SSE.

### IX. RESPONSIBILITY STATEMENT ON INTERNAL CONTROL AND ESTABLISHMENT OF INTERNAL CONTROL SYSTEM

#### (I) Responsibility statement on internal control

In accordance with the requirements of the Corporate Internal Control Standards and System, it is the responsibility of the Board to establish sound and effective internal control, assess its effectiveness, and truthfully disclose the assessment report on internal control. The Supervisory Committee oversees the establishment and implementation of internal control by the Board, while the operational management is responsible for organizing and steering the daily operation of internal control.

The internal control of the Company aims at providing reasonable assurance for the legal compliance of operation and management, safety of assets, true and complete financial report and relevant information, and improvement of operational efficiency and effectiveness so as to facilitate the implementation of development strategies. Due to its inherent limitations, internal control can only provide reasonable assurance for achievement of the above objectives. Moreover, changes in circumstances may render the internal control inappropriate or reduce the degree of control over the compliance with policies and procedures, and predicting effectiveness of internal control in future according to the appraisal results of internal control may involve certain risks.

The Board was of the view that the Company has maintained effective internal control over financial reporting in all material respects in accordance with the requirements of the Corporate Internal Control Standards and System and other relevant regulations. As at benchmark date of the assessment report on internal control, the Company was not aware of any significant deficiency in respect of internal control over financial reporting and non-financial reporting.



## SECTION 8 CORPORATE GOVERNANCE REPORT

### (II) Basis of the establishment of internal control over financial reporting

A comprehensive internal control over financial reporting has been established by the Company, taking into account the actual conditions of the Company, in accordance with the Basic Standard for Enterprise Internal Control and Supporting Guidance for Enterprise Internal Control jointly promulgated by the Ministry of Finance, CSRC, National Audit Office of the PRC, China Banking Regulatory Commission, and China Insurance Regulatory Commission, as well as other documents, including Guidelines for the Internal Control of Securities Companies issued by CSRC and the Guidelines of Shanghai Stock Exchange for the Internal Control of Listed Companies issued by the SSE.

According to the requirements for determining material defects, major defects, and general defects as defined in the Basic Standard for Enterprise Internal Control, Guidelines for the Internal Control of Securities Companies, and the Guidelines of Shanghai Stock Exchange for the Internal Control of Listed Companies, taking into account its scale, industry-specific features, risk preference and tolerance, and other factors, the Company studied and defined the defects in the internal control of the Company and the specific criteria for determination. During the Reporting Period, the sound system of internal control over financial reporting of the Company ran well and can ensure the quality of financial information and the annual financial report meeting the requirement of the accounting standards, giving a true, exact, and complete view of its financial position, operating results, and relevant information. According to the assessment of the significant defect in internal control over financial reporting of the Company, during the Reporting Period, the Company did not have any significant defect in internal control over financial reporting.

### (III) Establishment of internal control system

Since its establishment, the Company has been attaching great importance to the development of internal rules and regulations and management system. From the level of corporate governance, it has strengthened the system control from top to bottom for various businesses and management work. Based on relevant laws and regulations and according to the actual situation, the Company has comprehensively considered its internal environment, risk assessment, control activities, information and communication, internal supervision, and other factors to develop a more comprehensive internal control system, and kept supplementing, revising, and improving the internal control system according to requirements in respect of industry regulation, business development, and risk management strengthening. Such internal control system has basically covered the operational management of the Company in different aspects and business segments at all levels, which has been implemented effectively. The Company always places the development of internal control throughout the operation and development of the Company, so as to ensure sustainable and sound growth of the Company by continuously improving the system and strengthening the implementation thereof with effective supervision and inspection.

#### 1. Procedures used for identifying, evaluating, and managing major risks

For the procedures used for identifying, evaluating and managing major risks, please refer to IV. (IV) "Potential risks" under Section 4 of this report.

## SECTION 8 CORPORATE GOVERNANCE REPORT

### 2. Procedures remedying the defects of the internal control

The internal control evaluation conducted annually by Company conducts self-evaluation on the effectiveness of the internal control, and formulates and timely carries out rectifications on the defects of the internal control identified every year. The Internal Audit Department of the Company monitors the internal control of various businesses, proposes rectifications and management recommendation for the problems identified during auditing, and urges the implementation of the rectifications; and the Compliance Department updates compliance management rules on a regular basis, and supervises and improves business and management rules and monitors the implementation in accordance with laws, regulations and regulatory requirements. The Risk Control Department carries out effective monitoring, identifications, warning and reporting on the various business risks in day-to-day management, conducts effective management over risk incidents that have occurred and potential defects based on the risk management system, and updates and revises risk management rules and procedures, to adapt to ever-changing risk forms and management demands.

### 3. Management rules on inside information

The Board is the organization managing the inside information of the Company and should ensure the true, accurate and complete registration of the inside information. The chairman of the Board is the key personnel accountable for management over the confidentiality of inside information and the registration of the insiders. The secretary to the Board is responsible for the daily management, registration and filings of insiders. The office of the Board is the daily operation department transferring, registering, disclosing, filing and reporting inside information to supervising departments.

## X. ESTABLISHMENT OF COMPLIANCE MANAGEMENT SYSTEM OF THE COMPANY

### (I) Establishment of compliance management system

The Board and management of the Company attached great importance to compliance management, with valuing compliance as the lifeline of the operation and development of the Company, and promoted the compliance culture throughout the Company, which gradually enhanced its capability to control compliance risks.

1. The Company built and continuously improved the organizational structure of compliance management. The Board determined the Company's objectives for compliance management and is responsible for the effectiveness of compliance management; the senior management is responsible for implementing the compliance management objectives and is responsible for compliance operations; the Supervisory Committee is responsible for monitoring the performance of compliance management duties by Directors and senior management; and the persons-in-charge of each unit under the Company are responsible for implementing the compliance management objectives of the unit and undertaking responsibility for the compliance operation of the unit. In respect of compliance management, the Company formed a four-tier vertical chain of compliance management covering the "Board, chief compliance officer, compliance management headquarters, and compliance officers of all departments", with the responsibilities of each level clearly defined and the reporting channels unimpeded. Being directly responsible to the Board, the chief compliance officer reviews, supervises, and inspects the compliance of operation and management of the Company and its staff; the compliance management headquarters is responsible to the compliance director and provides assistance for the work of the compliance director; and under the guidance of the compliance director and the compliance management headquarters, the compliance management personnel of each unit assist the persons-in-charge of the unit in implementing compliance management. The Company established a cooperative work mechanism between the compliance management department and other internal control departments, which effectively controlled the compliance operation of each unit of the Company.



## SECTION 8 CORPORATE GOVERNANCE REPORT

2. Intensify efforts to implement the Company's compliance management. Firstly, it organized the revision and improvement of more than 17 compliance management systems according to the latest trend of supervision and actual situations of the Company in time, covering compliance management, compliance supervision and inspection, compliance publicity and training, compliance assessment and accountability, compliance performance guarantee, anti-money laundering, and core affairs management of the investment banking, and effectively improved the compliance management system of the Company. Secondly, the compliance publicity and training were vigorously promoted. The Company strengthened the compliance concept by using a combination of measures to continuously promote the compliance culture development. The Company actively organized the putting of the compliance system online, provided training on anti-money laundering operation practices and abnormal transactions for customers in the Sci-Tech Innovation Board, fully publicized the current regulatory situation, and communicated its compliance management requirements. In light of the regulatory focus and issues of frequent compliance risks in the industry, the Company released notices, prepared the regulatory case set, issued compliance newsletters, and sorted out compliance FAQs, to steadily enhance daily compliance publicity. Thirdly, the compliance supervision was reinforced. During the Reporting Period, the Company issued a variety of compliance supervision documents, urged from multiple perspectives each unit to strictly observe laws, regulations, and standards, and effectively identified and defused compliance risks. It constantly urged each unit to optimize their compliance management mechanism and working process, integrate the compliance management requirements into the system and process of each business, and realize the full process control over specific business through compliance management, which guaranteed the refined and feasible business system. Fourthly, the online compliance management platform was launched. The Company performed its compliance duties of consulting, auditing, inspection, publicity, and training online, achieved the organic integration of compliance management resources through a flexible process design and management module, and provided a unified interface to daily compliance management. With all this, the Company's compliance management efficiency was improved. As at the end of the Reporting Period, the Company's organizational system for compliance management operated effectively, all compliance management policies were effectively implemented, and the compliance management system operated well.

### (II) Inspections completed by the compliance management department

In 2019, the Company organized or participated in a total of 20 internal inspections, including special inspections for bond trading compliance, compliance inspections for related parties of investment bank projects, investor suitability inspections, on-site branch inspections, on-site anti-money laundering inspections, special inspections for investment banking business, special inspections for compliance management of subsidiaries, and compliance inspections for asset management business in combination with the actual operation and management conditions according to the supervision and self-regulatory requirements. Through compliance inspection, the Company effectively identified and defused compliance risks, screened potential compliance risks, and encouraged relevant units to strengthen their fundamental work and standardize their business management.

## XI. WORK INITIATED BY THE AUDIT DEPARTMENT

During the Reporting Period, by closely monitoring the changes in business development trends and regulatory requirements, the Company's internal auditors, keeping being oriented by the risks, has performed the functions of internal audit by correcting and preventing mistakes, controlling risks and providing advice on management, carrying out audit works mainly on headquarters departments, branches, and subsidiaries of the Company. During the Reporting Period, the audit department of the Company completed 96 audits in total, including 6 ordinary audits to major business lines and function departments; 25 audits to the economic responsibility of the officers-in-charge and key personnels of each department, branch, and subsidiary; 61 ordinary audits to branches; and 4 ordinary audits to subsidiaries. It also organized and conducted 1 annual assessment on internal control of the Company and 1 assessment on internal control of the investment banking business. In addition, the audit department and the compliance control department formed a joint inspection team to conduct special inspections on certain businesses of the Company. Certain problems in the operational management of the Company were objectively reflected through supervision and inspection carried out by the auditors. The audit department continued to pay attention to the follow-up and rectification of the problems and deepened audit communication, for the purpose of continuously increasing the risk prevention awareness and active compliance awareness of the audited entities, and further improving the internal control of the Company.

## SECTION 8 CORPORATE GOVERNANCE REPORT

### XII. MONITORING OF RISK CONTROL INDEX AND BUILDING OF REPLENISHMENT MECHANISM

The Company set up a dynamic monitoring and management model of risk control index system centering on net capital and liquidity according to a series of relevant regulations including Measures for the Management of the Risk Control Indexes of Securities Companies of CSRC, and monitored, conducted warning for, and reported various indexes in strict accordance with CSRC's regulations. It continuously optimized the functions of the dynamic monitoring system of net capital and liquidity to ensure that the dynamic monitoring system can effectively support the monitoring of risk control indicators such as net capital and liquidity. The Company established the complete stress test mechanism as required by the Guidelines on Securities Companies' Stress Test issued by Securities Association of China and conducted regular and irregular stress tests. In 2019, based on the monitoring and measurement of various indexes including net capital, the Company regularly analyzed and evaluated the support of net capital for the Company's business development, studied and tested rational and efficient allocation of net capital, reserved sufficient net capital support for carrying out major business, and built the dynamic linkage mechanism between business scale and net capital. In 2019, the Company, based on the aforesaid risk management activities, regularly prepared Monthly Report on Risk Management to provide a comprehensive analysis and evaluation on the profile of the Company's financial and net capital risks, realizing effective control on financial and net capital risks. During the Reporting Period, all risk control indicators including the Company's net capital met the regulatory requirements.

The Company has established a dynamic replenishment mechanism for risk control indicators such as net capital. When the main risk control indicators such as net capital approached or met the early warning standards stipulated by the CSRC, the Company would replenish the risk control indicators such as net capital by controlling the business scale, adjusting the asset structure, issuing subordinated bonds, raising capital and so on, so as to effectively guarantee that the main risk control indicators such as net capital of the company meet the standard. To consider the further development requirements of all the businesses of the Company, in 2019, the Company continued to issue long-term subordinated bonds and prepared for private placement to continuously maintain and enforce its capital strength, according to its capital planning. The Company further intensified the capital management capability to enhance capital quality, to further improve capital's role in guiding and restricting the development of various businesses, continuously improved capital efficiency, and guaranteed sustainable, healthy, and rapid development of business lines with sufficient capital, thus maximizing value for the shareholders.

### XIII. OTHERS

#### (I) Shareholders' rights

The Company called and convened general meetings strictly according to the Articles of Association and Rules of Procedure for General Meetings to guarantee the equal status and full exercise of rights for all shareholders, especially the minority shareholders. All of the Company's Directors, Supervisors, and senior management attended the general meetings and answered the shareholder's questions in accordance with the provisions of Articles of Association.



## SECTION 8 CORPORATE GOVERNANCE REPORT

Procedures of shareholders' application for convening of general meetings and for making proposals at the general meeting:

Shareholders may convene extraordinary general meetings or class general meetings and put forward proposals at such meetings according to Article 81 of Articles of Association "Shareholder(s) severally holding 10% or more shares of the Company shall be entitled to request in writing the Board to convene an extraordinary general meeting or class general meeting of the Company. Two or more shareholders aggregately holding 10% or more shares with the voting right in the proposed meeting shall be entitled to sign a written requisition in one or more counterparts in the same form and content, requiring the Board to convene an extraordinary general meeting or class general meeting and state in such written requisition the matters to be discussed at the meeting. The aforesaid number of shares shall be calculated in accordance with the shares held on the day on which the written requisition is made by the shareholders. The Board shall, pursuant to relevant laws, administrative regulations and Articles of Association, give a written reply on whether to convene the extraordinary general meeting or not within 10 days after receipt of the proposal. If the Board agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within five days after the resolution is made by the Board. In the event of any change to the original proposal, the consent of relevant shareholder(s) shall be obtained. If the Board does not agree to hold the extraordinary general meeting or fails to give a reply within 10 days after receipt of the proposal, shareholder(s) severally or jointly holding no less than 10% shares of the Company shall be entitled to propose in writing to the Supervisory Committee to convene an extraordinary general meeting. If the Supervisory Committee agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within 5 days after receipt of the said request. In the event of any change to the original proposal, the consent of relevant shareholder(s) shall be obtained. If the Supervisory Committee fails to issue the notice for the general meeting within the specified time, the Supervisory Committee shall be deemed as failing to convene or preside the general meeting. The shareholder(s) severally or jointly holding no less than 10% shares of the Company for no less than 90 consecutive days may convene and preside over such meeting on his or their own.", Article 110 "Where the Company convenes a general meeting, the Board, Supervisory Committee, and shareholder(s) severally or jointly holding no less than 3% shares of the Company may make proposals to the Company." and Article 111 "Shareholder(s) severally or jointly holding no less than 3% shares of the Company may submit written provisional proposals to the convener 10 days before a general meeting is convened. The convener shall serve a supplementary notice of general meeting to other shareholders within two days after receipt of such proposal, and include the matters within the proposal on the agenda for the said meeting and submit for approval at the general meeting if the said matter falls within the functions and powers of general meetings. The contents of the provisional proposal shall fall within the functions and powers of general meetings and have specific discussion topic and specific matters to be resolved. Save as specified above, the convener shall not change the proposal set out in the notice of general meeting or add any new proposal after the said notice is served. The general meeting shall not vote or pass resolutions on proposals not listed in the notice of the general meeting or resolutions not in conformity with following article of the Articles of Association." Shareholders may convene an extraordinary general meeting or a class meeting based on the stated procedures and put forward proposals at the general meeting. The shareholders may attend general meetings and exercise voting rights either in person or by proxy. The minutes together with the attendance record of shareholders and the powers of attorney of the proxies shall be kept at the Company's premises. Shareholders may have access to copies of the minutes free of charge during the office hours of the Company. The Articles of Association have been disclosed on the website of the Company and the HKExnews website of the Hong Kong Stock Exchange.

## SECTION 8 CORPORATE GOVERNANCE REPORT

### (II) Company Secretary

The Company appointed Ms. Kwong Yin Ping, Yvonne, president of SWCS Corporate Services Group (Hong Kong) Limited, as the Company Secretary of the Company. The main contact person of Ms. Kwong Yin Ping, Yvonne in the Company is Mr. Zhu Qiben, the secretary to the Board. During the Reporting Period, Ms. Kwong Yin Ping, Yvonne received no less than 15 hours of professional trainings in accordance with Rule 3.29 of the Hong Kong Listing Rules.

### (III) Compliance with Model Code

The Company has adopted the Model Code as set out in Appendix 10 to the Hong Kong Listing Rules concerning the securities transactions by directors and supervisors. The Company has made specific inquiries to all the Directors and Supervisors for the compliance with Model Code. It was confirmed that they fully complied with the Model Code during the Reporting Period.

The Company has adopted the Model Code for supervising the unpublished price-sensitive information of the Company or its securities that is likely to be possessed by its employees. During the Reporting Period, the Company was not aware of any violation of the Model Code by any of its employees.

### (IV) Responsibilities of Directors concerning financial statements

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

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

### (V) Communications with shareholders

The general meeting shall be the supreme authority of the Company. All shareholders exercise their power through the general meeting. The Company called and convened general meetings in strict accordance with relevant requirements of the Articles of Association and Rules of Procedure for General Meetings and ensured all shareholders, especially minority shareholders, could enjoy equal status and fully exercise their rights as shareholders.

The Articles of Association was amended one time during the Reporting Period. For details, please see the Articles of Association dated 3 January 2020 of the Company.

There are persons specially designated for contacting and communicating with shareholders. The Company attaches great importance to the opinions and suggestions of shareholders and tries to meet the reasonable requests of the shareholders in time.



## SECTION 8 CORPORATE GOVERNANCE REPORT

The Company set “Investor Relations” column in its website for publishing such information as announcements and financial data of the Company. Shareholders can also directly call the Company to inquire about relevant information, and the Company will deal with such inquiry in a timely and proper manner.

The Company welcomes all shareholders attending general meetings and facilitates their attendance in a permitted range. The Company’s Directors, Supervisors and senior management will attend general meetings. According to code provision E.1.2 of the Corporate Governance Code, the chairman and the chairpersons of the Audit Committee, Remuneration and Nomination Committee, and other specialized committees under the Board shall attend the annual general meeting and answer questions at the meeting. The management of the Company shall ensure that the external auditors can attend the annual general meeting and answer relevant questions put forward by shareholders.

### **(VI) Investor relation activities**

Since its listing, the Company has been always attaching great importance to the investor relations. It maintains a good image in the capital market by establishing sound relationship between the Company and investors. The Company has formulated the information submission and disclosure measures in accordance with laws, rules, and department regulations such as the Company Law, the Securities Law, and the Administrative Measures for the Information Disclosure of the Listed Companies.

In terms of daily communication, the Company establishes the complete regular communication mechanism, reports the operation conditions of the Company to shareholders on a regular basis via mobile Internet and annual general meetings, and continuously recommends the investment value of the Company. In 2019, the Company browsed the E Interactive Platform of Shanghai Stock Exchange and investors’ emails and answered investors’ hotline on a daily basis, and gave prompt replies to questions concerned by investors. The Company participated in the Online Collective Reception Day of Henan listed companies and interacted on issues of concern to investors, such as corporate governance, development strategies, operating conditions and financing plans. The above methods effectively enhanced the degree of participation in the Company by shareholders and investors and guaranteed the open and transparent operation.

The Company focuses on reports on the Company on the public media and the transaction of its shares, verifies the authenticity of reports with related parties, promptly analyzes and judges the possible enterprise expectations of investors according to public opinions on the capital, and provides guidance for the development of investor relations.

## SECTION 8 CORPORATE GOVERNANCE REPORT

### (VII) Appointment and remuneration of auditors

Please refer to IV. "APPOINTMENT OR TERMINATION OF SERVICE OF ACCOUNTING FIRMS" under Section 5 of this report.

### (VIII) Review by the Audit Committee

The Audit Committee has reviewed the Company's 2019 Audit Report and 2019 Annual Results.

### (IX) Board diversity policy

#### 1. Board diversity policy

The Company has adopted the board diversity policy according to code provision A.5.6 of the Corporate Governance Code.

The Company's board diversity policy can be summarized as follows: The Company knows and believes that the board diversity will be beneficial to the Company, and views it as an important element in maintaining its competitive edge. In designing the Board's composition, the Company considers board diversity from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge, length of service, etc. The appointment of the Directors will be based on meritocracy, and candidates will be considered with due regard for the capacity, skill, and experience required for the overall operation of the Board, so as to ensure the proper balance of the members of the Board. The Remuneration and Nomination Committee of the Company will review and assess the composition of the Board, and provide suggestions to the Board for the appointment of new directors. The Remuneration and Nomination Committee of the Company will discuss annually all the agreed measurable objectives for implementing the board diversity, and provide relevant suggestions on the objectives to the Board.

#### 2. Reasons for adopting the Board diversity policy

The Company believes that diversity underpins the effective and successful operation on Board and helps the Remuneration and Nomination Committee and the Board to ensure that the Board has balanced skills, experience, and diversity of perspectives appropriate to the requirements of the Company's business. With a view to achieving a sustainable and balanced development, the Company regards increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. The appointment of the Directors will be based on candidates' talents and capacities, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. When selecting candidates for Directors, the Company, as a financial enterprise, will take into consideration the education background and industry background related to economics, finance and management education for the sake of diversity.



## SECTION 8 CORPORATE GOVERNANCE REPORT

### 3. Measurable objectives

Selection of candidates will be based on range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

### 4. Implementation and monitoring

The Remuneration and Nomination Committee reviews the structure, size, and composition (including the skills, knowledge, and experience) of the Board annually, makes suggestions in respect of any changes to the Board arising from the changes in the Company's strategies, and monitors the implementation in line with the Board diversity policy.

As at the date of this report, the composition of the Board at a diversity level is summarized as follows:

- (1) Gender: Among the existing 11 Directors, one is female and the remaining ten are male;
- (2) Education background: Among the existing 11 Directors, 4 have doctor's degrees; 5 have master's degrees; and 2 have bachelor's degrees;
- (3) Age: Among the existing 11 Directors, 2 are aged 60 and over and 9 are under 60;
- (4) Positions: Among the existing 11 Directors, 2 are executive Directors, 5 are non-executive Directors, and 4 are independent non-executive Directors.

## SECTION 9 INFORMATION ON CORPORATE BONDS ISSUED BY THE COMPANY

### I. BASIC INFORMATION OF CORPORATE BONDS

Unit: 100 million    Currency: RMB

Name of bonds	Abbreviation	Code	Date of issuance	Maturity date	Balance of bonds	Interest rate (%)	Method to repay principal and pay interest	Venue of trading
2017 Subordinated Bonds (Tranche 1) of Central China Securities Co., Ltd.	17 Central China 01	145644	2017/7/25	2020/7/26	15	5.15	Simple interest on an annual basis	SSE
2017 Subordinated Bonds (Tranche 2) of Central China Securities Co., Ltd.	17 Central China 02	145663	2017/11/16	2020/11/17	10	5.49	Simple interest on an annual basis	SSE
2018 Subordinated Bonds (Tranche 1) of Central China Securities Co., Ltd.	18 Central China 01	150323	2018/4/26	2021/4/27	15	5.58	Simple interest on an annual basis	SSE
2019 Corporate Bonds Publicly Issued to Qualified Investors (Tranche 1) of Central China Securities Co., Ltd.	19 Central China 01	155259	2019/3/25	2022/3/26	20	3.9	Simple interest on an annual basis	SSE
2019 Non-Public Issuance of Corporate Bonds (Tranche 1) of Central China Securities Co., Ltd.	19 Central China F1	151407	2019/4/15	2020/4/16	15	3.8	Simple interest on an annual basis	SSE
2019 Non-Public Issuance of Subordinated Bonds (Tranche 1) of Central China Securities Co., Ltd.	19 Central China C1	162323	2019/10/29	2022/10/30	10	4.9	Simple interest on an annual basis	SSE

#### Interest payment and due repayment of corporate bonds

During the Reporting Period, the Company paid the interests of “17 Central China 01”, “17 Central China 02” and “18 Central China 01” in full as scheduled. “19 Central China 01”, “19 Central China F1” and “19 Central China C1” have not reached the maturity date and interest payment date and no due repayment or interest payment occurred.

## SECTION 9 INFORMATION ON CORPORATE BONDS ISSUED BY THE COMPANY

### II. USE OF PROCEEDS FROM ISSUANCE OF CORPORATE BONDS

For “17 Central China 01”, “17 Central China 02” and “18 Central China 01” subordinated bonds, the uses of proceeds agreed in the respective prospectuses are to satisfy the business operational needs of the Company, adjust debt structures of the Company and replenish the liquidity of the Company. The Company used the proceeds in strict compliance with the uses of proceeds agreed in the respective prospectuses. All proceeds were utilized to replenish the liquidity of the Company, with no remaining amount recorded as of the end of the Reporting Period. The use of proceeds set out in the prospectus of “19 Central China 01” is to repay due debts, adjust and optimize debt structures and eliminate financial risks; such proceeds are otherwise used to replenish working capital and satisfy the business operational needs of the Company. After deducting issuance expenses, the Company strictly complied with the use of proceeds agreed in the prospectus. All proceeds were utilized to repay principal and pay interest of due interest-bearing debts, with no remaining amount recorded as of the end of the Reporting Period. The use of proceeds set out in the prospectus of “19 Central China F1” is to repay principal and pay interest of matured debts. The Company strictly complied with the use of proceeds agreed in the prospectus. All proceeds were utilized to repay principal and pay interest of matured debts, with no remaining amount recorded as of the end of the Reporting Period. The use of proceeds set out in the prospectus of “19 Central China C1” is to repay the matured or repurchased debt financing instruments after deducting issuance expenses. The Company strictly complied with the use of proceeds agreed in the prospectus. All proceeds were utilized to repay principal and pay interest of matured debts, with the proceed amount of RMB534 million recorded as of the end of the Reporting Period.

### III. ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR THE PAST TWO YEARS ENDED 31 DECEMBER 2019

Unit: Yuan    Currency: RMB

Major indexes	2019	2018	Changes compared with the corresponding period of last year (%)	Reason for Change
Current ratio	1.55	1.53	1.31	
Quick ratio	1.55	1.53	1.31	
Gearing ratio (%)	69.73	68.32	2.06	
EBITDA to total debts ratio	4.87	5.04	-3.37	Mainly due to the decrease in EBITDA and the decrease in total debt
Interest coverage ratio	1.13	1.10	2.73	Mainly due to the increase in profit for the year
Cash interest coverage ratio	6.86	3.49	N/A	Mainly due to changes in net cash flows from operating activities
EBITDA interest coverage ratio	1.21	1.17	3.42	Mainly due to the decrease in EBITDA
Loan repayment ratio (%)	100	100	0.00	
Interest payment ratio (%)	100	100	0.00	

## **SECTION 9 INFORMATION ON CORPORATE BONDS ISSUED BY THE COMPANY**

### **IV. PAYMENT OF INTERESTS AND REPAYMENT OF PRINCIPAL OF OTHER BONDS AND DEBT FINANCING INSTRUMENTS OF THE COMPANY**

Other bonds and debt financing instruments of the Company mainly include transfer of the rights to income from debts of margin financing and securities lending, beneficiary certificates and capital refinancing of CSF, etc. During the Reporting Period, the repayment of principal and payment of interests of bonds and debt financing instruments were settled in full as scheduled according to contract or relevant agreements and there was no default recorded.

### **V. BANKING FACILITIES OF THE COMPANY DURING THE REPORTING PERIOD**

As of the end of the Reporting Period, the Company obtained total banking facilities amounting to RMB16 billion, in which RMB3.552 billion was utilized and in normal use. During the Reporting Period, various banking borrowings obtained by the Company have no breach or delay in repayment of principal and payment of interests.

### **VI. IMPLEMENTATION OF AGREEMENTS OR COMMITMENTS AS SPECIFIED IN THE PROSPECTUS IN CONNECTION WITH ISSUANCE OF CORPORATE BONDS DURING THE REPORTING PERIOD**

During the Reporting Period, the Company strictly implemented the agreements or commitments as specified in the above-mentioned prospectus in connection with issuance of corporate bonds. There was no breach of the agreements and commitments as specified in the prospectus.

### **VII. MATERIAL EVENTS AND IMPACT THEREOF ON THE OPERATIONS AND SOLVENCY OF THE COMPANY**

During the Reporting Period, the Company has no other material events as prescribed in Article 45 of the Administrative Measures for the Issue and Trading of Corporate Bonds (《公司債券發行與交易管理辦法》).



## SECTION 10 FINANCIAL REPORT

### CONTENT

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## SECTION 11 DOCUMENTS AVAILABLE FOR INSPECTION

The annual report with the signature of the legal representative of the Company.

The financial statements signed by the legal representative, the person in-charge-of financial affairs and head of the accounting department and chopped with the official chop of the Company.

The auditor's report chopped with the official chop of the accounting firm and signed and chopped by the certified public accountant.

Original copies of all documents and announcements disclosed on the website designated by the CSRC during the Reporting Period.

Annual report disclosed in other securities markets.

Other relevant materials.

## SECTION 12 INFORMATION DISCLOSURE OF SECURITIES COMPANY

### I. RELEVANT INFORMATION ABOUT SIGNIFICANT ADMINISTRATIVE LICENSING ISSUES OF THE COMPANY

#### (I) Administrative licensing of branch offices and securities branches during the Reporting Period

Newly established securities branches	Relocation of branch offices	Relocation of securities branches
3	2	8

#### 1. Administrative licensing of establishment of new securities branches during the Reporting Period

No.	Securities branches	Address	Document no. of establishment approval	Date of establishment approval	License obtained on
1	Central China Securities Co., Ltd. Shangcai Caidu Avenue Securities Branch	No. 21, West Section of Caidu Avenue, Chongyang Office, Shangcai County	Yu Zheng Jian Fa [2018] No. 315	19 December 2018	31 May 2019
2	Central China Securities Co., Ltd. Zhecheng Weilai Avenue Securities Branch	Storefront No. 116, West Garden, Jinsha Mansion, Weilai Avenue, Zhecheng County, Shangqiu City, Henan Province	Yu Zheng Jian Fa [2018] No. 315	19 December 2018	31 May 2019
3	Central China Securities Co., Ltd. Baofeng Zhongxing Road Securities Branch	Storefront No. 111, Dongcheng International Residential Community, Zhongxing Road, Chengguan Town, Baofeng County	Yu Zheng Jian Fa [2018] No. 315	19 December 2018	31 May 2019

#### 2. Administrative licensing of relocation of branch offices during the Reporting Period

No.	Name of branch office before relocation	Name of branch office after relocation	New address	Date of license
1	Central China Securities Co., Ltd. Yellow River Golden Triangle Demonstration Area Branch Office	Central China Securities Co., Ltd. Yellow River Golden Triangle Demonstration Area Branch Office	2F, Building 4-6, Jinxiuhuating, Daling Road, Sanmenxia City, Henan Province	21 August 2019
2	Central China Securities Co., Ltd. Beijing Branch Office	Central China Securities Co., Ltd. Beijing Branch Office	Room 1611, 16F, Main Building, North Tower, Yuetan Mansion, No. 2 Yuetan North Street, Xicheng District, Beijing	14 August 2019

## SECTION 12 INFORMATION DISCLOSURE OF SECURITIES COMPANY

### 3. Administrative licensing of relocation of securities branches during the Reporting Period

No.	Name of securities branch before relocation	Name of securities branch after relocation	New address	License obtained on
1	Central China Securities Co., Ltd. Dengfeng Shaolin Avenue Securities Branch	Central China Securities Co., Ltd. Dengfeng Shaolin Avenue Securities Branch	Shaolin Avenue, Dengfeng City, Henan Province (West Hall, 1F of Shaolin International Hotel)	14 October 2019
2	Central China Securities Co., Ltd. Changge Baqi Road Securities Branch	Central China Securities Co., Ltd. Changge Chenshi Road Securities Branch	Intersection of Chenshi Road and Tianping Road, Changge City, Henan Province	19 September 2019
3	Central China Securities Co., Ltd. Guangshan Xinglong Road Securities Branch	Central China Securities Co., Ltd. Guangshan Guanghui Avenue Securities Branch	Fortune Plaza at the Intersection of Guanghui Avenue and Guangming Avenue, Zishui Office, Guangshan County, Xinyang City, Henan Province	2 July 2019
4	Central China Securities Co., Ltd. Yichuan Yugang Avenue Securities Branch	Central China Securities Co., Ltd. Yichuan Renmin East Road Securities Branch	3F, Building 1, Shengfu Jiayuan, North of Renmin East Road, Binhe New District, Yichuan County, Luoyang City, Henan Province	26 August 2019
5	Central China Securities Co., Ltd. Shanghai Chongming Chenjia Town Securities Branch	Central China Securities Co., Ltd. Shanghai Mudanjiang Road Securities Branch	Unit C404, No. 318 Mudanjiang Road, Baoshan District, Shanghai	28 August 2019
6	Central China Securities Co., Ltd. Beijing Jiuxianqiao Road Securities Branch	Central China Securities Co., Ltd. Beijing Jiuxianqiao Road Securities Branch	Room 909, 9F, Building 53, No. 14, Jiuxianqiao Road, Chaoyang District, Beijing	6 June 2019
7	Central China Securities Co., Ltd. Beijing Guang'anmenwai Avenue Securities Branch	Central China Securities Co., Ltd. Beijing Yuetan North Street Securities Branch	Room 1601 and 1602, 16F, Main Building, North Block, Yuetan Mansion, No. 2 Yuetan North Street, Xicheng District, Beijing	14 August 2019
8	Central China Securities Co., Ltd. Xi'an Weiyang Road Securities Branch	Central China Securities Co., Ltd. Xi'an Youyi East Road Securities Branch	3F, Block A, Fanmei Building, No.1 Nanguanzheng Street, Beilin District, Xi'an, Shaanxi Province	20 November 2019

### (II) Administrative licensing of appointment of Directors, Supervisors and senior management

No.	Date	Content
1	29 October 2019	The Company received the Reply on Approval for Qualification of Han Junyang and Li Feng as Senior Management of Securities Company (Yu Zheng Jian Fa [2019] No. 270) (《關於核准韓軍陽、李峰證券公司經理層高級管理人員任職資格的批覆》(豫證監發[2019]270號)) issued by Henan Branch of the CSRC, which approved the appointment of Han Junyang and Li Feng as senior management of the securities company.

## II. RESULT OF THE CLASSIFICATION OF THE COMPANY BY REGULATORY AUTHORITY

The Company was rated "BBB" in the category "B" by the CSRC in the 2019 classification and evaluation of securities companies.



# INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

**To the Shareholders of Central China Securities Co., Ltd.**

*(Incorporated in the People's Republic of China with limited liability)*

## OPINION

What we have audited

The consolidated financial statements of Central China Securities Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 161 to 268, 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.

# INDEPENDENT AUDITOR'S REPORT

## 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 summarised as follows:

- Measurement of expected credit losses for Financial assets at amortized costs, Margin accounts receivable, Financial assets held under resale agreements, Loans and advances to customers and Financial assets at fair value through other comprehensive income (debt instruments)
- Consolidation of structured entities



# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (CONTINUED)

### Key Audit Matter

### How our audit addressed the Key Audit Matter

**Measurement of expected credit losses for Financial assets at amortised costs, Margin accounts receivable, Financial assets held under resale agreements, Loans and advances to customers and Financial assets at fair value through other comprehensive income (debt instruments)**

Refer to Notes 25, 27, 28, 29 and 33 to the consolidated financial statements.

As at 31 December 2019, the Group recognized the following financial assets in its consolidated statement of financial position: Financial assets at amortized cost amounted to RMB817.51 million with a credit loss allowance of RMB141.12 million; Margin accounts receivable amounted to RMB6,131.74 million with a credit loss allowance of RMB71.00 million; Financial assets held under resale agreements amounted to RMB3,427.38 million with a credit loss allowance of RMB403.49 million; Loans and advances to customers amounted to RMB1,191.73 million with a credit loss allowance of RMB103.70 million; Financial assets at fair value through other comprehensive income (debt instruments) amounted to RMB664.70 million with a credit loss allowance of RMB0.2 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 amounted to RMB344.17 million.

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".

We reviewed the ECL modelling methodologies and assessed their reasonableness. We also assessed models implementation on a sample basis to ascertain that the models reflected the methodologies established by Management.

We examined the application of the SICR criteria and credit impairment definition by testing the fair value of the collateral of above mentioned financial assets; and we examined the external credit ratings and negative information related to debt instruments, on a sample basis.

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.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
<b>Measurement of expected credit losses for Financial assets at amortised costs, Margin accounts receivable, Financial assets held under resale agreements, Loans and advances to customers and Financial assets at fair value through other comprehensive income (debt instruments) (continued)</b>	
<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 of forward looking factors.</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> <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>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.</p>	<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> <p>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 the borrowers and guarantors, and the latest collateral valuations, as appropriate.</p> <p>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.</p>



# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (CONTINUED)

### Key Audit Matter

### How our audit addressed the Key Audit Matter

#### Consolidation of structured entities

Refer to Note 24 and Note 52 to the consolidated financial statements.

The Group acted as asset manager for, or invested in, a number of investment funds, asset management schemes, trust schemes and wealth management products 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 RMB799.06 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 are supportable.

## 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.

# INDEPENDENT AUDITOR'S REPORT

## 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, 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.



# INDEPENDENT AUDITOR'S REPORT

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

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

We communicate with 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, 22, April 2020

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019 (All amounts in RMB'000 unless otherwise stated)

		Year ended 31 December	
	Note	2019	2018
<b>Revenue</b>			
— Commission and fee income	5	1,146,159	910,394
— Interest income	6	979,726	1,291,898
— Net investment gains	7	722,269	347,964
		<b>2,848,154</b>	2,550,256
Other operating income	8	627,615	307,661
<b>Total revenue and other income</b>		<b>3,475,769</b>	2,857,917
Commission and fee expenses	9	(185,030)	(175,036)
Interest expenses	10	(951,228)	(1,032,165)
Staff costs	11	(889,463)	(635,930)
Depreciation and amortization	12	(133,515)	(74,005)
Other operating expenses	13	(883,381)	(542,173)
Impairment losses	14	(359,459)	(319,576)
<b>Total expenses</b>		<b>(3,402,076)</b>	(2,778,885)
<b>Operating profit</b>		<b>73,693</b>	79,032
Share of profit of associates		42,425	22,086
<b>Profit before income tax</b>		<b>116,118</b>	101,118
Income tax expense	15	(41,035)	(5,260)
<b>Profit for the year</b>		<b>75,083</b>	95,858
Attributable to:			
Equity holders of the Company		58,223	65,789
Non-controlling interests		16,860	30,069
		<b>75,083</b>	95,858
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB yuan per share)	16		
— Basic and diluted		0.02	0.02

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019 (All amounts in RMB'000 unless otherwise stated)

	Note	Year ended 31 December 2019	2018
<b>Profit for the year</b>		<b>75,083</b>	95,858
<b>Other comprehensive income</b>			
Items that may be reclassified to profit or loss:			
Share of other comprehensive income of associates		<b>2,251</b>	—
Financial assets at fair value through other comprehensive income			
— Changes in fair value		<b>2,939</b>	4,469
— Income tax effect on changes in fair value		<b>(735)</b>	(1,117)
Foreign currency translation differences		<b>7,962</b>	40,847
<b>Other comprehensive income for the period, net of tax</b>		<b>12,417</b>	44,199
<b>Total comprehensive income for the period</b>		<b>87,500</b>	140,057
Total comprehensive income attributable to:			
— Equity holders of the Company		<b>66,559</b>	88,748
— Non-controlling interests		<b>20,941</b>	51,309
		<b>87,500</b>	140,057

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019 (All amounts in RMB'000 unless otherwise stated)

		As at 31 December	
	Note	2019	2018
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	18	228,610	229,038
Right-of-use assets	19	275,295	
Investment properties	20	17,290	18,105
Goodwill	21	22,372	22,042
Intangible assets	22	66,893	158,630
Investment in associates	23	1,104,721	939,294
Financial assets at fair value through other comprehensive income	25	460,695	471,936
Financial assets at fair value through profit or loss	26	1,278,147	1,095,561
Financial assets at amortized costs	27	10,248	5,089
Financial assets held under resale agreements	28	13,210	378,822
Loans and advances to customers	29	93,141	275,904
Deferred income tax assets	30	345,626	251,316
Refundable deposits	31	395,170	282,711
Other non-current assets	32	29,328	25,759
<b>Total non-current assets</b>		<b>4,340,746</b>	<b>4,154,207</b>
<b>Current assets</b>			
Margin accounts receivable	33	6,060,740	4,720,498
Financial assets at fair value through other comprehensive income	25	204,001	253,692
Financial assets at fair value through profit or loss	26	15,948,871	12,836,196
Financial assets at amortized costs	27	666,142	688,805
Financial assets held under resale agreements	28	3,010,679	8,537,746
Loans and advances to customers	29	994,885	967,819
Derivative financial assets	34	11,384	62,986
Clearing settlement funds	35	2,518,050	2,340,353
Cash held for brokerage clients	36	6,581,562	4,654,821
Cash and bank balances	37	2,750,186	2,606,941
Other current assets	38	482,656	321,865
<b>Total</b>		<b>39,229,156</b>	<b>37,991,722</b>
Assets classified as held for sale		—	9,353
<b>Total current assets</b>		<b>39,229,156</b>	<b>38,001,075</b>
<b>Total assets</b>		<b>43,569,902</b>	<b>42,155,282</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to shareholders of the Company</b>			
Share capital	39	3,869,071	3,869,071
Reserves	40	5,713,904	5,843,673
Retained earnings		88,232	238,155
<b>Equity attributable to equity holders of the Company</b>		<b>9,671,207</b>	<b>9,950,899</b>
Non-controlling interests		826,578	1,324,141
<b>Total equity</b>		<b>10,497,785</b>	<b>11,275,040</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019 (All amounts in RMB'000 unless otherwise stated)

		As at 31 December	
	Note	2019	2018
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Financial assets sold under repurchase agreements	41	—	1,502,926
Bonds payable	42	4,623,940	4,097,519
Bank loans	43	13,203	—
Lease liabilities	44	91,446	—
Deferred income tax liabilities	30	8,258	3,461
<b>Total non-current liabilities</b>		<b>4,736,847</b>	5,603,906
<b>Current liabilities</b>			
Financial assets sold under repurchase agreements	41	8,721,089	8,668,864
Bonds payable	42	4,080,866	4,136,652
Bank loans	43	1,568,748	1,874,987
Lease liabilities	44	86,391	—
Financial liabilities at fair value through profit or loss	45	1,114,552	380,028
Tax payable	46	56,986	59,563
Short-term notes payable	47	374,581	537,577
Placements from banks and other financial institutions	48	2,361,160	2,241,402
Derivative financial liabilities	34	84	—
Accounts payable to brokerage clients	49	8,895,067	6,561,060
Other current liabilities	50	1,075,746	816,203
<b>Total current liabilities</b>		<b>28,335,270</b>	25,276,336
<b>Total liabilities</b>		<b>33,072,117</b>	30,880,242
<b>Total equity and liabilities</b>		<b>43,569,902</b>	42,155,282

The accompanying notes form an integral part of these consolidated financial statements.

**JIAN Mingjun**

Chairman of the Board and Executive Director

**CHANG Junsheng**

Executive Director and President

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019 (All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company										Total equity
	Share capital	Capital reserve	Surplus reserve	General risk reserve	Transaction risk reserve	Revaluation reserve	Other reserves	Foreign currency translation reserve	Retained earnings	Non-controlling interests	
<b>As at 31 December 2018</b>	3,869,071	3,735,376	759,912	692,069	606,803	4,048	20,490	24,975	238,155	1,324,141	11,275,040
Net profit for the year	-	-	-	-	-	-	-	-	58,223	16,860	75,083
Other comprehensive income for the year	-	-	-	-	-	4,455	-	3,881	-	4,081	12,417
<b>Total comprehensive income for the year</b>	-	-	-	-	-	4,455	-	3,881	58,223	20,941	87,500
Appropriation to reserve	-	-	48,172	-	-	-	-	-	(48,172)	-	-
Appropriation to risk reserve	-	-	-	51,054	32,115	-	-	-	(83,169)	-	-
Cash dividend recognized as distribution	-	-	-	-	-	-	-	-	(77,381)	(33,928)	(111,309)
Acquisition of non-controlling interests (Note 40 (5))	-	-	-	-	-	-	(268,631)	-	-	(484,576)	(753,207)
Disposal of associates	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	(815)	-	-	576	-	(239)
<b>Balance at 31 December 2019</b>	3,869,071	3,735,376	808,084	743,123	638,918	7,688	(248,141)	28,856	88,232	826,578	10,497,785

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019 (All amounts in RMB'000 unless otherwise stated)

	Attributable to shareholders of the Company										Total equity
	Share capital	Capital reserve	Surplus reserve	General reserve	Transaction risk reserve	Revaluation reserve	Other reserves	Foreign currency translation reserve	Retained earnings	Non-controlling interests	
<b>As at 31 December 2017</b>	3,923,735	3,814,111	759,323	667,203	606,410	(26,801)	20,501	5,352	400,018	1,282,267	11,452,119
Change in accounting policy	–	–	589	(360)	393	7,390	–	16	(8,210)	(587)	(769)
Reclassification	–	–	–	–	–	20,107	–	–	(20,107)	–	–
<b>As at 1 January 2018</b>	3,923,735	3,814,111	759,912	666,843	606,803	696	20,501	5,368	371,071	1,281,680	11,451,350
Net profit for the year	–	–	–	–	–	–	–	–	65,789	30,069	95,858
Other comprehensive income for the year	–	–	–	–	–	3,352	–	19,607	–	21,240	44,199
<b>Total comprehensive income for the year</b>	–	–	–	–	–	3,352	–	19,607	65,789	51,309	140,057
Capital injected by equity holders	–	–	–	–	–	–	–	–	–	18,670	18,670
Stock repurchase (Note 1)	(54,664)	(78,735)	–	–	–	–	–	–	–	–	(133,399)
Appropriation to general reserve	–	–	–	25,226	–	–	–	–	(25,226)	–	–
Dividends distributed by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(27,518)	(27,518)
Cash dividend recognized as distribution	–	–	–	–	–	–	–	–	(174,109)	–	(174,109)
Others	–	–	–	–	–	–	(11)	–	–	–	(11)
<b>Balance at 31 December 2018</b>	3,869,071	3,735,376	759,912	692,069	606,803	4,048	20,490	24,975	238,155	1,324,141	11,275,040

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019 (All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2019	2018
<b>Cash flows from operating activities</b>		
<b>Profit before income tax</b>	<b>116,118</b>	101,118
Adjustments for:		
Depreciation and amortization	133,515	74,005
Impairment losses	359,459	319,576
Net losses on disposal of property and equipment	(22,496)	28
Foreign exchange losses	2,411	2,532
Net gains from disposal of associates	(54,249)	(2,076)
Share of profit of associates	(42,425)	(22,086)
Interest expenses of short-term notes	23,262	31,128
Interest expenses of bonds	390,377	439,140
Interest expenses of bank loans	92,392	75,687
Interest expenses of lease liabilities	8,471	
Net losses from disposal of financial assets at fair value through other comprehensive income	(11,813)	–
Changes in fair value of financial instruments at fair value through profit or loss	146,005	111,328
	<b>1,141,027</b>	1,130,380
<b>Net decrease/(increase) in operating assets:</b>		
Net (increase)/decrease in margin accounts receivable	(1,284,847)	1,924,036
Net increase in financial assets at fair value through profit or loss	(3,143,821)	(4,069,257)
Net decrease/(increase) in derivative financial instruments	2,275	(3,048)
Net decrease in financial assets held under resale agreements	5,680,048	123,241
Net increase in refundable deposits	(112,459)	(21,885)
Net (increase)/decrease in cash held for brokerage clients	(1,926,740)	1,190,195
Net increase in clearing settlement funds	(82,628)	(121,763)
Net decrease/(increase) in loans and advances to customers	115,550	(14,204)
Net decrease in due from other financial institutions	–	40,000
Net increase in other assets	(138,580)	(189,326)
<b>Net increase/(decrease) in operating liabilities:</b>		
Net (decrease)/increase in financial assets sold under repurchase agreements	(1,439,853)	2,871,403
Net increase in due to other financial institutions	120,000	1,226,402
Net increase/(decrease) in accounts payable to brokerage clients	2,334,007	(965,443)
Net increase in financial liabilities at fair value through profit or loss	829,973	16,410
Net decrease in other liabilities	(474,428)	(341,384)
Income tax paid	(137,485)	(135,807)
<b>Net cash inflow from operating activities</b>	<b>1,482,039</b>	2,659,950

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019 (All amounts in RMB'000 unless otherwise stated)

	Year ended 31 December	
	2019	2018
<b>Cash flows from investing activities</b>		
Proceeds from disposal of property and equipment, intangible assets and other long-term assets	41,811	1,305
Purchase of property and equipment, intangible assets and other long-term assets	(105,168)	(48,776)
Net cash flow from purchase and disposal of financial assets at amortized cost	(72,330)	(140,401)
Net cash flows from investment in associates	(156,284)	(492,159)
Net cash flow from purchase and disposal of financial assets at fair value through other comprehensive income	81,134	(410,992)
Other cash flows from investing activities	124,382	76,219
<b>Net cash outflow from investing activities</b>	<b>(86,455)</b>	<b>(1,014,804)</b>
<b>Cash flows from financing activities</b>		
Cash received from issuance of short-term notes	4,023,900	2,760,523
Cash received from issuance of bonds	4,501,354	1,500,000
Cash received from bank loans	3,740,032	2,556,863
Cash paid for redemption of short-term notes	(4,187,029)	(3,589,908)
Cash paid for redemption of bonds	(4,002,140)	(1,500,000)
Cash repayments of bank loans	(4,035,869)	(2,865,316)
Repurchase of stocks	–	(133,398)
Cash paid for non-controlling interests repurchases	(534,698)	–
Payments of interest on debts	(540,147)	(505,185)
Dividends paid	(111,308)	(201,627)
Capital injection of subsidiaries from non-controlling shareholders	–	18,670
Other cash flows from financing activities	(50,208)	–
<b>Net cash outflow from financing activities</b>	<b>(1,196,113)</b>	<b>(1,959,378)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>200,728</b>	<b>(314,232)</b>
Cash and cash equivalents at the beginning of the year	2,682,779	2,999,543
Effect of exchange rate changes on cash and cash equivalents	(2,411)	(2,532)
<b>Cash and cash equivalents at the end of the year (Note 51)</b>	<b>2,879,839</b>	<b>2,682,779</b>

The accompanying notes form an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 1 GENERAL INFORMATION

Central China Securities Co., Ltd. (the "Company") is a joint-stock financial institution incorporated in Henan Province, the People's Republic of China (the "PRC"). The Company was incorporated on 8 November 2002, pursuant to the approvals by China Securities Regulatory Commission (the "CSRC") and the People's Government of Henan Province. The Company completed the relevant registration with Henan Provincial Administration of Industry and Commerce (the "HAIC") on 8 November 2002. The CSRC and the HAIC have granted the securities institution license No. Z30574000 and business licence No. 91410000744078476K to the Company, respectively. The registered address of the Company is No. 10 Shangwu Waihuan Road, Zhengdong New District, Zhengzhou, Henan Province. As at 31 December 2019, the registered capital of the Company is 3,869.07 million.

The principal business of the Company and its subsidiaries (the "Group") include brokerage business (securities and futures brokerages, wealth management, and distribution of financial products), investment banking business (equity financing, financial advisory and bond financing), investment management business (asset management, direct investment and funds management), proprietary trading business, and other business at headquarters (stock pledged repurchase and securities repurchase transactions, the new OTC market making business, micro-credit, innovation business, equity exchange centre, overseas business and research business).

The Company completed its initial public offering of overseas-listed foreign shares ("H shares") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 25 June 2014. Under this offering, the Company issued a total of 598,100,000 shares with a nominal value of RMB1 per share. After this public offering, total share capital of the Company increased to RMB2,631.62 million.

The Company completed its placement of H shares on Hong Kong Stock Exchange on 3 August 2015. The Company issued a total of 592,119,000 shares with a nominal value of RMB1 per share. After this placement, total share capital of the Company was increased to RMB3,223.74 million.

The Company completed its initial public offering of domestic-listed shares ("A shares") on the Shanghai Stock Exchange on 3 January 2017. The Company issued a total of 700,000,000 shares with a nominal value of RMB1 per share, after this issuance, total share capital of the Company was increased to RMB3,923.74 million. The Company repurchased 54.66 million ordinary shares of H share from the secondary market in May 2018, after this repurchase, total share capital of the Company was decreased to RMB3,869.07 million.

These consolidated financial statements were authorised for issue by the Board of Directors on 22 April 2020.

## 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.

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 2 BASIS OF PREPARATION (Continued)

#### 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.

##### (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 adoption of IFRS 16 are described in Note 3.1.24.

##### (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 amortised 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 amortised 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 FINANCIAL STATEMENTS

(All amounts in RMB'000 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.

### 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

			Effective for annual periods beginning on or after
(1)	Amendments to IAS 1 and IAS 8	The Definition of Material	1 January 2020
(2)	Amendments to IFRS 3	The Definition of A Business	1 January 2020
(3)	IFRS 17	Insurance Contracts	1 January 2022
(4)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

#### (1) 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."



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 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)

#### (1) Amendments to IAS 1 and IAS 8: The Definition of Material (Continued)

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.

#### (2) 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.

#### (3) 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.

#### (4) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### 3.1 Summary of significant accounting policies

#### 3.1.1 Accounting year

The Group's accounting year starts on 1 January and ends on 31 December.

#### 3.1.2 Functional and presentation currency

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

#### 3.1.3 Consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

Management applies its judgment to determine whether the Group is acting as agent or principal in relation to the structured entities ("SEs") in which the Group acts as an asset manager. In assessing whether the Group is acting as agent or principal, the Group considers factors such as the scope of the asset manager's decision-making authority over the investee, the rights held by other parties, the remuneration to which it is entitled in accordance with the remuneration agreement(s), and exposure to variability of returns by other arrangements (such as direct investments).

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Group and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Group.

Inter-company transactions, balances and unrealised profits on transactions between group companies are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Group are recognised as non-controlling interests and presented separately in the consolidated financial statements within equity and net profits respectively.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.4 Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

##### 3.1.5 Investment in associates

An associate is an entity over which the Group has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture. 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. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss and OCI of the investee after the date of acquisition.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, is recognised immediately in profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments in associates' in the consolidated statement of comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.5 Associates (Continued)

Gains or losses on dilution of equity interest in associates are recognised in the consolidated statement of comprehensive income.

#### 3.1.6 Separate financial statements

In the Company's statement of financial position, investments in subsidiaries and consolidated structured entities are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The results of subsidiaries and consolidated structured entities are accounted for by the Company on the basis of dividend received and receivable.

The Company assesses at each financial reporting date whether there is objective evidence that investment in subsidiaries or consolidated structured entities is impaired. An impairment loss is recognised for the amount by which the investment in subsidiaries' or consolidated structured entities' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' or consolidated structured entities' fair value less costs to sell and value in use.

#### 3.1.7 Foreign currency translation

Monetary items denominated in foreign currency are translated into RMB with the closing rate as at the reporting date and translation differences are recognised in profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition.

Foreign currency financial statements of overseas subsidiaries are translated into RMB for the preparation of consolidated financial statements. At the end of each reporting period, the assets and liabilities in the financial statements denominated in foreign currencies are translated into RMB at the spot exchange rates ruling at that date. The income and expenses of foreign operations are translated into RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from foreign operations are recognised as "Foreign currency translation reserve" in the shareholders' equity in the consolidated statement of financial position. The effect of exchange rate changes on cash is presented separately in the consolidated statement of cash flows.

#### 3.1.8 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### 3.1.9 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.9 Financial instruments (Continued)

###### (a) *Initial recognition, classification and measurement of financial instruments* (Continued)

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.

###### **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) Amortised cost asset; (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 test"). 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.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows represent 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.9 Financial instruments (Continued)

##### (a) *Initial recognition, classification and measurement of financial instruments* (Continued)

###### **Financial assets (Continued)**

###### ***Debt Instruments (Continued)***

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- (i) Amortised 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 amortised 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 amortised cost or FVOCI are measured at FVPL.

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 and subsequently measured at amortised 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.

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 the 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 portfolio is provided internally on that basis to the entity's key management personnel.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.9 Financial instruments (Continued)

###### **(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.

###### **(c) Subsequent measurement of financial instruments**

Subsequent measurement of financial instruments depends on the categories:

###### ***Amortised cost***

The amortised 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 amortisation 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 amortised cost before any impairment allowance) or to the amortised 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 amortised 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.

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 amortised 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 amortised 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.9 Financial instruments (Continued)

##### (c) *Subsequent measurement of financial instruments*

###### *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 amortised cost which are recognised 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.

###### *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 statement of profit or loss.

###### *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 FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.9 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:

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 amortised 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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.9 Financial instruments (Continued)

##### (e) *Impairment of financial assets* (Continued)

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.

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 some 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 if 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.

##### (f) *Derivative financial instruments*

Derivative financial instruments are initially recognized at fair value on the date the 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.9 Financial instruments (Continued)

###### **(g) Derecognition of Financial Instruments**

A financial asset is derecognized, when one of the following criteria is satisfied: (i) the 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 reclassified 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.

###### **(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.

##### 3.1.10 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.

##### 3.1.11 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.11 Margin financing and securities lending services (Continued)

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.

#### 3.1.12 Asset management business

The Group's asset management business comprises targeted asset management, specified asset management and collective 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.

When the Group is considered as an agent for targeted asset management business and specified asset management business, the related assets are not recognised. The fees received are recognised as commission and fee income.

For collective asset management schemes where the Group manages with power and/or holds direct investments, the Group further assesses whether its exposure to the variable returns from the activities of the collective asset management schemes is of such magnitude and variability that indicates the Group is a principal. The collective asset management schemes shall be consolidated when the Group is concluded as acting in the role of principal. When the Group acts in the role of an agent of other investors, it recognises the related commission and fee income from the collective asset management schemes in its statement of comprehensive income, and its direct investments as available-for-sale financial assets.

#### 3.1.13 Physical commodities

The Group's physical commodities mainly includes tradable agricultural products and industrial products. These are initially measured at cost. Cost is determined using the first-in, first-out (FIFO) method, including purchase cost and other variable purchase expenses.

At the end of each reporting period, physical commodities are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Any excess of the cost over the net realisable value of each inventories is recognised as an impairment provision for diminution in the value of physically commodities in the statement of financial position and impairment charge within gains/(losses) on physical commodities trading.

If, in a subsequent period, the net realisable value of the impaired physical commodities increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.14 Property and equipment

The Group's property and equipment include buildings, motor vehicles, electronics and other equipment that are used for operation purpose and have useful lives of more than one year.

Property and equipment shall be recognised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Subsequent costs are included in an asset's carrying amount, 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. The carrying amount of the replaced part is de-recognised. All other subsequent expenditures are recognised in profit or loss during the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For the assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of property and equipment are as follows:

Type of assets	Estimated useful lives	Estimated residual values	Annual depreciation rates
Buildings	20~40 years	5%	2.38%~4.75%
Motor vehicles	8 years	5%	11.88%
Electronics and other equipment	5~15 years	5%	6.33%~19.00%

The estimated useful life, the estimated residual value and the depreciation method applied to an asset are reviewed, and adjusted as appropriate by the Group at the end of each reporting period.

Property and equipment are de-recognised on disposal or when no future economic benefits are expected from their use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of property and equipment net of their carrying amounts and related taxes and expenses is recognised in the statement of comprehensive income. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 3.1.19).

#### 3.1.15 Investment properties

Property held for rental purpose that is not occupied by the Group is classified as investment property. Investment properties comprise of buildings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.15 Investment properties (Continued)

Investment property is initially measured at its cost, which includes expenditure that is directly attributable to the acquisition of the assets. Subsequent to initial recognition, the Group adopts the cost model to account for its investment properties. The estimated useful lives, depreciation rate and estimated residual value rate of investment properties are as follows:

Type of assets	Estimated useful lives	Estimated residual values	Annual depreciation rates
Buildings	20~40 years	5%	2.38%~4.75%

Investment properties are reviewed for impairment at the statement of financial position date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

#### 3.1.16 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire at the date of acquisition.

#### 3.1.17 Intangible assets

Intangible assets mainly include computer software and trading rights, which are measured at cost and amortised on a straight-line basis over their estimated useful lives. For an intangible asset with a definite useful life, review of its useful life and amortisation method is performed at each year end, with adjustment made as appropriate.

Where the carrying amount of an intangible asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 3.1.19).

#### 3.1.18 Long-term deferred expenses

Long-term deferred expenses include leasehold improvements and expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term deferred expenses are amortised on the straight-line basis over the expected useful economic lives and are presented at actual expenditure net of accumulated amortisation.

#### 3.1.19 Impairment of long-term non-financial assets

Property and equipment, intangible assets with definite useful lives are tested for impairment if there is any indication that the assets may be impaired at the statement of financial position date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, an allowance for impairment and an impairment loss are recognised in accordance with the difference. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.19 Impairment of long-term non-financial assets (Continued)

Assets that have an indefinite useful life – for example, goodwill or intangible assets with indefinite useful life that are not subject to amortisation are tested at least annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

##### 3.1.20 Employee benefits

Employee benefits mainly include salaries, bonus, allowances and subsidies, staff welfare benefits, social security contributions and housing funds, labor union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees. Salary and welfare are expensed in operating expenses in the accounting period of services rendered.

In accordance with the relevant laws and regulations, domestic employees of the Group participate in various social security schemes such as basic pension insurance, medical insurance, housing fund schemes and other social security schemes, which are all defined contribution plans. Insurance expenses and pensions are calculated based on certain percentage of gross salary and are paid to the Labor and Social Security Bureau, and insurance companies, etc. The contribution ratios are defined by stipulating regulations or commercial contracts, which should be no higher than statutory upper ceilings. The Group has no further payment obligations once the contributions have been paid. Contributions are recognised in the statement of comprehensive income for the current period.

The Group's post-employment scheme is defined contribution pension plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

##### 3.1.21 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.21 Revenue (Continued)

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.

- (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 and futures brokerage services is recognised on the date of the transaction;

Revenue from asset management services is recognised when management services are provided in accordance with the asset management contracts.

Revenues from other businesses, including investment banking advisory and sponsoring services are recognized when the contractual obligations are fulfilled.

The interest income of debt investments at amortized costs and FVOCI, is measured by carrying amount and effective interest rate. However, the interest income of credit impaired financial assets are measured by amortized cost and effective interest rate. The net gains of holding period from financial investments at FVTPL is measured as "Net investment gains".

Income from physical commodity trading is realized on delivering the physical commodities to customers, which generally coincides with the time when physical commodities are delivered to the customers and the ownership has been transferred.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

##### 3.1.23 Deferred income tax assets and liabilities

Deferred income tax assets and liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred income tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. As at the statement of financial position date, deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred income tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred income tax related to fair value re-measurement of available-for-sale financial assets is charged or credited directly to equity and is subsequently transferred to profit or loss when the financial assets are de-recognised.

Deferred income tax assets and liabilities are offset when:

- (a) the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority;
- (b) there is a legally enforceable right to offset current tax assets against current tax liabilities.

##### 3.1.24 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:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.24 Leases (Continued)

##### (a) *Initial measurement of the right-of-use asset and lease liability* (Continued)

###### *Initial measurement of the right-of-use asset (Continued)*

- (i) the amount of the initial measurement of the lease liability;
- (ii) any lease payments made at or before the commencement date, less any lease incentives received;
- (iii) any initial direct costs incurred by the lessee; and
- (iv) 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.

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.

##### (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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.1 Summary of significant accounting policies (Continued)

##### 3.1.24 Leases (Continued)

##### **(b) Subsequent measurement of the right-of-use asset and lease liability** (Continued)

###### ***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.

##### **(d) Specific accounting policies applied in the comparative period**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

###### **(i) The Group as a lessor**

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group's property and equipment. Rental income from operating leases is recognized as "Net other operating gains" in the consolidated statement of comprehensive income on a straight-line basis over the term of the related lease.

###### **(ii) The Group as lessee**

When the Group is a lessee in an operating lease, operating lease payments are recognized as an expense and charged to operating expenses in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as expenses in the periods in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are considered in determining the amount to be recognized over the lease term.

When the Group is a lessee under finance leases, the leased assets are capitalized initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities. Finance charges are charged over the term of the lease using the effective interest method and recognized in the consolidated statement of comprehensive income. The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned.

As at 31 December 2018, the Group has no property and equipment held under finance leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.1 Summary of significant accounting policies (Continued)

#### 3.1.25 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

#### 3.1.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

#### 3.1.27 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographical location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

The purpose of segment reporting is to assist the chief operating decision maker in resource allocation and performance assessment of each segment. The same accounting policies as adopted in preparation of the Group's consolidated financial statements are used for segment reporting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.2 The impact of changes in significant accounting policies

The Group has adopted IFRS 16 from 1 January 2019, but 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 recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised 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. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.27% for leasing period between one to five years and 5.56% for leases longer than five years.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases. The right-of-use assets and lease liabilities were not recognized.

The Group anticipates that the adoption of the expedients will not have a significant impact on the Group’s consolidated financial statements.

	1 January 2019
Operating lease commitments disclosed as at 31 December 2018	179,119
Less: short-term leases recognised on a straight-line basis as expense	(8,427)
Subtotal	170,692
Less: taxes	(9,589)
Total	161,103
<b>As at 1 January 2019, the date of initial application, lease liabilities discounted using the lessee’s incremental borrowing rate</b>	<b>144,783</b>
Of which are:	
Current lease liabilities	51,615
Non-current lease liabilities	93,168

Right-of use assets were measured at the amount equal to the lease liability, 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 FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.2 The impact of changes in significant accounting policies (Continued)

The recognized right-of-use assets relate to the following types of assets:

	1 January 2019
Buildings	158,369
Land use rights <sup>(1)</sup>	92,954
Total	251,323

(1) The Group reclassified land use rights as use right assets in accordance with IFRS 16.

### 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 makes the following judgements and main assumptions on major future uncertainties, which may lead to adjustments in the book value of assets and liabilities during the accounting period.

#### (1) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for debt instruments of financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior of the client (such as the likelihood of customers default 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;
- Determine criteria for significant increase in credit risk;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL.

#### *Inputs, assumptions and estimation techniques*

For debt securities investments, ECL are the discounted product of the Probability of Default ("PD"), Exposure at Default ("EAD"), and Loss Given Default ("LGD").

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 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 57.2.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### 3.3 Significant accounting judgements and estimates (Continued)

##### (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.

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 repayments 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 cash flow discount 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.

##### (5) Consolidation of structured entities

Management needs to make important judgements on whether to control and merge structured entities, confirming whether it will affect accounting methods 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### 3.3 Significant accounting judgements and estimates (Continued)

#### (5) Consolidation of structured entities (Continued)

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.

## 4 TAXATION

According to relevant tax laws, the most significant categories of taxes to which the Group is currently subjected are as follows:

### (1) Income tax

The PRC Enterprise income tax rate applicable to the Company and its subsidiaries in Mainland China is 25%.

The income tax rate for subsidiaries established and operate in Hong Kong is 16.5%.

### (2) Value added tax

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.

The Group's 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.

### (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 FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 5 COMMISSION AND FEE INCOME

	Year ended 31 December	
	2019	2018
Securities brokerage	613,891	486,527
Underwriting and sponsorship	143,735	47,762
Financial advisory	109,789	79,571
Investment advisory	78,741	52,366
Futures brokerage	81,473	110,237
Asset management and fund management	82,983	104,218
Listing service	35,547	29,713
Total	1,146,159	910,394

## 6 INTEREST INCOME

	Year ended 31 December	
	2019	2018
Margin financing and securities lending	389,238	418,923
Bank deposits	211,953	176,974
Financial assets held under resale agreements	193,981	509,854
Loans and advances to customers	100,539	126,022
Financial assets at fair value through other comprehensive income	45,067	14,744
Financial assets at amortized costs	38,948	45,358
Others	—	23
Total	979,726	1,291,898

## 7 NET INVESTMENT GAINS

	Year ended 31 December	
	2019	2018
Dividends and interest income from financial assets at fair value through profit or loss	676,473	569,389
Net gain/(losses) from financial assets at fair value through profit or loss	25,468	(210,040)
Net (losses)/gains from financial liabilities at fair value through profit or loss	(8,395)	124
Net losses from derivative financial instruments	(36,565)	(6,893)
Net losses from financial assets at fair value through other comprehensive income	11,813	—
Net gains from disposal of associates	54,249	2,076
Others	(774)	(6,692)
Total	722,269	347,964

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 8 OTHER OPERATING INCOME

	Year ended 31 December	
	2019	2018
Bulk commodity trading income	580,703	235,218
Government grants	17,716	26,704
Rental income	3,051	3,270
Others	26,145	42,469
Total	627,615	307,661

## 9 COMMISSION AND FEE EXPENSES

	Year ended 31 December	
	2019	2018
Securities brokerage	142,100	110,912
Futures brokerage	35,475	52,324
Underwriting and sponsorship	5,620	6,201
Financial and investment advisory	1,653	4,573
Asset and fund management	182	1,026
Total	185,030	175,036

## 10 INTEREST EXPENSES

	Year ended 31 December	
	2019	2018
Corporate bonds	390,377	439,140
Financial assets sold under repurchase agreements	316,814	367,944
Bank loans	92,392	75,687
Due to other financial institutions	69,320	86,269
Accounts payable to brokerage clients	30,924	26,823
Short-term notes payable	23,262	31,128
Securities lending	19,668	5,169
Lease liabilities and others	8,471	5
Total	951,228	1,032,165

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 11 STAFF COSTS (INCLUDING DIRECTORS' AND SUPERVISORS' REMUNERATION)

	Year ended 31 December	
	2019	2018
Salaries and bonus	675,588	418,128
Pension	87,684	104,304
Other social security benefits	80,761	81,585
Labor union funds and employee education funds	28,199	16,433
Other welfare	17,231	15,480
Total	889,463	635,930

### 11.1 Emoluments of the directors and supervisor

Emoluments of the directors and supervisors of the Company paid by the Group (after tax) for the years ended 31 December 2019 and 2018 are set out below:

Name	Year ended 31 December 2019				
	Remuneration	Salaries, allowances and other welfares	Pension	Discretionary bonus	Total
<b>Executive Directors</b>					
Jian Mingjun (Chairman)	–	494	37	242	773
Chang Junsheng (President)	–	819	37	306	1,162
<b>Non-executive Directors</b>					
Yuan Zhiwei	227	–	–	–	227
Ning Jincheng	210	–	–	–	210
Yu Xugang	210	–	–	–	210
Zhang Dongming	210	–	–	–	210
Lu ZhengXin	35	–	–	–	35
Wang LiXin	31	–	–	–	31
Zhang Xiaoqi	31	–	–	–	31
<b>Supervisors</b>					
Lu Zhili	–	393	37	252	682
Xiao Yichen	–	288	18	3	309
Zhang Lu	–	444	30	82	556
Zhang Huamin <sup>(2)</sup>	–	314	27	109	450
Xiang Siying	101	–	–	–	101
Xia Xiaoning	113	–	–	–	113
Total	1,168	2,752	186	994	5,100

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 11 STAFF COSTS (INCLUDING DIRECTORS' AND SUPERVISORS' REMUNERATION)

(Continued)

### 11.1 Emoluments of the directors and supervisor (Continued)

	Year ended 31 December 2018				
Name	Remuneration	Salaries, allowances and other welfares	Pension	Discretionary bonus	Total
<b>Executive Directors</b>					
Jian Mingjun (Chairman)	–	456	33	–	489
Chang Jun Sheng (President)	–	637	25	–	662
<b>Non-executive Directors</b>					
Yuan Zhiwei	210	–	–	–	210
Yuan Dejun <sup>(1)</sup>	175	–	–	–	175
Ning Jincheng	210	–	–	–	210
Yu Xugang	210	–	–	–	210
Zhang DongMing	35	–	–	–	35
Lu ZhengXin	5	–	–	–	5
Wang LiXin	31	–	–	–	31
Zhang Xiaoqi	31	–	–	–	31
<b>Supervisors</b>					
Lu Zhili	–	423	23	–	446
Xiao YiChen	–	221	7	75	303
Zhang Lu	–	280	13	216	509
Han JunYang <sup>(3)</sup>	–	240	13	227	480
Xiang Siying	101	–	–	–	101
Xia Xiaoning	101	–	–	–	101
Total	1,109	2,257	114	518	3,998

(1) Yuan Dejun ceased to be a non-executive director since 16 October 2018.

(2) Zhang Huamin has been an employee representative supervisor since 3 June 2019.

(3) Han Junyang has no longer been an employee representative supervisor since 2 June 2019.

The total compensation package for these directors for the year ended 31 December 2019 has not yet been finalised. The amount of the compensation not provided for is not expected to have a significant impact on the Group's financial statements for the year ended 31 December 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 11 STAFF COSTS (INCLUDING DIRECTORS' AND SUPERVISORS' REMUNERATION)

(Continued)

### 11.2 The five highest paid individuals

For the year ended 31 December 2019, the five highest paid individuals do not include any directors and supervisors (for the year ended 31 December 2018: no directors or supervisors).

Details of the remuneration (after tax) for the rest of the five highest paid individuals for the relevant years are as follows:

	Year ended 31 December	
	2019	2018
Salaries, allowances and other welfares	2,932	1,474
Pension	165	85
Discretionary bonus	9,521	14,260
Total	12,618	15,819

The remuneration of the senior management and individuals by range (after tax):

	Year ended 31 December	
	2019	2018
RMB1,000,001 to RMB1,500,000	2	4
RMB1,500,001 to RMB2,000,000	1	—
RMB2,000,001 to RMB2,500,000	1	—
RMB2,500,001 to RMB3,000,000	—	—
RMB3,000,001 to RMB3,500,000	—	—
RMB3,500,001 to RMB4,000,000	—	—
RMB4,000,001 to RMB4,500,000	—	—
RMB4,500,001 to RMB5,000,000	—	—
RMB5,000,001 to RMB5,500,000	—	—
RMB5,500,001 to RMB6,000,000	1	—
RMB6,000,001 to RMB6,500,000	—	—
Greater than RMB8,500,000	—	1
Total	5	5

The Group has not provided any compensation to any of these directors, supervisors and the five highest paid individuals as incentive for them to join the Group, or for leaving the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 12 DEPRECIATION AND AMORTISATION

	Year ended 31 December	
	2019	2018
Depreciation of right-of-use assets	59,931	
Depreciation of property and equipment	34,673	34,371
Amortisation of intangible assets	24,930	26,509
Amortisation of leasehold improvement and long-term deferred expenses	13,166	12,240
Depreciation of investment properties	815	885
Total	133,515	74,005

## 13 OTHER OPERATING EXPENSES

	Year ended 31 December	
	2019	2018
Cost of bulk commodity trading	579,988	232,218
Electronic device operating costs	33,181	29,189
Rental expenses	30,067	68,468
Consulting fees	27,871	21,606
Travel expenses	20,247	16,581
Communication costs	17,267	17,073
Tax and surcharges	14,421	13,394
Business entertainment expenses	13,820	12,843
Incidental fees	11,555	10,218
Property management fees	10,512	9,083
Securities investors protection fund	9,152	26,885
Exchange annual fees	8,525	7,246
Utilities	7,711	8,730
Advertising expenses	7,159	3,776
Publicity expense	5,458	5,215
Auditor's remuneration	7,623	6,799
– Audit services	7,623	6,703
– Non-audit services	–	96
Compensation	–	1,210
Others	78,824	51,639
Total	883,381	542,173

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 14 IMPAIRMENT LOSSES

	Year ended 31 December	
	2019	2018
Financial assets held under resale agreements	177,420	209,817
Financial assets at amortized costs	121,926	15,467
Loans and advances to customers	39,402	42,348
Margin accounts receivable	5,408	14,518
Financial assets at fair value through other comprehensive income	17	131
Investment in associates	–	28,714
Others	15,286	8,581
Total	359,459	319,576

## 15 INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
Current		
– Mainland China	133,460	82,777
– Hong Kong	(2,663)	15,956
Total	130,797	98,733
Deferred	(89,762)	(93,475)
Total	41,035	5,260

The PRC income tax has been provided at the statutory rate of 25%, in accordance with the relevant tax laws in Mainland China during the year. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries/regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate 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	116,118	101,118
Tax calculated at applicable statutory tax rate of 25%	29,029	25,280
Effects of different applicable rates of tax prevailing in various regions	29,272	814
Income not subject to tax <sup>(1)</sup>	(38,861)	(26,597)
Items not deductible for tax purposes <sup>(2)</sup>	5,084	4,332
Others	16,511	1,431
Total	41,035	5,260

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 15 INCOME TAX EXPENSE (Continued)

- (1) The income not subject to tax mainly represents interest income arising from PRC treasury bonds and equity investment dividends, which is income tax free in accordance with the PRC tax regulations.
- (2) The items that are not deductible for tax purposes mainly represent marketing and entertainment expenses in excess of the relevant deductible thresholds under the relevant PRC tax regulations.

## 16 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the period attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December	
	2019	2018
Profit attributable to shareholders of the Company	58,223	65,789
Weighted average number of ordinary shares in issue	3,869,071	3,916,400
Basic and diluted earnings per share (in RMB yuan)	0.02	0.02

For year ended 31 December 2019 and 2018, there were no potential dilutive ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

## 17 DIVIDENDS

Under the Company Law of the PRC and the Company's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (i) Making up cumulative losses from prior years, if any;
- (ii) 10% of the Company's profit is appropriated to the non-distributable statutory surplus reserve in accordance with the PRC Company Law;
- (iii) 5% of the Company's profit is appropriated to the discretionary surplus reserve and 11% of the Company's profit is appropriated to the non-distributable general risk reserve in accordance with the 14th meeting of the 4th Board of Directors of the company at 2013 and after the deliberation and approval of the 2013 Extraordinary General Meeting of Shareholders, during the company's bonds existence period;
- (iv) 10% of the Company's profit is appropriated to the non-distributable transaction risk reserve in accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No.320) issued on 18 December 2007 and in compliance with the Securities Law for the purpose of covering potential securities trading losses;
- (v) Appropriations to the discretionary reserve with approval from the General Meetings of Shareholders; These funds form part of the shareholders equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 17 DIVIDENDS (Continued)

The 2018 interim profit distribution was approved in the 2018 second extraordinary general shareholders' meeting held on 16 October 2018 in Zhengzhou. Total dividend of RMB38,690,707 was declared and paid out as of 31 December 2018 (RMB0.01 per share, tax inclusive).

The 2019 interim profit distribution was approved in the 2019 first extraordinary general shareholders' meeting held on 07 November 2019 in Zhengzhou. Total dividend of RMB77,381,414.00 was declared and paid out as of 31 December 2019 (RMB0.02 per share, tax inclusive).

In accordance with the relevant regulations, upon the occurrence of certain events, the net profit after tax of the Group for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with PRC Accounting Standards and (ii) the retained profit determined in accordance with IFRSs.

## 18 PROPERTY AND EQUIPMENT

	Buildings	Motor vehicles	Electronics and other equipment	Construction in progress	Total
<b>Cost</b>					
1 January 2019	182,059	25,575	329,993	11,975	549,602
Additions	–	124	29,566	23,603	53,293
Disposals	(23,780)	(919)	(12,914)	–	(37,613)
Exchange difference	–	31	44	–	75
31 December 2019	158,279	24,811	346,689	35,578	565,357
<b>Accumulated depreciation</b>					
1 January 2019	(54,475)	(18,957)	(247,132)	–	(320,564)
Additions	(4,423)	(1,270)	(28,980)	–	(34,673)
Disposals	5,377	845	12,309	–	18,531
Exchange difference	–	(15)	(26)	–	(41)
31 December 2019	(53,521)	(19,397)	(263,829)	–	(336,747)
<b>Carrying amount</b>					
31 December 2019	104,758	5,414	82,860	35,578	228,610

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 18 PROPERTY AND EQUIPMENT (Continued)

	Buildings	Motor vehicles	Electronics and other equipment	Construction in progress	Total
<b>Cost</b>					
1 January 2018	176,889	25,931	329,925	7,542	540,287
Additions	–	415	19,741	4,433	24,589
Transfer from investment properties	5,170	–	–	–	5,170
Disposals	–	(834)	(19,696)	–	(20,530)
Exchange difference	–	63	23	–	86
31 December 2018	182,059	25,575	329,993	11,975	549,602
<b>Accumulated depreciation</b>					
1 January 2018	(47,311)	(18,224)	(236,545)	–	(302,080)
Additions	(4,647)	(1,323)	(28,401)	–	(34,371)
Transfer from investment properties	(2,517)	–	–	–	(2,517)
Disposals	–	608	17,843	–	18,451
Exchange difference	–	(18)	(29)	–	(47)
31 December 2018	(54,475)	(18,957)	(247,132)	–	(320,564)
<b>Carrying amount</b>					
31 December 2018	127,584	6,618	82,861	11,975	229,038

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 19 RIGHT-OF-USE ASSETS

	Buildings	Land use rights	Total
<b>Cost</b>			
Balance at 31 December 2018			
Impact on initial application of IFRS 16	158,369	105,480	263,849
Balance at 1 January 2019	158,369	105,480	263,849
Additions	83,169	–	83,169
Exchange difference	744	–	744
31 December 2019	242,282	105,480	347,762
<b>Accumulated depreciation</b>			
Balance at 31 December 2018			
Impact on initial application of IFRS 16	–	(12,526)	(12,526)
Balance at 1 January 2019	–	(12,526)	(12,526)
Additions	(57,294)	(2,637)	(59,931)
Exchange difference	(10)	–	(10)
31 December 2019	(57,304)	(15,163)	(72,467)
<b>Carrying amount</b>			
31 December 2019	184,978	90,317	275,295

## 20 INVESTMENT PROPERTIES

	1 January 2019	Transfer in	Transfer out	Additions	31 December 2019
Buildings	33,882	–	–	–	33,882
Accumulated depreciation	(15,777)	–	–	(815)	(16,592)
Carrying amount	18,105				17,290

	1 January 2018	Transfer in	Transfer out	Additions	31 December 2018
Buildings	39,489	–	(5,607)	–	33,882
Accumulated depreciation	(17,613)	–	2,721	(885)	(15,777)
Carrying amount	21,876				18,105

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 21 GOODWILL

Goodwill of the Group arose from its acquisition of Yuliang Futures Brokerage Co., Ltd. (subsequently renamed to Central China Futures Co., Ltd.) on 12 October 2007 and Pan Asia Corporate Finance Limited (subsequently renamed to Central China International Financial Holdings Co., Ltd.) on 16 February 2016.

The recoverable amount is determined based on the value in use derived from the present value of expected future cash flows. No impairment provision is provided because the recoverable amount exceeds the carrying amount.

## 22 INTANGIBLE ASSETS

	Software	Trading rights and others	Total
<b>Cost</b>			
1 January 2019	197,698	35,094	232,792
Increases	26,127	–	26,127
Decreases	(26)	–	(26)
Exchange difference	–	21	21
31 December 2019	223,799	35,115	258,914
<b>Accumulated amortisation</b>			
1 January 2019	(133,237)	(33,880)	(167,117)
Increases	(24,813)	(117)	(24,930)
Decreases	26	–	26
Exchange difference	–	–	–
31 December 2019	(158,024)	(33,997)	(192,021)
<b>Net carrying amount</b>			
31 December 2019	65,775	1,118	66,893

	Land use rights	Software	Trading rights and others	Total
<b>Cost</b>				
1 January 2018	105,480	176,977	35,054	317,511
Increases	–	20,709	–	20,709
Exchange difference	–	12	40	52
31 December 2018	105,480	197,698	35,094	338,272
<b>Accumulated amortisation</b>				
1 January 2018	(9,889)	(109,465)	(33,767)	(153,121)
Increases	(2,637)	(23,760)	(112)	(26,509)
Exchange difference	–	12	–	12
31 December 2018	(12,526)	(133,237)	(33,879)	(179,642)
<b>Net carrying amount</b>				
31 December 2018	92,954	64,461	1,215	158,630

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 23 INVESTMENT IN ASSOCIATES

Details of the investment in associates, unlisted, are as below:

	Year ended 31 December	
	2019	2018
Balance at beginning of the year	939,294	492,860
Capital contribution	160,324	492,159
Disposal	(32,910)	(39,097)
Impairment loss	–	(28,714)
Share of other comprehensive income of associates	2,251	–
Share of results	35,762	22,086
Balance at end of the year	1,104,721	939,294

The capital contribution and disposal of investment in associates are mainly composed of those invested by Zhongding Kaiyuan Venture Capital Management Co., Ltd. and Henan Zhongyuan Kechuang Venture Capital Investment Fund (limited partnership). They are respectively a subsidiary and structured entity of the Company and registered in Mainland China.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 23 INVESTMENT IN ASSOCIATES (Continued)

### 23.1 Financial information of the Group's investments in associates

The following table illustrates the financial information of the Group's principle associates:

Name of associates	Place of registration	Registered capital	Principal activities	Percentage of equity interest held by the Group	31 December 2018	31 December 2019
Henan Zhongping Finance and Guaranty Co., Ltd.	Zhengzhou	200,000	Guarantee business	10.00%	49,326	52,201
Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd.	Zhumadian	124,930	Cultivation	3.93%	29,826	17,519
Henan Liying Environmental Science and Technology Co., Ltd.	Shangqiu	59,200	Environmental governance	6.76%	22,406	22,567
Henan Asset Management Co., Ltd.	Zhengzhou	5,000,000	Asset management	10.00%	479,559	562,338
Henan Dahe Fortune Cube Media Holdings Co., Ltd.	Zhengzhou	200,000	Media	15.00%	29,722	30,789
Zhongzheng Jiaotong Investment Fund (limited partnership)	Beijing	200,000	Asset management	10.00%	19,749	19,835
Zhengzhou Huanzi Technology Co., Ltd.	Zhengzhou	55,988	Environmental governance	26.66%	17,896	16,730
Zhengzhou Dahezixin Technology Co., Ltd.	Zhengzhou	11,933	Manufacturing	8.33%	10,735	11,384
Minquan County Innovation Industry Investment Fund (limited partnership)	Shangqiu	100,000	Non-securities equity investment	20.50%	20,351	21,825
Luoyang Jalon Micro Nano New Material Co., Ltd	Luoyang	57,820	Metal material manufacturing	6.37%	35,657	41,905
Luoyang Guohong CSI Industrial Development Investment Fund (Limited Partnership)	Luoyang	62,500	Non-securities equity investment	20.00%	–	12,318
Luoyang CSI Technology Innovation Venture Capital Fund (Limited Partnership)	Luoyang	100,000	Non-securities equity investment	11.00%	–	11,042

The Group has a significant influence over these associates as it has seats in the Board of Directors.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 24 SUBSIDIARIES AND CONSOLIDATED STRUCTURED ENTITIES

### 24.1 General information

The following is information of major subsidiaries and consolidated structured entities of the Group as at 31 December 2019. Unless specifically stated, the equity interests in these subsidiaries were all ordinary shares and directly or indirectly held by the Group, and the percentage of ownership held by the Group represented the voting rights of the Group. The registered addresses were also their business locations.

Name of subsidiary and consolidated structured entities	Place of incorporation and type of legal entity	Principal activities and place of operation	Registered capital	Equity interest held by the Group		
				31 December 2019	31 December 2018	Directly held/ indirectly held
Central China Futures Co., Ltd. ("CCF")	Zhengzhou, PRC, limited liability company	Futures brokerages in Mainland China	330,000	51.36%	51.36%	Direct
Zhongding Kaiyuan Entrepreneurial Investment Management Co., Ltd. ("ZDKY")	Beijing, PRC, limited liability company	Direct investment in Mainland China	800,000	100.00%	100.00%	Direct
Central China International Financial Holdings Co., Ltd. ("CCIFHC")	Hong Kong, PRC, limited liability company	Investment holding in Hong Kong	1,000,000 (HKD) <sup>(1)</sup>	100.00%	100.00%	
Central China Blue Ocean Investment Management Co., Ltd. ("CCBO")	Xuchang, PRC, limited liability company	Fund management in Mainland China	3,000,000	100.00%	100.00%	Direct
Central China Equity Exchange Co., Ltd. ("CCEEC")	Zhengzhou, PRC, limited liability company	Investment management in Mainland China	350,000	35.00%	35.00%	Direct
"Yanhuang No.2"	Zhengzhou, PRC, structured entity	Asset management in Mainland China	19,968	14.52%	14.10%	Direct
"Huimin No.1"	Zhengzhou, PRC, structured entity	Asset management in Mainland China	69,098	49.41%	25.84%	Direct
"Lianmeng No.10"	Zhengzhou, PRC, structured entity	Asset management in Mainland China	15,010	99.93%	54.85%	Direct
Henan Zhongyuan Kechuang Venture Capital Investment Fund (Limited partnership)	Zhengzhou, PRC, limited partnership	Non-securities brokerage and consulting in Mainland China	500,000	50.00%	50%	Indirect
Henan Zhongzheng Kaiyuan Venture Capital Fund (Limited partnership)	Luoyang, PRC, limited partnership	Asset management in Mainland China	110,000	15.00%	15.55%	Indirect

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 24 SUBSIDIARIES AND CONSOLIDATED STRUCTURED ENTITIES (Continued)

#### 24.1 General information (Continued)

Name of subsidiary and consolidated structured entities	Place of incorporation and type of legal entity	Principal activities and place of operation	Registered capital	Equity interest held by the Group		
				31 December 2019	31 December 2018	Directly held/ indirectly held
Anyang Purun High-Tech Industry Investment Fund (Limited partnership)	Zhengzhou, PRC, limited partnership	Asset management in Mainland China	100,000	13.00%	13.00%	Indirect
Henan Kaiyuan CSI Yucai Agricultural Venture Capital Fund (Limited partnership)	Zhengzhou, PRC, limited partnership	Asset management in Mainland China	100,000	20.00%	20.00%	Indirect

- (1) As at 26 December 2019, the subsidiary, Central China International Financial Holdings Co., Ltd. received a capital injection of HK\$240 million from the Group and its registered capital increased from HK\$760 million to HK\$1,000 million.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 24 SUBSIDIARIES AND CONSOLIDATED STRUCTURED ENTITIES (Continued)

### 24.2 Consolidated structured entities

The Group acted as asset manager or invested in a number of structured entities, include asset management plan and limited partnerships. Management made significant judgment 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 the Group's power over, its exposure to variable returns from its involvement with, and its ability to use its power to affect the amount of its returns from these structured entities. As at 31 December 2019, seven controlled structured entities have been consolidated (31 December 2018: six).

The identifiable assets and liabilities of the structured entities listed above are as follows:

	<b>31 December 2019</b>	31 December 2018
Current assets	<b>471,775</b>	547,617
Non-current assets	<b>327,290</b>	191,536
<b>Total assets</b>	<b>799,065</b>	739,153
Current liabilities	<b>76,584</b>	62,115
Non-current liabilities	<b>3,966</b>	(1,421)
<b>Total liabilities</b>	<b>80,550</b>	60,694

The operating results of the structured entities listed above for the year 2019 and 2018 are as follows:

	<b>Year ended 31 December 2019</b>	2018
Revenue	<b>17,753</b>	22,572
Profit/(Loss) for the year	<b>522</b>	(7,581)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019	31 December 2018
<b>Non-current</b>		
Debt securities	460,695	471,936
Analyzed into:		
Listed outside Hong Kong	460,695	471,936
Analyzed into:		
Cost	454,219	468,130
Change of fair value	6,476	3,806
Total	460,695	471,936
<b>Current</b>		
Debt securities	204,001	253,692
Analyzed into:		
Listed outside Hong Kong	204,001	253,692
Analyzed into:		
Cost	203,430	253,450
Change of fair value	571	242
Total	204,001	253,692

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 41) were RMB312.85 million (31 December 2018: RMB308.08 million). Impairment of RMB0.20 million has been provided in respect of the financial assets at fair value through other comprehensive income held by the Group (31 December 2018: RMB0.26 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	31 December 2018
<b>Non-current</b>		
Equity investments for unlisted companies	695,610	667,073
Debt securities	261,781	20,000
Trust scheme products	–	100,233
Fund investments	308,102	90,902
Asset management schemes	12,654	217,353
<b>Total</b>	<b>1,278,147</b>	<b>1,095,561</b>
Analyzed into:		
Listed outside Hong Kong	226,849	–
Listed in Hong Kong	13,271	–
Unlisted	1,038,027	1,095,561
<b>Total</b>	<b>1,278,147</b>	<b>1,095,561</b>
<b>Current</b>		
Debt securities	13,548,486	8,822,289
Fund investments	1,382,978	2,487,450
Equity securities	752,766	1,091,910
Wealth management products	163,533	303,816
Asset management schemes	101,108	81,231
Trust scheme products	–	49,500
<b>Total</b>	<b>15,948,871</b>	<b>12,836,196</b>
Analyzed into:		
Listed outside Hong Kong	14,146,111	9,360,332
Listed in Hong Kong	1,215	104,434
Unlisted	1,801,545	3,371,430
<b>Total</b>	<b>15,948,871</b>	<b>12,836,196</b>

As at 31 December 2019, the convertible bonds with the principal of HK\$351.47 million invested by the subsidiary of Central China International Financial Holdings Co., Ltd., Central China International Investment Company Limited, were overdue. After comprehensively estimating the fair value of collaterals and the recoverable amount of the other recoverable assets of the issuers, the directors estimated the fair value of the convertible bonds amounted to HK\$203.98 million (31 December 2018: HK\$371.70 million).

As at 31 December 2019, the fair value of financial assets at fair value through profit or loss pledged and sold as collateral for repurchase agreements (Note 41) and securities borrowing business by the Group were RMB5,891.81 million and RMB363.57 million respectively (31 December 2018: RMB4,928.16 million and RMB240.34 million).

As at 31 December 2019, financial assets at fair value through profit or loss of the Group included securities lent to clients amounted to RMB5.41 million (31 December 2018: RMB1.98 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 27 FINANCIAL ASSETS AT AMORTIZED COSTS

	31 December 2019	31 December 2018
<b>Non-current</b>		
Trust schemes	10,314	5,098
Less: impairment allowance	(66)	(9)
<b>Total</b>	<b>10,248</b>	<b>5,089</b>
Analyzed into: Unlisted	10,248	5,089
<b>Current</b>		
Trust schemes	405,919	371,415
Debt instruments <sup>(1)</sup>	156,889	335,358
Others <sup>(2)</sup>	244,388	–
Less: impairment allowance	(141,054)	(17,968)
<b>Total</b>	<b>666,142</b>	<b>688,805</b>
Analyzed into: Unlisted	666,142	688,805

(1) As at 31 December 2019, the private note with the principal of HK\$139.65 million invested CCIFHC Company Limited was overdue. After comprehensively estimating the recoverable amount of the other recoverable assets of the issuer, the directors estimated its provision for expected credit loss amounted to HK\$83.79 million (31 December 2018: HK\$0.02 million).

(2) As at 31 December 2019, two asset management schemes managed by the Company, "Lianmeng 17" and "Zhong Jing 1", were overdue as their underlying borrower, Fujian Minxing Pharmaceutical Co., Ltd. (hereinafter referred to as "Minxing Pharmaceutical") became unable to repay principal and interest on schedule. The Company believes that the financial documents provided by Minxing Pharmaceutical are considered to be falsified, and the Company have reported the case to the Public Security Bureau.

On 31 December 2019, the Group accounted for the assets corresponding to the rights held by the original investors of the asset management schemes with total amount of RMB244 million as financial assets measured at amortized cost, and recorded the remaining amount of RMB89 million to be paid to the original investors in other payables. The investigation of case is still actively underway. After comprehensively estimating the recoverable amount, the directors estimated its provision for expected credit loss amounted to RMB48.88 million.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 28 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

### Non-current

	31 December 2019	31 December 2018
Analyzed by asset type:		
– Equity securities	13,223	379,170
Less: Impairment allowance	(13)	(348)
Total	13,210	378,822

### Current

Analyzed by asset type:		
– Debt securities	1,379,123	5,895,784
– Equity securities	2,035,032	2,867,683
Less: Impairment allowance	(403,476)	(225,721)
Total	3,010,679	8,537,746

Collateral held by the Group as part of certain resale agreements may be placed again as collateral in the absence of default by any party involved, and the Group is obligated to return the assets to its counterparties upon maturity of the contracts. As at 31 December 2019, the fair value of securities of the Group which have been placed as collateral were RMB865.51 million (31 December 2018: RMB2,921.74 million).

As at 31 December 2019, the agreements with stock collateral of RMB1,417.76 million were overdue, and the directors of the Company taking into consideration of the value of collateral, concluded that a provision of RMB402.49 million was recognized (As at 31 December 2018, the guarantee ratio of the agreements with stock collateral of RMB893.01 million were below one, and provision of RMB214.89 million was recognized).

## 29 LOANS AND ADVANCES TO CUSTOMERS

### Non-current

	31 December 2019	31 December 2018
Micro-loans	94,037	278,135
Entrusted loans	–	8,371
Less: Impairment allowance	(896)	(10,602)
Total	93,141	275,904

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 29 LOANS AND ADVANCES TO CUSTOMERS (Continued)

### Current

	31 December 2019	31 December 2018
Micro-loans	1,063,057	994,516
Entrusted loans	34,633	27,000
Less: Impairment allowance	(102,805)	(53,697)
<b>Total</b>	<b>994,885</b>	<b>967,819</b>

Entrusted loans represent the Group's lending to third parties via domestic commercial banks in Mainland China, with interest rates ranging from 8% to 12% per annum. The interest rates of loan business carried out by Henan Zhongyuan Micro-credit Co., Ltd. ("HZMC") mainly range from 9% to 17.8% per annum.

## 30 DEFERRED INCOME TAX ASSETS AND LIABILITIES

The movements in deferred income tax assets during the year are as follows:

	Provision for asset impairment	Employee benefits payable	Changes in fair value of financial instruments	Others	Total
<b>As at 31 December 2017</b>	45,693	74,151	25,741	15,757	161,342
The impact of accounting policy changes	622	–	(679)	–	(57)
As at 1 January 2018	46,315	74,151	25,062	15,757	161,285
Income statement charge	47,789	(10,411)	48,354	151	85,883
Tax charge relating to components of other comprehensive income	4,074	–	–	–	4,074
Exchange difference	–	–	–	74	74
<b>As at 31 December 2018</b>	<b>98,178</b>	<b>63,740</b>	<b>73,416</b>	<b>15,982</b>	<b>251,316</b>
	Provision for asset impairment	Employee benefits payable	Changes in fair value of financial instruments	Others	Total
<b>As at 31 December 2018</b>	98,178	63,740	73,416	15,982	251,316
Income statement charge	79,330	9,867	8,183	(3,525)	93,855
Tax charge relating to components of other comprehensive income	18	–	–	–	18
Exchange difference	–	–	–	437	437
<b>As at 31 December 2019</b>	<b>177,526</b>	<b>73,607</b>	<b>81,599</b>	<b>12,894</b>	<b>345,626</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 30 DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

The movements in deferred income tax liabilities during the year are as follows:

	Changes in fair value of financial instruments	Others	Total
<b>As at 31 December 2017</b>	(8,373)	(1,987)	(10,360)
The impact of accounting policy changes	–	–	–
As at 1 January 2018	(8,373)	(1,987)	(10,360)
Income statement charge	5,604	1,987	7,591
Tax charge relating to components of other comprehensive income	(646)	(46)	(692)
As at 31 December 2018	(3,415)	(46)	(3,461)
	Changes in fair value of financial instruments	Others	Total
<b>As at 31 December 2018</b>	(3,415)	(46)	(3,461)
Income statement charge	(3,922)	(171)	(4,093)
Tax charge relating to components of other comprehensive income	(704)	–	(704)
<b>As at 31 December 2019</b>	<b>(8,041)</b>	<b>(217)</b>	<b>(8,258)</b>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net movements on the deferred income tax account are as follows:

	Year ended 31 December	
	2019	2018
Balance at beginning of the year	247,855	150,982
Change in accounting policy	–	(57)
Credited to the statement of comprehensive income (Note 15)	89,762	93,475
(Debited)/Credited to other comprehensive income	(686)	3,381
Exchange difference	437	74
Balance at end of the year	337,368	247,855

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 31 REFUNDABLE DEPOSITS

	31 December 2019	31 December 2018
Deposits to Stock Exchanges		
– Shenzhen Stock Exchange	24,353	20,037
– Shanghai Stock Exchange	23,819	23,371
– Hong Kong Stock Exchange	3,560	2,031
– National Equities Exchange and Quotations	888	880
Deposits to Futures and Commodities Exchanges		
– Shanghai Futures Exchange	176,284	54,788
– Zhengzhou Commodities Exchange	81,900	82,938
– Dalian Commodities Exchange	60,660	45,900
– China Financial Futures Exchange	22,831	34,712
– Shanghai International Energy Exchange Center	873	2,001
Deposits to China Securities Finance Corporation Limited	2	16,053
Total	395,170	282,711

## 32 OTHER NON-CURRENT ASSETS

	31 December 2019	31 December 2018
Leasehold improvements	27,065	24,520
Long-term deferred expenses	2,263	1,239
Total	29,328	25,759

The amortisation amount in 2019 is RMB13 million (2018: RMB12 million).

## 33 MARGIN ACCOUNTS RECEIVABLE

	31 December 2019	31 December 2018
Margin accounts receivable		
– Individuals	5,820,790	4,428,457
– Institutions	310,947	372,334
Subtotal	6,131,737	4,800,791
Less: Impairment allowance	(70,997)	(80,293)
Total	6,060,740	4,720,498

As at 31 December 2019, the Group received collateral with fair value amounted to RMB18,251.03 million (31 December 2018: RMB13,540.89 million) in margin financing business.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 34 DERIVATIVE FINANCIAL ASSETS/LIABILITIES

The derivative financial assets and liabilities of the Group mainly represent stock index futures contracts and the commodity futures contracts and stock options. The Group settles its future gains or losses on position on a daily basis, with the corresponding receipts and payments as at 31 December 2019 and 31 December 2018 included in "clearing settlement funds".

	31 December 2019			31 December 2018		
	Contractual value	Fair value		Contractual value	Fair value	
		Assets	Liabilities		Assets	Liabilities
Stock index futures	–	–	–	108,279	–	–
Commodity futures	152,923	65	–	33,563	–	–
National debt futures	1,234,738	–	–	–	–	–
Commodity options	949	53	84	–	–	–
Equity derivative	253,888	11,266	–	435,465	62,986	–
	1,642,498	11,384	84	577,307	62,986	–

### 35 CLEARING SETTLEMENT FUNDS

	31 December 2019	31 December 2018
Clearing settlement funds held for clients	2,347,143	2,264,515
Proprietary clearing settlement funds	170,907	75,838
Total	2,518,050	2,340,353

### 36 CASH HELD FOR BROKERAGE CLIENTS

The Group maintains separate bank accounts with banks for clients' monies arising from the normal course of business. The Group records these monies as cash held for brokerage clients under current assets, and recognize them as due to clients given that they are held liable for any loss or miss-appropriation of these monies. Cash held for brokerage clients for their transaction and settlement purposes is subject to regulatory oversight by third-party depository institutions as per CSRC regulations.

### 37 CASH AND BANK BALANCES

	31 December 2019	31 December 2018
Cash on hand	248	266
Deposits in banks	2,749,938	2,606,675
Total	2,750,186	2,606,941

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 38 OTHER CURRENT ASSETS

	31 December 2019	31 December 2018
Bulk commodity trading inventory	120,681	24,425
Asset management fee receivable	57,249	27,872
Deposits	53,053	13,882
Prepayment	40,043	27,988
Receivable from disposal of associate	40,000	–
Investment bank commission and listing service fees receivable	35,813	44,016
Clearing funds receivable	15,315	21,254
Indemnity receivable <sup>(1)</sup>	–	92,422
Others	160,677	106,824
Less: Impairment allowance	(40,175)	(36,818)
<b>Total</b>	<b>482,656</b>	<b>321,865</b>

- (1) As at 31 December 2018, the other current assets included RMB92.42 million due from certain shareholders and senior management of Central China International Financial Group Limited arising from their indemnity of an investment loss incurred by the Group. As at 31 December 2019, the receivable was net off with the payable of the Group's acquisition of 52% equity interest held by above mentioned shareholders of Central China International Financial Group (Note 40(5)).

### 39 SHARE CAPITAL

All shares issued by the Company are fully paid common shares, with a notional value of RMB1.00 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 RMB1.00 each		
– Domestic shares	2,673,706	2,673,706
– H shares	1,195,365	1,195,365
<b>Total</b>	<b>3,869,071</b>	<b>3,869,071</b>
Share Capital		
– Domestic shares	2,673,706	2,673,706
– H shares	1,195,365	1,195,365
<b>Total</b>	<b>3,869,071</b>	<b>3,869,071</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 40 RESERVES

	31 December 2019	31 December 2018
Capital reserve <sup>(1)</sup>	3,735,376	3,735,376
Statutory surplus reserve <sup>(2)</sup>	643,671	611,556
Discretionary surplus reserve <sup>(2)</sup>	164,413	148,356
General reserve <sup>(2)</sup>	743,123	692,069
Transaction risk reserve <sup>(2)</sup>	638,918	606,803
Revaluation reserve <sup>(3)</sup>	7,688	4,048
Foreign currency translation reserve <sup>(4)</sup>	28,856	24,975
Other reserves <sup>(5)</sup>	(248,141)	20,490
Total	5,713,904	5,843,673

### (1) Capital reserve

Capital reserve primarily includes share premium arising from the issuance of new shares at prices in excess of par value.

### (2) Surplus reserve, general reserve and transaction risk reserve

Pursuant to the PRC Company Law, the Company's Articles of Association and resolutions of the Board, the Company is required to appropriate 10% of its profit net of the previous years' losses to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, statutory surplus reserve may be used to offset accumulated losses, or converted into capital of the Company, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before the capitalization.

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No.320) issued on 18 December 2007, the Company appropriates 10% of its annual net profit to the general risk reserve.

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No.320) issued on 18 December 2007 and in compliance with the Securities Law, for the purpose of covering potential securities trading losses, the Company appropriates 10% from its annual net profit to the transaction risk reserve.

According to the 14th meeting of the 4th Board of Directors of the Company in 2013 and after the deliberation and approval of the 2013 Extraordinary General Meeting of Shareholders, during the Company's bonds existence period, 5% of the annual net profit is appropriated to the discretionary surplus reserve, and 11% of its annual net profit is appropriated to the general risk reserve.

Pursuant to the relevant regulatory requirements, the Company's subsidiaries are required to appropriate certain amount of its net profit as general reserve.

### (3) Revaluation reserve

The investment revaluation reserve represents the fair value changes of financial assets at fair value through other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 40 RESERVES (Continued)

### (4) 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.

### (5) Other reserves

As at 31 December 2019, other reserves mainly represent the difference between net purchase price with net book value of the transaction to acquire non-controlling interest in Hong Kong subsidiaries.

On 4 July 2019, the Group acquired 52% interest of its subsidiary, Central China International Financial Group Limited, from the non-controlling interests. The consideration for acquisition amounted to HK\$848,160,000. Central China International Financial Group Limited became a wholly-owned subsidiary of the Group after the transaction. The Group recognised a decrease in non-controlling interests of HK\$550,017,125 and a decrease other reserve of HK\$298,142,875. Moreover, at the same time of the above transaction, the Group also disposed Central China Finance Holdings Limited and its two subsidiaries to the non-controlling interests. The difference between the consideration and the net asset value of the subsidiaries, amounting to HK\$14,079,824, was credited to other reserves accordingly.

## 41 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

### Non – current

	31 December 2019	31 December 2018
Analysed by asset type:		
– Margin accounts receivable	–	1,502,926
Analysed by transaction type:		
– Pledged	–	1,502,926
Analysed by counterparty:		
– Bank	–	500,000
– Non-bank financial institutions	–	1,002,926
Total	–	1,502,926

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 41 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (Continued)

### Current

	31 December 2019	31 December 2018
Analysed by asset type:		
– Debt securities	7,719,102	8,668,864
– Margin accounts receivable	1,001,987	–
<b>Total</b>	<b>8,721,089</b>	<b>8,668,864</b>
Analysed by transaction type:		
– Pledged	7,362,060	6,836,429
– Sold	1,359,029	1,832,435
<b>Total</b>	<b>8,721,089</b>	<b>8,668,864</b>
Analysed by counterparty:		
– Bank	6,620,604	7,778,864
– Non-bank financial institutions	2,100,485	890,000
<b>Total</b>	<b>8,721,089</b>	<b>8,668,864</b>

The carrying value of the financial assets pledged or sold under repurchase agreements of the Group was listed as below:

	31 December 2019	31 December 2018
Pledged		
Financial assets at fair value through profit and loss	5,792,835	4,928,160
Financial assets at fair value through other comprehensive income	312,846	308,084
Financial assets held under resale agreements	611,092	1,567,313
Margin accounts receivable	1,152,922	1,737,183
Securities borrowing	1,106,091	516,800
<b>Subtotal</b>	<b>8,975,786</b>	<b>9,057,540</b>
Sold		
Financial assets at fair value through profit and loss	98,976	414,315
Financial assets at fair value through other comprehensive income	–	135,854
Financial assets held under resale agreements	254,419	1,354,424
<b>Subtotal</b>	<b>353,395</b>	<b>1,904,593</b>
<b>Total</b>	<b>9,329,181</b>	<b>10,962,133</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 42 BONDS PAYABLE

### Non-current liabilities

	31 December 2019	31 December 2018
Subordinated bonds	2,565,557	4,097,519
Corporate bond	2,058,383	–
Total	4,623,940	4,097,519

### Current liabilities

	31 December 2019	31 December 2018
Subordinated bonds	2,540,420	2,573,068
Corporate bond	1,540,446	1,563,584
Total	4,080,866	4,136,652

On 23 April 2014, the Group issued RMB1.50 billion five-year corporate bonds at par value, paying annual interest at 6.20%, expired on 23 April 2019.

On 22 April 2016, the Group issued RMB2.50 billion three-year subordinated bonds at par value, paying annual interest at 4.20%, expired on 22 April 2019.

On 26 July 2017, the Group issued RMB1.50 billion three-year subordinated bonds at par value, paying annual interest at 5.15%.

On 17 November 2017, the Group issued RMB1.00 billion three-year subordinated bonds at par value, paying annual interest at 5.49%.

On 27 April 2018, the Group issued RMB1.50 billion three-year subordinated bonds at par value, paying annual interest at 5.58%.

On 26 March 2019, the Group issued RMB2.00 billion three-year corporate bonds at par value, paying annual interest at 3.90%.

On 16 April 2019, the Group issued RMB1.50 billion one-year corporate bonds at par value, paying annual interest at 3.80%.

On 30 October 2019, the Group issued RMB1.00 billion three-year subordinated bonds at par value, paying annual interest at 4.90%.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 43 BANK LOANS

### Non-current

	31 December 2019	31 December 2018
Unsecured loans	13,203	–
Total	13,203	–

### Current

Unsecured loans	1,067,701	1,208,427
Guaranteed loans	415,236	565,206
Pledged loans	85,811	101,354
Total	1,568,748	1,874,987

As of 31 December 2019, a subsidiary with bank loans of RMB713 million did not meet certain loan covenants. Management has been actively communicating solutions with the relevant banks. As of the date of approval of these consolidated financial statements, the relevant banks have not demanded repayment of the loans.

## 44 LEASE LIABILITIES

	31 December 2019
<b>Non-current</b>	
Lease liabilities	91,446
<b>Current</b>	
Lease liabilities	86,391

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 45 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	31 December 2018
Debt securities sold <sup>(1)</sup>	714,792	–
Non-controlling interests in consolidated structured entities <sup>(2)</sup>	399,760	380,028
Total	1,114,552	380,028

(1) As at 31 December 2019, the Company sells securities to other financial institutions to engage in margin financing business.

(2) In the consolidated financial statements, the financial liabilities arising from consolidation of structured entities (the "SEs") are designated as at fair value through profit or loss by the Group. The Group has the obligation to pay other investors upon maturity dates of the SEs based on net carrying amount and the related terms of those schemes.

### 46 TAX PAYABLE

	31 December 2019	31 December 2018
Corporate income tax	48,599	48,948
Individual income tax withheld	4,573	3,378
Value added tax	3,103	5,735
Others	711	1,502
Total	56,986	59,563

### 47 SHORT-TERM NOTES PAYABLE

	31 December 2019	31 December 2018
Beneficiary certificates	374,581	537,577

As at 31 December 2019, the annual interest rates on the short-term notes payable are in the range of 2.75% to 6.00% (31 December 2018: 3.40% to 7.00%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 48 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
Placements from China Securities Finance Co., Ltd.	–	500,298
Placements from banks	2,361,160	1,741,104
Total	2,361,160	2,241,402

## 49 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

Accounts payable to brokerage clients mainly include money held for clients placed at banks and at clearing houses by the Group, and are interest bearing at the prevailing market interest rates.

The majority of the accounts payable balances are repayable on demand except where certain balances represent margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the excess amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

As at 31 December 2019, cash collateral received from clients for margin financing and securities lending arrangements amounted to RMB749.35 million (31 December 2018: RMB750.75 million), and are included in the Group's accounts payable to brokerage clients.

## 50 OTHER CURRENT LIABILITIES

	31 December 2019	31 December 2018
Salaries, bonus, allowances and benefits	478,666	337,210
Clearing funds payable	112,838	297,909
Payable to related shareholders	111,973	–
Payable from assets management scheme (Note 27)	89,549	–
Pledged by Warehouse Receipts	61,885	–
Futures risk reserve	22,454	20,447
Interest payable	12,909	2,081
Investor Protection Fund	4,110	12,214
Others	181,362	146,342
Total	1,075,746	816,203

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 50 OTHER CURRENT LIABILITIES (Continued)

#### 50.1 Salaries, bonus, allowances and benefits

	1 January 2019	Current year charge	Current year payment	31 December 2019
Salaries and bonus	232,466	675,588	(541,882)	366,172
Pension	29,430	87,684	(91,004)	26,110
Other social security contributions	2	80,761	(80,756)	7
Labor union funds and employee education funds	74,275	28,199	(16,931)	85,543
Other welfare	1,037	17,231	(17,433)	834
<b>Total</b>	<b>337,210</b>	<b>889,463</b>	<b>(748,006)</b>	<b>478,666</b>

	1 January 2018	Current year charge	Current year payment	31 December 2018
Salaries and bonus	347,020	418,128	(532,682)	232,466
Pension	249	104,304	(75,123)	29,430
Other social security contributions	166	81,585	(81,749)	2
Labor union funds and employee education funds	73,380	16,433	(15,538)	74,275
Other welfare	1,689	15,480	(16,132)	1,037
<b>Total</b>	<b>422,504</b>	<b>635,930</b>	<b>(721,224)</b>	<b>337,210</b>

### 51 CASH AND CASH EQUIVALENTS

For the purpose of statement of cash flows, cash and cash equivalents include amounts that can be used to meet short-term cash commitments.

	31 December 2019	31 December 2018
Cash on hand	248	266
Deposits in banks	2,749,938	2,606,675
Proprietary clearing settlement funds	170,907	75,838
Less: Restricted deposits in banks <sup>(1)</sup>	(40,000)	—
Interest receivable	(1,254)	—
<b>Total</b>	<b>2,879,839</b>	<b>2,682,779</b>

(1) The restricted fund is for the bank loan pledge of Henan Zhongyuan Micro-credit Co., Ltd.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 52 UNCONSOLIDATED STRUCTURED ENTITIES

Unconsolidated structured entities of the Group mainly include collective, targeted and special asset management schemes, trust schemes, wealth management products, investment funds and limited partnership.

Except for the consolidated structured entities, the Group did not consider itself acting as principal and consequently did not consolidate these other structured entities.

The total assets of unconsolidated collective, targeted and special asset management schemes and limited partnership managed by the Group amounted to RMB11,413 million and RMB11,613 million as at 31 December 2019 and 31 December 2018 respectively. For the unconsolidated trust schemes, wealth management products and investment funds invested by the Group, there is no available public information on the size of those structured entities which are operated and managed by third parties.

As at 31 December 2019 and 31 December 2018, the maximum exposure of relevant balance sheet items of the Group arising from these unconsolidated structured entities, were set out as below:

	<b>31 December 2019</b>	31 December 2018
Financial assets at fair value through profit or loss	<b>1,178,746</b>	2,488,573
Financial assets at amortized costs	<b>622,126</b>	375,000
Other current assets	<b>46,662</b>	325,135
<b>Total</b>	<b>1,847,534</b>	3,188,708

For the year ended 31 December 2019, the income derived from these unconsolidated structured entities held by the Group was as follows:

	<b>Year ended 31 December 2019</b>	2018
Net investment gains/(losses)	<b>(20,458)</b>	63,195
Fee and commission income	<b>56,383</b>	74,263
<b>Total</b>	<b>35,925</b>	137,458

As at 31 December 2019 and 31 December 2018, the Group did not provide, nor intend to provide, any financial support to these unconsolidated structured entities.

## 53 TRANSFERRED FINANCIAL ASSETS

In the normal course of business, the Group enters into certain transactions in which it transfers recognised financial assets to third parties or customers. If these transfers qualify for de-recognition, the Group derecognises all or part of the financial assets where appropriate. If the Group has retained substantially all the risks and rewards on these assets, the Group continues to recognise these assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 53 TRANSFERRED FINANCIAL ASSETS (Continued)

#### 53.1 Repurchase transactions

Transferred financial assets that do not qualify for de-recognition include debt securities held by counterparties as collateral under repurchase agreements. The counterparties are allowed to pledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities upon maturity of the contract. In certain circumstances, if the securities increase or decrease in value, the counterparties may require additional collateral from the Group or have to return part of the collateral it holds to the Group. In these cases, the Group believes that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them. In addition, it recognises a financial liability for the cash received.

#### 53.2 Securities lending

Transferred financial assets that do not qualify for de-recognition include securities lent to clients or exchange with clients for them to sell, for which the clients are required to provide collateral that could fully cover the credit exposure of the securities lent, and have the obligation to return the securities to the Group in accordance with the contracts. In certain circumstances, if the securities increase or decrease in value, the Group may require additional collateral from the clients or have to return part of the collateral it holds to the clients. In these instances, the Group believes that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them.

As at 31 December 2019, the carrying amount of securities lent to clients is RMB1,106 million (31 December 2018: RMB1,906 million).

### 54 COMMITMENTS AND CONTINGENT LIABILITIES

#### 54.1 Capital commitments

	31 December 2019	31 December 2018
Contracted but not provided for	48,798	50,482

#### 54.2 Non-compliance with regulations and 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 55 RELATED PARTY TRANSACTIONS

### 55.1 Related parties

When the Group exercises control, common control over or has significant influence on another entity; or another entity exercises control, common control over or has significant influences on the Group; or the Group and another entity are under control, common control or significantly influenced by the same party, the Group and the entity are related parties. Related parties can be individuals or legal entities.

The Group's immediate parent entity of the company is Henan Investment Group Limited. The registered place is Zhengzhou, Henan, with a holding of 21.27% of the Company's share capital.

Ultimate controlling party of the Company is Department of Finance of Henan Province.

The following table lists the Group's significant related legal entities as at 31 December 2019:

Enterprise	The relationship with the Group
Henan Investment Group	The controlling shareholder of the Company
Bohai Industrial Investment Fund Management Co., Ltd. (representing Bohai Industrial Investment Fund)	Major shareholder holding over 5% shares of the Company
Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd.	The associate invested by the subsidiary of the Company
Zhongyuan Trust Co., Ltd.	Controlled by the controlling shareholder of the Company

### 55.2 Related party transactions and balances

#### 55.2.1 Controlling shareholder and enterprise controlled by the controlling shareholder of the Company

##### Transactions during the year

		Year ended 31 December	
		2019	2018
Henan Investment Group	Commission and fee income	1,419	75
Henan Asset Management Co., Ltd.	Commission and fee income	472	—
Zhongyuan Trust Co., Ltd.	Commission and fee income	1,650	7,301
Zhongyuan Trust Co., Ltd.	Interest income	23,505	43,358

##### Balances at the end of the year

		31 December 2019	31 December 2018
Zhongyuan Trust Co., Ltd.	Financial assets measured at amortized cost	236,538	443,000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 55 RELATED PARTY TRANSACTIONS (Continued)

### 55.2 Related party transactions and balances (Continued)

#### 55.2.2 The associate invested by the subsidiary of the Company

##### *Transactions during the year*

		Year ended 31 December	
		2019	2018
Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd.	Interest income	5,019	5,421

##### *Balances at the end of the year*

		31 December 2019	31 December 2018
Henan Longfengshan Agriculture and Animal Husbandry Co., Ltd.	Loans and advances to customers	45,000	45,000

The related party transactions of the Group are conducted in accordance with the principles of impartiality, openness and fairness and the agreements of the related party transaction are entered into based on the principles of equality, free will, and with consideration at market price.

#### 55.2.3 Key management personnel

Key management personnel are those persons who have the power to, directly or indirectly, plan, direct and control the activities of the Group, including members of the board of directors, board of supervisors and other members of the senior management.

		Year ended 31 December	
		2019	2018
Key management compensation		10,894	7,283

#### 55.2.4 Loans and advances to directors, supervisors and senior executives

The Group had no material balance of loans and advances to directors, supervisors and senior executives as at the end of the reporting period. Those loans and advances to directors, supervisors and senior executives were conducted in the normal and ordinary course of the business and under normal commercial terms or on the same terms and conditions with those which are available to other employees, based on terms and conditions granted to third parties adjusted for risk reduction.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 56 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.

- (a) Brokerage business: securities trading and brokering services; futures trading and brokering and futures information advisory and training services ; Margin trading and securities lending;
- (b) Investment banking: corporate finance and financial advisory services to institutional clients;
- (c) Proprietary trading: trading in financial products;
- (d) Investments and asset management: Alternative investments and funds related businesses, in addition to portfolio management and maintenance, investment advisory and transaction execution services;
- (e) Overseas business: the overseas operations segment mainly represents the business operation of overseas subsidiaries of the Company, which mainly engage in brokerage, margin financing, trading and investment and financial planning and advisory services;
- (f) Other businesses: primarily the treasury function from the headquarter and micro-credit operation.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties, and there was no change in the basis during the period.

The Group mainly operates its business in Henan Province, the PRC.

	Year ended 31 December 2019							Total
	Brokerage business	Investment banking	Proprietary trading	Investment and asset management	Overseas business	Other	Elimination	
<b>Total revenue and other income</b>								
Commission and fee income	788,611	216,795	–	64,785	46,464	39,342	(9,838)	1,146,159
Interest income	393,298	–	145,453	25,410	34,596	396,294	(15,325)	979,726
Net investment gains/(losses) and share of profits and losses of associates	17,982	–	785,843	125,151	(169,612)	104,974	(99,644)	764,694
Other gains/(loss)	590,207	200	2,236	392	(1,931)	37,797	(1,286)	627,615
<b>Total expenses</b>	<b>(1,602,290)</b>	<b>(209,149)</b>	<b>(638,639)</b>	<b>(50,649)</b>	<b>(241,124)</b>	<b>(687,817)</b>	<b>27,592</b>	<b>(3,402,076)</b>
<b>Profit before income tax</b>	<b>187,808</b>	<b>7,846</b>	<b>294,893</b>	<b>165,089</b>	<b>(331,607)</b>	<b>(109,410)</b>	<b>(98,501)</b>	<b>116,118</b>
<b>Total assets</b>	<b>10,817,282</b>	<b>68,255</b>	<b>11,149,522</b>	<b>4,028,986</b>	<b>2,038,759</b>	<b>21,350,889</b>	<b>(5,883,791)</b>	<b>43,569,902</b>
<b>Total liabilities</b>	<b>10,122,503</b>	<b>75,613</b>	<b>11,129,842</b>	<b>294,531</b>	<b>1,668,846</b>	<b>10,254,278</b>	<b>(473,496)</b>	<b>33,072,117</b>
<b>Supplemental information</b>								
Depreciation and amortisation	60,364	9,447	13,064	1,193	6,582	44,087	(1,222)	133,515
Capital expenditure	23,821	2,359	8,939	401	716	68,932	–	105,168

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 56 SEGMENT INFORMATION (Continued)

	Year ended 31 December 2018							Total
	Brokerage business	Investment banking	Proprietary trading	Investment and asset management	Overseas business	Other	Elimination	
<b>Total revenue and other income</b>								
Commission and fee income	621,547	94,654	–	75,905	87,577	33,828	(3,117)	910,394
Interest income	406,864	–	283,176	34,570	44,647	522,641	–	1,291,898
Net investment gains/(losses) and share of profits and losses of associates	250	–	290,271	115,592	49,175	(70,585)	(14,653)	370,050
Other gains/(loss)	279,572	400	13,225	3,496	2,894	9,370	(1,296)	307,661
<b>Total expenses</b>	(1,075,616)	(136,143)	(555,697)	(79,926)	(193,872)	(741,974)	4,343	(2,778,885)
<b>Profit before income tax</b>	232,617	(41,089)	30,975	149,637	(9,579)	(246,720)	(14,723)	101,118
<b>Total assets</b>	8,265,878	32,631	10,571,775	3,939,369	3,058,810	21,520,956	(5,234,137)	42,155,282
<b>Total liabilities</b>	7,562,913	45,103	10,535,733	424,009	1,885,902	10,614,660	(188,078)	30,880,242
<b>Supplemental information</b>								
Depreciation and amortisation	30,993	529	2,557	1,650	2,563	35,713	–	74,005
Capital expenditure	20,741	721	903	210	441	25,760	–	48,776

## 57 FINANCIAL RISK MANAGEMENT

### 57.1 Overview

The Group's risk management objective is to maintain an appropriate balance between risks and rewards, and reduce the negative impact on the operating results of the Group, so as to maximise the shareholders' value. The Group's risk management strategy is to identify and analyse a variety of risks to which the Group is exposed to, set an appropriate risk tolerance level, measure and supervise risks in a timely and reliable manner so as to ensure that risks are controlled within acceptable limits.

Financial risks to which the Group is exposed to mainly include: credit risk, market risk and liquidity risk. The Group has adopted risk management policies and procedures to identify and analyse these risks and defined appropriate risk indicators, risk limits, risk policies and internal control procedures, and constantly monitors and manages risks through its IT systems.

The financial risk management framework is structured into four levels consisting of (i) Board and Supervisory Committee; (ii) Risk Control Committee, Audit Committee and Investment Decision Committee; (iii) Compliance Management Department, Legal Affairs Department, Risk Management Department and Internal Audit Department; and (iv) Business and management departments and branch outlets.

#### Level 1 : Board and Supervisory Committee

The Board is at the highest level of the Company's risk control framework and has the ultimate responsibility for establishing a compliant and effective risk control environment. The Board is responsible for developing the Company's overall risk control objectives, risk control policies and internal control system, improving the governance structure and tiered authority delegation system, and setting objectives, limits and delegating authority to relevant administrative departments in the actual performance of risk control activities.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.1 Overview (Continued)

#### Level 1 : Board and Supervisory Committee (Continued)

The Supervisory Committee focuses on mitigating the Company's exposure to legal and compliance risks and financial oversight, including monitoring the performance of risk control duties of the Company's directors, senior management and relevant responsible persons, safeguarding the Company's assets, and minimizing financial and legal risks the Company faces in carrying out its business operations, so as to protect legal rights and interests of the Company and its shareholders.

#### Level 2 : Risk Control Committee, Audit Committee and Investment Decision Committee

Risk Control Committee, Audit Committee and Investment Decision Committee are the second level of the Company's risk control framework, and is responsible for preparing the comprehensive annual report on risk control; reviewing risk control strategies and significant risk control solutions; reviewing judgment criteria for major decisions, significant risks, major events and key business processes and the risk evaluation report for major decision-making; reviewing risk control evaluation report submitted by the Risk Management Department; reviewing the organisational structure and roles and responsibilities for risk control, as well as other matters as delegated by the Board of Directors.

#### Level 3 : Compliance Management (Legal Affairs) Department, Risk Management Department, and Internal Audit Department

At the third level of the Company's risk control framework is the collaborative comprehensive risk management arrangement through which the Compliance Management (Legal Affairs) Department, Risk Management Department and Internal Audit Department work together to manage risks.

The Compliance Management (Legal Affairs) Department assists the Chief Compliance Officer to formulate compliance policies and compliance rules and procedures, supports the implementation of compliance policies and procedures, provides recommendations and advice on compliance to the management and business departments, business lines and branch outlets, and monitors compliance with laws and regulations in the Company's business and management activities. It also drives business departments, business lines and the Company's branch outlets to evaluate, develop, revise, update and improve their internal procedures and business processes to reflect changes in the laws, regulations and standards; conducts compliance pre-clearance on internal management rules and procedures, major decisions, new products, new business offerings and major business activities; reports to regulatory authorities on a regular and extraordinary basis, in addition to mitigating legal risks to which the Company and its businesses are exposed to.

Risk Management Department carries out risk control activities in accordance with risk control objectives and policies laid down by the Board of Directors; provides recommendations to the Risk Management Committee for improving the Company's risk control environment in terms of risk control policies, objectives, corporate governance structure and internal controls; formulates risk management rules and procedures for the Company, supports the review of risk management rules and procedures, measures, risk management processes and risk control indicators developed by each business and management departments, and continuously supplements, improves and updates risk control policies to help establish sound comprehensive corporate risk control mechanisms across the Company; identifies, assesses, and monitors various risks in business operations and transactions, and leverages the results to improve the end-to-end risk response process that covers every components of risk control, including policies, identification, assessment and measurement, control, monitoring, reporting and analysis; regularly tests, monitors and evaluates the implementation of risk control rules and procedures across the Company, and when necessary, conducts regular and ad hoc inspections on risk control results, follows up on issues identified and launches reporting procedures where appropriate; and establishes communications and cooperation with respect to risk control with various business lines, business departments, and branch outlets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.1 Overview (Continued)

#### **Level 3 : Compliance Management (Legal Affairs) Department, Risk Management Department, and Internal Audit Department (Continued)**

Internal Audit Department has overall responsibility for the internal audit function, including organising comprehensive audits across the Company, monitoring the implementation of and compliance with internal control rules and procedures, minimizing ethical and policy risks and assisting the investigation of emergencies.

#### **Level 4 : Business and management departments and branch outlets**

The fourth level of risk control is the front-line risk control systems by business and management departments and branch outlets, which are responsible for developing their own internal control system and risk control measures, ensuring proper risk control within their jurisdiction, and reporting risk issues in a timely manner to the Risk Management Department or Compliance Management (Legal Affairs) Department.

The Group adopts the above risk management framework and continuously improves its risk control to ensure that the risks are measurable and controlled within acceptable limits.

### 57.2 Credit risk

Credit risk refers to the risk of counterparty's failure or inability to meet its payment obligations, or the risk of loss due to declining credit rating. The Group's credit risks mainly come from financial assets which include bank balances, cash held for brokerage clients, clearing settlement funds, financial assets at fair value through other comprehensive income, financial assets held under resale agreements, financial assets at amortized costs, margin accounts receivable, entrusted loans, other current assets and refundable deposits.

The Group's bank balances are mainly deposited with state-owned commercial banks or joint-stock commercial banks, while clearing settlement funds are deposited in the China Securities Depository and Clearing Corporation Limited ("CSDCC"), with a relatively low level of credit risk.

In terms of proprietary trading, if the transaction is through a stock exchange or CSDCC, the default risk of counterparty is low, but for inter-bank market transactions, the Group will assess the counterparties and only select those with an accepted credit rating. The Group invests in debt securities with acceptable credit ratings and monitors the operations and credit ratings of the issuers.

Margin financing assets include advances to margin customers and securities lent to customers. Credit risks associated with these financial assets mainly relate to customers' inability to repay the principal, interest or securities borrowed. The Group supervises finance trading accounts on an individual customer basis, and would require additional margin, cash collateral or securities if necessary. Margin accounts receivables are monitored based on collateral rates to ensure that the value of collateral assets is sufficient to cover the advance.

The Group's credit risk also arises from the securities and futures brokerage business. If a customer fails to deposit sufficient trading funds, the Group may use their own funds to complete the settlement. The Group requires customers to deposit all cash required in trading before it settles on behalf of customers, so as to mitigate and manage the credit risk properly.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 57 FINANCIAL RISK MANAGEMENT (Continued)

#### 57.2 Credit risk (Continued)

The Group enters into entrusted lending business as part of the debt investments. Credit risk management approaches over those loans and advances to customers include project initiation, due diligence, internal assessment, decision-making and post-lending monitoring. The Group assesses both the borrowers' credit risk and the rewards and sets risk mitigation measures such as guarantee. Loans and advances to customers are approved by the authorised approvers. The Group constantly monitors the entrusted funds. Key negative indications that may have impact on the borrowers' solvency are reported timely, and the Group takes action accordingly to control the risks.

The Group invests in wealth management products with proper approval process.

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.

#### Expected credit loss measurement

From the commencement date of IFRS 9 on 1 January 2018, the measurement of the expected credit loss allowance for debt instruments of 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 clients (such as the likelihood of customers defaulting and the resulting losses).

The Group has applied a 'three-stage' impairment model for expected credit losses ("ECL") measurement based on changes in credit quality since initial recognition of financial assets as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in "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; Stages 2 and 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 and the Group has measured the loss allowance for such a financial instrument at an amount equal to the lifetime ECL.

For such financial assets classified under Stages 1 and 2, management assesses credit loss allowances using the risk parameter modelling approach that incorporates 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 assesses 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 FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.2 Credit risk (Continued)

#### Expected credit loss measurement (Continued)

The measurement of ECL adopted by management according to IFRS 9, involves judgements, assumptions and estimations.

- Selection of the appropriate models and assumptions;
- Determination of the criteria for SICR;
- Establishment of the number and relative weightings of forward-looking scenarios for each type of product;

#### *Measuring ECL – inputs, assumptions and estimation techniques*

The ECL are measured on either a 12-month (12M) or Lifetime basis depending on whether SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired.

ECL are the discounted product of PD having considered 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 margin loan financing, the Company determines the PD by borrower, based on factors including the coverage ratio of margin loans to underlying collateral value and, the volatility of such collateral's valuation. For debt securities investments, the external credit rating and related PD are taken into consideration.
- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. For margin loan financing, 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 the type of securities.
- 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 the financial instruments at each financial statement date after considering whether SICR has occurred since initial recognition. An ECL allowance for financial assets is recognized according to the stage of ECL, which reflects the reasonable information and evidence available about the SICR and is also forward-looking. The Company considers a financial instrument to have experienced SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

The Company considers margin financing to have experienced a significant increase in credit risk if margin calls were triggered by a decrease of the ratio of margin loan to collateral below liquidation line.

A financial instrument is considered to have experienced a significant increase in credit risk if the borrower or the debtor is past due on its contractual payments.

The Company has used the low credit risk exemption for financial instruments, such as cash and bank accounts, settlement reserve, refundable deposits.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 57 FINANCIAL RISK MANAGEMENT (Continued)

#### 57.2 Credit risk (Continued)

##### Expected credit loss measurement (Continued)

##### *Definition of credit-impaired assets*

The Company considers whether a financial instrument is credit-impaired according to IFRS 9 based on criteria, which is consistent with the internal credit risk management practice. 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 margin financing and stock pledge repurchase agreements, a forced liquidation of a client's position triggered when the collateral valuation falling short of the related loan amounts;
- The latest external ratings of issuers of debt securities or debt securities themselves are in default grade;
- The debtor is in significant financial difficulty;
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the debtor's financial difficulty;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructure.

When a financial asset is considered to be credit-impaired, it may be from multiple events, not due to a separately identifiable event.

##### *Forward-looking information*

The assessment of SICR and the calculation of ECL incorporate forward-looking information.

The Company has analyzed historical data and identified the economic variable impacting credit risk and ECL for each financial instrument portfolio. The economic variable includes macro-economic coincident index, which ranges from 110 to 135 in optimistic scenario, base case scenario and pessimistic scenario. The impact of the economic variable on the PD has been determined by performing historical statistical regression analysis to forecast the expected changes in the variable on default rates.

In addition to the base economic scenario, the Company's Planning and Finance Department also identifies other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the 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.

As at 31 December 2018 and 31 December 2019, for all portfolios the Company concluded that three scenarios appropriately captured non-linearities of economic variable. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.2 Credit risk (Continued)

#### **Expected credit loss measurement** (Continued)

##### **Forward-looking information** (Continued)

The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. The Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

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.

##### **Sensitivity analysis**

The allowance for credit losses is sensitive to the inputs used in internally developed models, macroeconomic variable in the forward-looking forecasts, economic scenario weighting and other factors considered when applying expert judgment. Changes in these inputs, assumptions and judgments impact the assessment of SICR and the measurement of ECL.

At 31 December 2019, the Company concluded for all portfolios that three scenarios are appropriate, being the optimistic scenario, base case scenario and pessimistic scenario. As at 31 December 2019, the incremental impact of using the probability-weighted ECL against the base scenario was less than 5%.

The detrimental impact would be less than 7%, assuming a 10% increase of probability-weighting of the optimistic scenario and a 10% decrease of the probability-weighting of the base case scenario when measuring the ECL derived from using aforesaid three scenarios. The incremental impact would be less than 7%, assuming a 10% increase on probability-weighting of the pessimistic scenario and a 10% decrease on probability-weighted of the base case scenario when measuring the ECL derived from using aforesaid three scenarios.

Meanwhile, the Company also uses sensitivity analysis to monitor any significant increase in credit risk. At 31 December 2019, assuming no significant increase in credit risk since initial recognition was identified, and all the financial assets in Stage 2 moved to Stage 1, the detrimental impact on ECL recognized in the consolidated financial statements would be less than 5%.

##### **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 guarantees. The Company determined the type and amount of collaterals according to the credit risk evaluation of counterparties. The collaterals under margin financing and reverse repurchase agreements are primarily stocks, debt securities, funds etc. Management will exercise margin calls according to related agreements based on the market value fluctuation of collaterals.

As at 31 December 2019, as more than 85.00% of the margin accounts receivable and financial assets held under resale agreements of the Company were with collateral to loan ratios of over liquidation line. For debt securities investments, the Company employed open market credit ratings. Majority of the Company's debt securities investments were rated as investment grade (AA) or above according to rating company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.2 Credit risk (Continued)

#### (1) Maximum credit risk exposure

Before considering collateral or other credit enhancement methods, the maximum credit risk exposure is the carrying amount of financial assets (net of provisions for impairment). The maximum credit risk exposure of the Group is as follows:

	31 December 2019	31 December 2018
Refundable deposits	395,170	282,711
Other current assets	482,656	267,306
Loans and advances to customers	1,088,026	1,243,723
Margin accounts receivable	6,060,740	4,720,498
Financial assets held under resale agreements	3,023,889	8,916,568
Financial assets at fair value through other comprehensive income	664,696	725,628
Financial assets at amortized costs	676,390	693,894
Financial assets at fair value through profit or loss	13,994,922	9,173,095
Derivative financial assets	11,384	62,986
Clearing settlement funds	2,518,050	2,340,353
Cash held for brokerage clients	6,581,562	4,654,494
Bank balances	2,750,186	2,606,675
Total	38,247,671	35,687,931

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.2 Credit risk (Continued)

#### (2) Credit quality:

	31 December 2019	31 December 2018
Stage 1		
– Loans and advances to customers	886,593	1,172,256
– Margin accounts receivable	6,046,739	4,715,365
– Financial assets at fair value through other comprehensive income	664,696	725,628
– Financial assets at amortized costs	202,239	629,071
– Financial assets held under resale agreements	2,009,615	7,782,529
Subtotal	9,809,882	15,024,849
Less: allowances for impairment losses	(24,692)	(33,932)
Subtotal	9,785,190	14,990,917
Stage 2		
– Financial assets at amortized costs	–	51,000
– Financial assets held under resale agreements	150,000	267,100
Subtotal	150,000	318,100
Less: allowances for impairment losses	(542)	(8,169)
Subtotal	149,458	309,931
Stage 3		
– Loans and advances to customers	305,134	135,766
– Margin accounts receivable	84,999	85,426
– Financial assets held under resale agreements	1,267,763	1,093,008
– Financial assets at amortized costs	615,270	31,800
Subtotal	2,273,166	1,346,000
Less: allowances for impairment losses	(694,273)	(346,797)
Subtotal	1,578,893	999,203
Total	11,513,541	16,300,051

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.2 Credit risk (Continued)

#### (3) Loans and advances to customers analysed by economic sector concentrations

	31 December 2019		31 December 2018	
	Gross loan balance	Percentage	Gross loan balance	Percentage
Loans and advances to customers				
– Manufacturing	323,312	27%	365,200	28%
– Leasing and business services	200,805	17%	174,330	13%
– Agriculture, forestry, farming, fishing	193,686	16%	151,453	11%
– Culture, sports and entertainment	181,356	15%	367,000	28%
– Real estate	161,405	14%	125,000	10%
– Wholesale and retail trade	57,778	4%	91,500	7%
– Personal loans	51,831	4%	–	0%
– Others	21,554	3%	33,539	3%
Total	1,191,727	100%	1,308,022	100%

Loans and advances to customers analysed by geographical sector concentrations. All loans and advances to customers are located in the Henan Province.

#### (4) Loans and advances to customers analysed by types of collateral

	31 December 2019		31 December 2018	
	Gross loan balance	Percentage	Gross loan balance	Percentage
Loans and advances to customers				
– Loans secured by monetary assets	24,062	2%	93,000	7%
– Guaranteed loans	1,147,613	96%	1,185,022	92%
– Loans secured by tangible assets other than monetary assets	20,052	2%	30,000	1%
Total	1,191,727	100%	1,308,022	100%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.2 Credit risk (Continued)

#### (5) Overdue Loans and advances to customers by period

	Within 3 months	3 months to 1 year	1 year to 3 years
<b>31 December 2019</b>			
Loans and advances to customers			
– Guaranteed loans	61,301	149,200	77,000
– Loans secured by tangible assets other than monetary assets	–	10,000	–
As a percentage of loans and advances to customers	5%	13%	6%
	Within 3 months	3 months to 1 year	1 year to 3 years
<b>31 December 2018</b>			
Loans and advances to customers			
– Guaranteed loans	7,000	100,395	8,371
– Loans secured by tangible assets other than monetary assets	5,000	15,000	–
As a percentage of loans and advances to customers	0.92%	8.82%	0.64%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.2 Credit risk (Continued)

#### (6) Financial assets held under resale agreements-ECL

	For year ended 31 December 2019			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2019	5,320	3,069	217,680	226,069
Increase	—	24,323	156,384	180,707
Decrease	(3,287)	—	—	(3,287)
Write-off	—	—	—	—
Transfers to stage1	—	—	—	—
Transfers to stage2	(542)	542	—	—
Transfers to stage3	(496)	(27,392)	27,888	—
Foreign exchange and other movements	—	—	—	—
31 December 2019	995	542	401,952	403,489

	For year ended 31 December 2018			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2018	16,067	—	185	16,252
Increase	—	1,754	209,019	210,773
Decrease	(772)	—	(184)	(956)
Write-off	—	—	—	—
Transfers to stage 1	—	—	—	—
Transfers to stage 2	(1,315)	1,315	—	—
Transfers to stage 3	(8,660)	—	8,660	—
Foreign exchange and other movements	—	—	—	—
31 December 2018	5,320	3,069	217,680	226,069

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.2 Credit risk (Continued)

#### (7) Loans and advances to customers-ECL

	For year ended 31 December 2019			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2019	12,814	—	51,485	64,299
Increase	1,673	—	37,729	39,402
Decrease	—	—	—	—
Write-off	—	—	—	—
Transfers to stage1	—	—	—	—
Transfers to stage2	—	—	—	—
Transfers to stage3	(6,986)	—	6,986	—
Foreign exchange and other movements	—	—	—	—
31 December 2019	7,501	—	96,200	103,701

	For year ended 31 December 2018			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2018	13,179	—	8,336	21,515
Increase	1,332	—	41,418	42,750
Decrease	—	—	(402)	(402)
Write-off	—	—	—	—
Transfers to stage 1	—	—	—	—
Transfers to stage 2	—	—	—	—
Transfers to stage 3	(1,697)	—	1,697	—
Foreign exchange and other movements	—	—	436	436
31 December 2018	12,814	—	51,485	64,299

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.2 Credit risk (Continued)

#### (8) Financial assets at amortized costs-ECL

	For year ended 31 December 2019			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2019	1,322	5,100	11,555	17,977
Increase	10	—	122,538	122,548
Decrease	(622)	—	—	(622)
Write-off	—	—	—	—
Transfers to stage1	—	—	—	—
Transfers to stage2	—	—	—	—
Transfers to stage3	—	(5,100)	5,100	—
Foreign exchange and other movements	—	—	1,216	1,216
31 December 2019	710	—	140,409	141,119

	For year ended 31 December 2018			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2018	2,478	—	—	2,478
Increase	42	4,939	11,495	16,476
Decrease	(1,009)	—	—	(1,009)
Write-off	—	—	—	—
Transfers to stage 1	—	—	—	—
Transfers to stage 2	(161)	161	—	—
Transfers to stage 3	(60)	—	60	—
Foreign exchange and other movements	32	—	—	32
31 December 2018	1,322	5,100	11,555	17,977

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.2 Credit risk (Continued)

#### (9) Financial assets at fair value through other comprehensive income-ECL

	For year ended 31 December 2019			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2019	260	—	—	260
Increase	17	—	—	17
Decrease	—	—	—	—
Write-off	(76)	—	—	(76)
Transfers to stage1	—	—	—	—
Transfers to stage2	—	—	—	—
Transfers to stage3	—	—	—	—
Foreign exchange and other movements	—	—	—	—
31 December 2019	201	—	—	201

	For year ended 31 December 2018			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2018	129	—	—	129
Increase	131	—	—	131
Decrease	—	—	—	—
Write-off	—	—	—	—
Transfers to stage 1	—	—	—	—
Transfers to stage 2	—	—	—	—
Transfers to stage 3	—	—	—	—
Foreign exchange and other movements	—	—	—	—
31 December 2018	260	—	—	260

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.2 Credit risk (Continued)

#### (10) Margin accounts receivable-ECL

	For year ended 31 December 2019			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2019	14,216	–	66,077	80,293
Increase	1,065	–	4,343	5,408
Decrease	–	–	–	–
Write-off	–	–	(16,280)	(16,280)
Transfers to stage1	–	–	–	–
Transfers to stage2	–	–	–	–
Transfers to stage3	–	–	–	–
Foreign exchange and other movements	4	–	1,572	1,576
31 December 2019	15,285	–	55,712	70,997

	For year ended 31 December 2018			
	Stage of assets			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
1 January 2018	14,457	–	51,117	65,574
Increase	3,416	–	14,771	18,187
Decrease	(3,669)	–	–	(3,669)
Write-off	–	–	–	–
Transfers to stage 1	–	–	–	–
Transfers to stage 2	–	–	–	–
Transfers to stage 3	–	–	–	–
Foreign exchange and other movements	12	–	189	201
31 December 2018	14,216	–	66,077	80,293

### 57.3 Market risk

#### Summary

Market risk is the risk of loss arising from adverse change in fair value or movement in cash flows in respect of financial instruments, due to interest rate risk, currency risk or price risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.3 Market risk (Continued)

#### 57.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group utilizes sensitivity analysis as the main tool for monitoring interest rate risk and measuring the impact of a reasonable and possible change of interest rate on its total profit and equity, assuming all other variables remain unchanged. Debt securities of the Group mainly comprise corporate bonds, and the Group mitigates the interest rate risk through optimizing the duration and convexity of its bond portfolio. Interest rate risk in connection with cash held for brokerage client in bank balances and clearing settlement funds is offset by the associated accounts payable to brokerage clients because their terms match with each other.

The table below presents the residual maturities of the Group's financial assets and liabilities before their contractual re-pricing dates or their maturity dates (whichever are earlier):

As at 31 December 2019	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Above 5 years	Non-interest bearing	Total
<b>Financial assets</b>							
Cash and bank balances	2,669,938	-	70,000	10,000	-	248	2,750,186
Cash held for brokerage clients	6,581,562	-	-	-	-	-	6,581,562
Clearing settlement funds	2,518,050	-	-	-	-	-	2,518,050
Financial assets at fair value through profit or loss	309,029	601,299	2,853,450	8,062,135	2,257,240	3,143,865	17,227,018
Financial assets held under resale agreements	2,373,990	181,367	455,322	13,210	-	-	3,023,889
Refundable deposits	-	-	-	-	-	395,170	395,170
Loans and advances to customers	294,622	100,081	599,917	78,242	15,164	-	1,088,026
Other current assets	-	-	-	-	-	357,825	357,825
Financial assets at fair value through other comprehensive income	-	-	204,001	251,344	209,351	-	664,696
Financial assets at amortized cost	479,992	124,449	61,701	10,248	-	-	676,390
Derivative financial assets	-	-	-	-	-	11,384	11,384
Margin accounts receivable	282,891	1,450,017	4,327,832	-	-	-	6,060,740
<b>Sub-total</b>	<b>15,510,074</b>	<b>2,457,213</b>	<b>8,572,223</b>	<b>8,425,179</b>	<b>2,481,755</b>	<b>3,908,492</b>	<b>41,354,936</b>
<b>Financial liabilities</b>							
Short-term notes payable	(187,819)	(133,846)	(52,916)	-	-	-	(374,581)
Bonds payable	-	-	(4,080,866)	(4,623,940)	-	-	(8,704,806)
Placements from banks and other financial institution	(2,361,160)	-	-	-	-	-	(2,361,160)
Financial assets sold under repurchase agreements	(7,719,102)	(400,795)	(601,192)	-	-	-	(8,721,089)
Accounts payable to brokerage clients	(7,975,901)	-	-	-	-	(919,166)	(8,895,067)
Other current liabilities	-	-	-	-	-	(537,008)	(537,008)
Bank loans	(85,811)	(299,347)	(1,183,590)	(13,203)	-	-	(1,581,951)
Financial liabilities at fair value through profit or loss	(743,153)	-	-	(371,399)	-	-	(1,114,552)
Derivative financial liabilities	-	-	-	-	-	(84)	(84)
<b>Sub-total</b>	<b>(19,072,946)</b>	<b>(833,988)</b>	<b>(5,918,564)</b>	<b>(5,008,542)</b>	<b>-</b>	<b>(1,456,258)</b>	<b>(32,290,298)</b>
<b>Interest rate sensitivity gap</b>	<b>(3,562,872)</b>	<b>1,623,225</b>	<b>2,653,659</b>	<b>3,416,637</b>	<b>2,481,755</b>	<b>2,452,234</b>	<b>9,064,638</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.3 Market risk (Continued)

#### 57.3.1 Interest rate risk

As at 31 December 2018	Within 1 month	1-3 months	3 months to 1 year	1-5 years	Above 5 years	Non-interest bearing	Total
<b>Financial assets</b>							
Cash and bank balances	2,607,003	–	–	–	–	266	2,607,269
Cash held for brokerage clients	4,654,494	–	–	–	–	–	4,654,494
Clearing settlement funds	2,340,353	–	–	–	–	–	2,340,353
Financial assets at fair value through profit or loss	219,722	702,815	5,115,001	2,406,560	1,429,981	4,057,678	13,931,757
Financial assets held under resale agreements	6,437,896	610,471	1,489,379	378,822	–	–	8,916,568
Refundable deposits	–	–	–	–	–	282,711	282,711
Loans and advances to customers	112,129	105,550	750,975	275,069	–	–	1,243,723
Other current assets	–	–	–	–	–	267,306	267,306
Financial assets at fair value through other comprehensive income	69,937	–	191,975	290,706	173,010	–	725,628
Financial assets at amortized cost	70,878	–	618,025	4,991	–	–	693,894
Derivative financial assets	–	–	–	–	–	62,986	62,986
Margin accounts receivable	435,893	1,440,546	2,844,059	–	–	–	4,720,498
<b>Sub-total</b>	<b>16,948,305</b>	<b>2,859,382</b>	<b>11,009,414</b>	<b>3,356,148</b>	<b>1,602,991</b>	<b>4,670,947</b>	<b>40,447,187</b>
<b>Financial liabilities</b>							
Short-term notes payable	(274,571)	(116,522)	(146,484)	–	–	–	(537,577)
Bonds payable	–	–	(4,136,652)	(4,097,519)	–	–	(8,234,171)
Placements from banks and other financial institution	(500,299)	–	(1,741,104)	–	–	–	(2,241,403)
Financial assets sold under repurchase agreements	(8,671,790)	–	–	(1,500,000)	–	–	(10,171,790)
Accounts payable to brokerage clients	(5,819,162)	–	–	–	–	(727,800)	(6,546,962)
Other current liabilities	–	–	–	–	–	(779,157)	(779,157)
Bank loans	(228,374)	(448,283)	(1,198,330)	–	–	–	(1,874,987)
Financial liabilities at fair value through profit or loss	(34,741)	–	–	(345,287)	–	–	(380,028)
<b>Sub-total</b>	<b>(15,528,937)</b>	<b>(564,805)</b>	<b>(7,222,570)</b>	<b>(5,942,806)</b>	<b>–</b>	<b>(1,506,957)</b>	<b>(30,766,075)</b>
<b>Interest rate sensitivity gap</b>	<b>1,419,368</b>	<b>2,294,577</b>	<b>3,786,844</b>	<b>(2,586,658)</b>	<b>1,602,991</b>	<b>3,613,990</b>	<b>6,517,122</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.3 Market risk (Continued)

#### 57.3.1 Interest rate risk (Continued)

##### *Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to the interest rate risks for interest-bearing assets and interest-bearing liabilities. A 25 basis points increase or decrease in the relevant interest rates will be applied in the sensitivity analysis as possible reasonable shift, assuming all other variables remain unchanged. A positive result below indicates an increase in net interest income, while a negative result indicates otherwise, and the impact attributable to other investors of the consolidated structured entities is eliminated.

	For year ended 31 December	
	2019	2018
Profit before income tax		
Increases by 25 bps	(3,165)	11,431
Decreases by 25 bps	3,165	(11,431)

	For year ended 31 December	
	2019	2018
Other comprehensive income before income tax		
Increases by 25 bps	193	352
Decreases by 25 bps	(193)	(352)

When conducting interest rate sensitivity analysis, the Group makes the following general assumptions in determining commercial terms and financial parameters:

- Different interest-earning assets and interest-bearing liabilities have the same amplitude of interest rate volatility;
- All assets and liabilities are repriced in the middle of the relevant period;
- Analysis is based on the static gap on the financial position reporting date, without considering subsequent changes;
- Impact of interest rate changes on customer behaviors not considered;
- Impact of interest rate changes on market prices not considered;
- Interest rate of demand deposits moving in the same direction and extent;
- Necessary measures that may be adopted by the Group in response to interest rate changes not considered.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.3 Market risk (Continued)

#### 57.3.2 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's currency risk primarily relates to the Group's operating activities whose settlements and payments are denominated in foreign currencies different from the functional currency of the Group.

The Group believes that the income from businesses conducted in foreign currencies represents an insignificant portion in the Group's income structure. The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31 December 2019 and 31 December 2018. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group in RMB equivalent, categorised by the original currencies.

	<b>31 December 2019 HKD in RMB equivalent</b>	31 December 2018 HKD in RMB equivalent
Net on-balance sheet position	<b>502,886</b>	1,096,075

#### 57.3.3 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure mainly relates to investments in equity securities, investment funds, convertible bonds, derivatives and collective asset management schemes whose values will fluctuate as a result of changes in market prices. These investments are all investments in the domestic capital markets. The Group is subject to relatively high market risk due to the high volatility of the domestic stock markets.

The Group's price risk management policy requires setting and managing investment objectives. The directors of the Company manages price risk by holding an appropriately diversified investment portfolio, setting limits for investments in different securities and closely monitoring the portfolio of investments to reduce the risk of concentration in any one specific industry or issuer. The Group uses derivatives contracts to economically hedge against certain exposures arising from its investment portfolio.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.3 Market risk (Continued)

#### 57.3.3 Price risk (Continued)

##### *Sensitivity analysis*

The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of stocks, bonds, funds, convertible bonds, derivatives and collective asset management schemes by 10%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

	For year ended 31 December 2018	
	2019	2018
Profit before income tax		
Increase by 10%	255,761	386,066
Decrease by 10%	(255,761)	(386,066)
Other comprehensive income before income tax		
Increase by 10%	64,709	72,563
Decrease by 10%	(64,709)	(72,563)

### 57.4 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities due to lack of capital or funds. During the normal course of business, the Group may face liquidity risk caused by macroeconomic policy changes, market volatility, poor operations, credit downgrades, mismatches between assets and liabilities, low turnover rate of assets, early redemptions of exchange-quoted bond repurchase products by customers, large underwriting on a firm commitment basis, significant proprietary trading position, or an overly high ratio of long-term investments. If the Group fails to address any liquidity risk by adjusting the asset structure or comply with regulatory requirements on the risk indicators, the Group could be subject to penalties by the regulatory authorities in the form of restrictions on the Group's business operations, which would cause adverse impact on the Group's operations and reputation.

The Group manages and controls their funds in a centralized manner. Through early warnings and focusing on individually large amounts of funds, the Group achieves the objective of centralized control and management of liquidity risk. By striking an appropriate balance between safety, liquidity and profitability, the Group adjusts and allocates asset sizes and structural provisions, so as to establish a multi-level liquidity reserve system and achieve liquidity risk management objectives by leveraging money market and capital market transactions in a timely manner.

The Group prepares funding plans and reports their implementation to the management to update the liquidity position periodically.

Surplus cash held by the operating outlets over and above balance required for working capital management are transferred to the Group. The Group invests surplus cash in time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.4 Liquidity risk (Continued)

The tables below present the cash flows payable by the Group for non-derivative financial liabilities by remaining contractual maturities as at 31 December 2019 and 31 December 2018. The amounts disclosed in the tables are the contractual undiscounted cash flows, including both interest and principal cash flows. For items with floating interest rates, the undiscounted amounts are derived using interest rates at the end of the reporting period.

As at 31 December 2019	On demand	Within 1 month	1–3 months	3 months to 1 year	1 to 5 years	Undated	Total
Short-term notes payable	–	61,196	63,127	251,893	–	–	376,216
Bonds payable	–	–	–	4,272,850	4,837,700	–	9,110,550
Financial assets sold under repurchase agreements	–	7,719,084	402,651	629,589	–	–	8,751,324
Placements from banks and other financial institutions	–	2,361,384	–	–	–	–	2,361,384
Accounts payable to brokerage clients	919,166	7,975,901	–	–	–	–	8,895,067
Bank loans	–	85,895	301,556	1,254,825	14,713	–	1,656,989
Financial liabilities at fair value through profit or loss	–	743,153	–	–	371,399	–	1,114,552
Other current liabilities	–	–	–	–	–	537,008	537,008
<b>Total</b>	<b>919,166</b>	<b>18,946,613</b>	<b>767,334</b>	<b>6,409,157</b>	<b>5,223,812</b>	<b>537,008</b>	<b>32,803,090</b>

As at 31 December 2018	On demand	Within 1 month	1–3 months	3 months to 1 year	1 to 5 years	Undated	Total
Short-term notes payable	–	273,448	117,910	149,571	–	–	540,929
Bonds payable	–	–	–	4,413,850	4,299,550	–	8,713,400
Financial assets sold under repurchase agreements	–	8,673,266	–	–	1,633,091	–	10,306,357
Placements from banks and other financial institutions	–	1,741,275	–	510,869	–	–	2,252,144
Accounts payable to brokerage clients	727,800	5,819,162	–	–	–	–	6,546,962
Bank loans	–	227,737	452,054	1,233,717	–	–	1,913,508
Financial liabilities at fair value through profit or loss	–	34,741	–	–	345,287	–	380,028
Other current liabilities	–	–	–	–	–	779,157	779,157
<b>Total</b>	<b>727,800</b>	<b>16,769,629</b>	<b>569,964</b>	<b>6,308,007</b>	<b>6,277,928</b>	<b>779,157</b>	<b>31,432,485</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 57 FINANCIAL RISK MANAGEMENT (Continued)

### 57.5 Capital management

The Group's objectives of capital management are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders 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%;
- The liquidity coverage ratio shall be no less than 100%;
- The net stable funding ratio shall be no less than 100%;

Core net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

## 58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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.

### 58.1 Financial instruments not measured at fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the statements of financial position approximate their fair values.

For financial instruments with a short maturity, including cash and bank balances, cash held for brokerage clients, clearing settlement funds, margin accounts receivable, financial assets held under resale agreements, due to other financial institutions and accounts payable to brokerage clients, their fair value approximate their carrying amounts.

The aggregate fair value of bond payable is calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

In accordance with the related regulations, the Group can put or redeem its refundable deposits with stock exchanges, futures and commodities exchanges and CSF. The Group assesses the fair value of refundable deposits approximates the carrying amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

### 58.2 Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the end of each reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value as at 31 December 2019 and 31 December 2018.

<b>As at 31 December 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at fair value through profit or loss				
– Equity securities	388,095	364,671	–	752,766
– Debt securities	4,309,029	9,080,537	420,701	13,810,267
– Investment funds	29,307	1,582,532	79,241	1,691,080
– Asset management schemes	–	100,104	13,658	113,762
– Investment in unlisted companies	–	–	695,610	695,610
– Wealth management products	–	163,533	–	163,533
Financial assets at fair value through other comprehensive income				
– Debts securities	358,935	305,761	–	664,696
Derivative financial assets	52	65	11,267	11,384
<b>Total</b>	<b>5,085,418</b>	<b>11,597,203</b>	<b>1,220,477</b>	<b>17,903,098</b>
Financial liabilities as at fair value through profit or loss	714,792	–	399,760	1,114,552
Derivative financial liabilities	40	–	44	84
<b>Total</b>	<b>714,832</b>	<b>–</b>	<b>399,804</b>	<b>1,114,636</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

### 58.2 Financial instruments measured at fair value (Continued)

As at 31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
through profit or loss				
– Equity securities	707,022	384,889	–	1,091,911
– Debt securities	2,203,443	6,146,856	491,990	8,842,289
– Investment funds	22,557	2,507,716	48,078	2,578,351
– Asset management schemes	–	243,716	54,868	298,584
– Investment in unlisted companies	–	–	667,073	667,073
– Wealth management products	–	–	303,816	303,816
– Others	–	–	149,733	149,733
Financial assets at fair value through other comprehensive income				
– Debts securities	401,979	323,649	–	725,628
Derivative financial assets	–	–	62,986	62,986
<b>Total</b>	<b>3,335,001</b>	<b>9,606,826</b>	<b>1,778,544</b>	<b>14,720,371</b>
Financial liabilities as at fair value				
through profit or loss	–	–	(380,028)	(380,028)
<b>Total</b>	<b>–</b>	<b>–</b>	<b>(380,028)</b>	<b>(380,028)</b>

For the years ended 31 December 2019 and 2018, there were no significant transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy of the Group.

#### (a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily securities traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange.

#### (b) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

#### 58.2 Financial instruments measured at fair value (Continued)

##### (c) Valuation methods for specific investments

As at 31 December 2019 and 31 December 2018, the Group's valuation methods for specific investments are as follows:

- (1) For exchange-listed equity securities, fair value is determined based on the closing price of the equity securities as at the reporting date within bid-ask spread. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value. For restricted shares that are acquired during an initial public offering or an additional oriental issue, fair values are determined using valuation techniques.

For National Equities Exchange and Quotations listed equity securities, the fair value is determined based on the closing price as at the reporting date and adjusted by the valuation techniques due to the low transaction frequency. The adjustment is based on the potential maximum losses that could occur at a given level of confidence due to variation in interest rates, stock prices and exchange rates over a certain period, which are all observable.

- (2) For closed-end investment funds, fair value is determined based on the closing price within bid-ask spread as at the reporting date or the most recent trading date. For open-ended funds and collective asset management products, fair value is determined by trading price which is based on the net asset value as at the reporting date.
- (3) For debt securities listed through exchanges which include government bonds, corporate bonds, convertible bonds and financial bonds, fair values are determined based on the closing price within bid-ask spread of the debt securities at the date of statement of financial position. If there is no quoted market price as at the reporting date and there have been significant changes in the economic environment after the most recent trading date, valuation techniques are used to determine the fair value.
- (4) For debt securities traded through the inter-bank bond market and the over-the-counter ("OTC") market, including government bonds, corporate bonds, commercial papers, special financial bills, central bank bills, and other fixed income debt securities, fair values are determined using valuation techniques.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

### 58.2 Financial instruments measured at fair value (Continued)

#### (d) Financial instruments in Level 3

The following table presents the changes in Level 3 instruments for the year ended 31 December 2019 and for the year ended 31 December 2018.

	Financial assets at fair value through profit or loss
Balance at 1 January 2019	1,778,544
Purchase	336,301
Settlement	(905,635)
Balance at 31 December 2019	1,209,210
Total gains or losses for the period included in profit or loss for assets held at the end of the period, under "Net investment gains"	48,717
Change in unrealized gains or losses for the period included in profit or loss for assets held at the end of the period	(129,131)
	Financial assets at fair value through profit or loss
Balance at 1 January 2018	1,326,664
Purchase	716,645
Settlement	(264,765)
Balance at 31 December 2018	1,778,544
Total gains or losses for the period included in profit or loss for assets held at the end of the period, under "Net investment gains"	49,808
Change in unrealized gains or losses for the period included in profit or loss for assets held at the end of the period	(70,799)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

### 58.2 Financial instruments measured at fair value (Continued)

#### (d) Financial instruments in Level 3 (Continued)

	Financial liabilities at fair value through profit or loss
Balance at 1 January 2019	380,028
Consolidation of SEs	16,407
Settlement	3,325
Balance at 31 December 2019	399,760
Total gains or losses for the period included in profit or loss for assets held at the end of the period, under "Net investment gains"	(8,395)
Change in unrealized gains or losses for the period included in profit or loss for assets held at the end of the period	(8,395)
	Financial liabilities at fair value through profit or loss
Balance at 1 January 2018	361,418
Consolidation of SEs	60,694
Settlement	(42,084)
Balance at 31 December 2018	380,028
Total gains or losses for the period included in profit or loss for assets held at the end of the period, under "Net investment gains"	(2,549)
Change in unrealized gains or losses for the period included in profit or loss for assets held at the end of the period	(2,549)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

### 58.2 Financial instruments measured at fair value (Continued)

#### (d) Financial instruments in Level 3 (Continued)

	Derivative financial assets
Balance at 1 January 2019	62,986
Increase	1,324
Decrease	(53,043)
Balance at 31 December 2019	11,267
Total gains or losses for the period included in profit or loss for assets held at the end of the period, under "Net investment gains"	(1,814)
Change in unrealized gains or losses for the period included in profit or loss for assets held at the end of the period	(1,814)
	Derivative financial assets
Balance at 1 January 2018	59,938
Increase	3,048
Balance at 31 December 2018	62,986
Total gains or losses for the period included in profit or loss for assets held at the end of the period, under "Net investment gains"	803
Change in unrealized gains or losses for the period included in profit or loss for assets held at the end of the period	803

For financial instruments in Level 3, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level 3.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 58 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

### 58.2 Financial instruments measured at fair value (Continued)

#### (d) Financial instruments in Level 3 (Continued)

Financial instruments	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Financial assets at fair value through profit or loss – Investment funds – Asset management schemes – Wealth management products	Level 3	<ul style="list-style-type: none"> <li>Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>Expected future cash flows</li> <li>Expected recovery date</li> <li>Discount rates that correspond to the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>The higher the future cash flows, the higher the fair value</li> <li>The earlier the maturity date, the higher the fair value</li> <li>The lower the discount rate, the higher the fair value</li> </ul>
Financial liabilities at fair value through profit or loss	Level 3	<ul style="list-style-type: none"> <li>Discounted cash flows with future cash flows that are estimated based on expected payable amounts, discounted at rates that reflect management's best estimation of the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>Expected future cash flows</li> <li>Expected recovery date</li> <li>Discount rates that correspond to the expected risk level</li> </ul>	<ul style="list-style-type: none"> <li>The higher the future cash flows, the higher the fair value</li> <li>The earlier the payment date, the higher the fair value</li> <li>The lower the discount rate, the higher the fair value</li> </ul>
Derivative Financial Instruments – Forward contracts	Level 3	<ul style="list-style-type: none"> <li>The Option Pricing Model is used for valuation. The main input parameter is the volatility of the target instrument.</li> </ul>	<ul style="list-style-type: none"> <li>Target instrument volatility</li> </ul>	<ul style="list-style-type: none"> <li>The higher the volatility of the instrument, the higher the fair value.</li> </ul>
Financial assets at fair value through profit or loss – Private convertible bonds	Level 3	<ul style="list-style-type: none"> <li>Discounted cash flows with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level</li> <li>Option pricing model</li> </ul>	<ul style="list-style-type: none"> <li>Expected future cash flows</li> <li>Expected recovery date</li> <li>Discount rates that correspond to the expected risk level</li> <li>Stock price volatility</li> </ul>	<ul style="list-style-type: none"> <li>The higher the future cash flows, the higher the fair value</li> <li>The earlier the maturity date, the higher the fair value</li> <li>The lower the discount rate, the higher the fair value</li> <li>The higher the stock price volatility, the higher the fair value</li> </ul>
Financial assets at fair value through profit or loss w Derivative financial assets – Unlisted equity	Level 3	Using comparable company method by selecting comparable companies in the same industry as the target company's important financial indicators; consider liquidity discount, estimate the expected exit date of equity, calculate the volatility of comparable companies, adopt the option model, calculate the liquidity discount of comparable companies.	<ul style="list-style-type: none"> <li>Expected recovery date</li> <li>Stock price volatility</li> </ul>	<ul style="list-style-type: none"> <li>The earlier recovery date is expected, the higher fair value is valued</li> <li>The higher stock price volatility is displayed, the higher fair value is valued</li> </ul>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 59 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Certain financial assets and financial liabilities of the Group are subject to enforceable master netting arrangements or similar agreements. The agreement between the Group and the counterparty generally allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master netting arrangements or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party. These financial assets and financial liabilities of the Group are not offset in accordance with IFRS.

As at 31 December 2019, the amount of the financial assets and financial liabilities subject to enforceable master netting arrangements or similar agreements are not material to the Group.

## 60 BALANCE SHEET AND EQUITY MOVEMENT OF THE COMPANY

### Balance sheet of the Company

	As at 31 December	
	2019	2018
<b>Assets</b>		
Non-current assets		
Property and equipment	212,622	210,734
Right-of-use assets	234,051	
Investment properties	26,977	28,095
Intangible assets	62,172	154,071
Investments in subsidiaries and consolidated structured entities	4,126,433	4,231,900
Other non-current assets	27,658	21,936
Financial assets at fair value through other comprehensive income	460,694	430,506
Financial assets at fair value through profit or loss	166,632	470,909
Financial assets held under resale agreements	6,110	378,815
Deferred income tax assets	210,510	184,811
Refundable deposits	61,804	73,214
<b>Total non-current assets</b>	<b>5,596,663</b>	<b>6,184,991</b>
<b>Current assets</b>		
Margin accounts receivable	5,863,996	4,358,080
Financial assets at fair value through profit or loss	14,735,291	9,766,293
Financial assets at fair value through other comprehensive income	204,001	253,692
Financial assets held under resale agreements	3,010,679	8,519,656
Clearing settlement funds	2,401,197	2,190,298
Cash held for brokerage clients	6,147,211	4,217,811
Cash and bank balances	1,304,193	1,819,498
Other current assets	555,852	120,345
Assets of disposal group classified as held for sale	—	9,353
<b>Total current assets</b>	<b>34,222,420</b>	<b>31,255,026</b>
<b>Total assets</b>	<b>39,818,083</b>	<b>37,440,017</b>
<b>Equity and liabilities</b>		
Share capital	3,869,071	3,869,071
Reserves	5,891,835	5,792,516
Retained earnings	170,879	42,728
<b>Total equity</b>	<b>9,931,785</b>	<b>9,704,315</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 60 BALANCE SHEET AND EQUITY MOVEMENT OF THE COMPANY (Continued)

### Balance sheet of the Company (Continued)

	As at 31 December	
	2019	2018
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Financial assets sold under repurchase agreements	—	1,502,926
Bonds payable	4,623,940	4,097,519
Lease liabilities	68,986	
Deferred income tax liabilities	3,208	1,058
<b>Total non-current liabilities</b>	<b>4,696,134</b>	<b>5,601,503</b>
<b>Current liabilities</b>		
Financial assets sold under repurchase agreements	8,721,089	8,668,864
Bond payable	4,080,866	4,136,652
Lease liabilities	67,915	
Financial liabilities at fair value through profit or loss	714,792	—
Tax payable	42,921	14,636
Due to other financial institutions	2,361,160	2,241,402
Short-term notes payable	374,581	537,577
Accounts payable to brokerage clients	8,157,600	5,857,974
Other current liabilities	669,240	677,094
<b>Total current liabilities</b>	<b>25,190,164</b>	<b>22,134,199</b>
<b>Total liabilities</b>	<b>29,886,298</b>	<b>27,735,702</b>
<b>Total equity and liabilities</b>	<b>39,818,083</b>	<b>37,440,017</b>

The statement of financial position of the Company was approved by the Board of Directors on 22 April 2020 and was signed on its behalf:

**JIAN Mingjun**  
Chairman of the Board and Executive Director

**CHANG Junsheng**  
Executive Director and President

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

## 60 BALANCE SHEET AND EQUITY MOVEMENT OF THE COMPANY (Continued)

### Equity movement of the Company

	Share capital	Capital reserve	Surplus reserve	General reserve	Transaction risk reserve	Revaluation reserve	Retained earnings	Total equity
<b>As at 31 December 2018</b>	3,869,071	3,781,399	759,912	641,228	606,803	3,174	42,728	9,704,315
Net profit for the year	–	–	–	–	–	–	321,145	321,145
Other comprehensive income for the year	–	–	–	–	–	2,261	–	2,261
<b>Total comprehensive income for the year</b>	–	–	–	–	–	2,261	321,145	323,406
Appropriation to surplus reserve	–	–	48,172	–	–	–	(48,172)	–
Appropriation to risk reserve	–	–	–	35,326	32,115	–	(67,441)	–
Cash dividend recognized as distribution	–	–	–	–	–	–	(77,381)	(77,381)
Others	–	(18,555)	–	–	–	–	–	(18,555)
<b>Balance at 31 December 2019</b>	3,869,071	3,762,844	808,084	676,554	638,918	5,435	170,879	9,931,785
	Share capital	Capital reserve	Surplus reserve	General risk reserve	Transaction risk reserve	Revaluation reserve	Retained earnings	Total equity
<b>As at 31 December 2017</b>	3,923,735	3,860,143	759,323	640,795	606,410	3,660	271,988	10,066,054
Change in accounting policy	–	–	589	432	393	(3,780)	2,515	149
<b>As at 1 January 2018</b>	3,923,735	3,860,143	759,912	641,228	606,803	(120)	274,503	10,066,204
Net profit for the year	–	–	–	–	–	–	(57,667)	(57,667)
Other comprehensive income for the year	–	–	–	–	–	3,295	–	3,295
<b>Total comprehensive income for the year</b>	3,923,735	3,860,143	759,912	641,228	606,803	3,174	216,836	10,011,831
Cash dividend recognized as distribution	–	–	–	–	–	–	(174,109)	(174,109)
Stock repurchase	(54,664)	(78,735)	–	–	–	–	–	(133,399)
Others	–	(9)	–	–	–	–	1	(8)
<b>Balance at 31 December 2018</b>	3,869,071	3,781,399	759,912	641,228	606,803	3,174	42,728	9,704,315



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB'000 unless otherwise stated)

### 61 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

#### 61.1 Dividend

On 22 April 2020, the Board of Directors of the Company decided not to make profit distribution for the second half of 2019. The resolution is still subject to approval by the shareholders' meeting.

#### 61.2 Non-public issuance of new shares

On 15 October 2019, the Company submitted an application to CSRC for the non-public Issuance of 773,814,000 new shares. This is still subject to final approval from the CSRC.

#### 61.3 Non-public issuance of corporate bonds and subordinated corporate bonds

On 24 March 2020, the Company received the "No Objection Letter about the Listing Transfer of Corporate Bonds Non-publicly Issued by Central China Securities Co., Ltd." (Shang Zheng Han [2020] No. 543) and the "No Objection Letter about the Listing Transfer of Subordinated Corporate Bonds Non-publicly Issued by Central China Securities Co., Ltd." (Shang Zheng Han [2020] No. 544). According to the above no-objection letters, the Company meets the transfer conditions of corporate bonds and subordinated bonds listed on the Shanghai Stock Exchange, and the Company will issue no more than RMB2,000,000,000 corporate bonds and no more than RMB3,000,000,000 subordinate corporate bonds non-publicly.

#### 61.4 Evaluation of the impact of "COVID-19 outbreak"

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Group pays close attention to the development of the COVID-19 outbreak, evaluates and actively responds to its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

#### 61.5 Change of the controlling shareholder's organization to perform investor's responsibilities

On 30 September 2019, the People's Government of Henan Province issued the "Response of People's Government of Henan Province on Changing Henan Investment Group Co., Ltd. to Perform the Responsibilities of Investors" (Yu Zhengwen [2019] No. 128), authorizing the Department of Finance of Henan Province to perform the responsibilities of the investor, Development and Reform Commission of Henan Province no longer performs such duties. The CSRC exempts all other specific obligations from the Department of Finance of Henan Province for the transfer of all equity interest of Henan Investment Group. On 10 January 2020, Henan Investment Group Co., Ltd., the controlling shareholder of the Company, has completed the registration procedures for industrial and commercial changes, and the ultimate controlling party of the Company is changed from Development and Reform Commission of Henan Province to Department of Finance of Henan Province.



中州证券

Central China Securities Co., Ltd.